



**THE EFFECT OF THE PROFIT SHARING SYSTEM AND CAPITAL
REQUIREMENTS ON FINANCING DECISIONS FOR MSMEs IN THE
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Abstract

This study examines the influence of the profit-sharing system and capital requirements on the financing decisions of culinary sector MSMEs in Telanaipura District, Jambi City. Culinary MSMEs contribute significantly to regional economic growth yet continue to face persistent capital access constraints, making the identification of effective financing determinants both academically and practically relevant. A quantitative survey approach was employed, with data collected through structured questionnaires distributed to 101 culinary MSME owners. Multiple linear regression analysis was conducted using SPSS version 25, with the Profit-Sharing System (X_1) and Capital Requirements (X_2) as independent variables and Financing Decision (Y) as the dependent variable. The results indicate that the Profit-Sharing System exerts a positive and significant partial effect on Financing Decisions ($t = 2.968$, $sig. = 0.004$), and Capital Requirements similarly produce a positive and significant partial effect ($t = 3.405$, $sig. = 0.001$). Simultaneously, both variables jointly influence Financing Decisions ($F = 16.804$, $sig. = 0.000$), collectively explaining 25.5 percent of total variance. These findings confirm that improvements in profit-sharing quality and increasing capital requirement urgency both independently and jointly strengthen MSME financing decision orientation. Islamic financial institutions and regional policymakers are encouraged to design integrated financing programs addressing both Sharia compliance quality and capital access gaps to support the long-term sustainability of culinary MSMEs in the region.

Keywords: Profit Sharing System, Capital Needs, Financing Decisions, MSMEs



INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) occupy a strategic position in the Indonesian economy, functioning as the primary driver of the real sector and a major source of employment. Based on data released by the Central Statistics Agency (BPS, 2024), MSMEs contribute 61.9% to the national Gross Domestic Product (GDP) while absorbing as much as 97% of the total national workforce. This significant contribution positions MSMEs not merely as complementary economic actors, but as the backbone of Indonesia's national economic structure. Among the various MSME subsectors, the culinary sector has emerged as one of the fastest-growing segments, propelled by the rising trend in public consumption of ready-to-eat food and beverage products, as well as the accelerating penetration of digital marketing platforms that have substantially expanded market reach for small-scale business actors.

Despite its considerable potential, the culinary MSME sector continues to face structural challenges, particularly in the domain of business financing. Limited initial capital remains one of the most persistent obstacles, hindering the capacity of culinary MSMEs to grow sustainably. This challenge is especially pronounced in Telanaipura District, Jambi City, where home-based culinary businesses and small food outlets have proliferated rapidly over the past three years. The growth trajectory of culinary MSMEs in this district has shown notable dynamics over a five-year observation period, as presented in the following table.

The following table shows the number of culinary MSMEs in Telanaipura District, Jambi City during the period 2020 to 2024.

Table 1.
Number of Culinary MSMEs in Jambi City 2020-2024

No.	Year	Number of Culinary MSMEs in Telanaipura
1.	2020	1,112
2.	2021	1,527
3.	2022	1,798
4.	2023	120
5.	2024	118
Total		4,675

Source: Jambi City Manpower, Cooperatives and SMEs Office

As shown in Table 1, the number of culinary MSMEs in Telanaipura District increased from 1,112 units in 2020 to 1,527 in 2021, reaching its peak at 1,798 units



in 2022. However, a sharp contraction occurred in 2023 and 2024, when the number fell drastically to 120 and 118 units respectively, bringing the total cumulative count over the five-year period to 4,675 units. This dramatic decline signals not only the vulnerability of culinary MSMEs to market and operational pressures, but also the urgency of examining the financing strategies that underpin their sustainability.

In response to the limitations of conventional financing, one alternative scheme that has gained increasing relevance is the profit-sharing system, a core mechanism within Sharia-compliant financing. This system offers a structurally distinct approach compared to interest-based conventional loans, as it distributes both profit and risk proportionally between the financing provider and the business owner. The profit-sharing model is grounded in Sharia economic principles that emphasize justice, transparency, and the prohibition of exploitative transactions. For MSME actors who seek financing solutions aligned with their religious values, the profit-sharing system represents an ethically sound and financially viable alternative. Several Sharia microfinance institutions and cooperatives operating in the Telanaipura area have begun actively offering this scheme, reflecting a growing institutional recognition of its relevance to local MSME needs.

However, the adoption of profit-sharing-based financing among culinary MSMEs in Telanaipura remains uneven. Data from the Ministry of Cooperatives and SMEs (2024) indicates that 58% of MSME owners in Jambi City continue to rely on personal capital due to limited access to formal financing channels. A study by Databoks (2023) further reveals that approximately 35% of culinary MSMEs in urban areas have opted for Sharia-based financing, citing the scheme's flexibility and compliance with religious principles. Yet this adoption is not universal; a portion of business owners perceives the profit-sharing system as less advantageous when business profit margins are relatively low, particularly during the initial phase of operations when capital requirements tend to be at their highest. This condition introduces a critical dimension, namely the variable of capital requirements, which not only influences the type of financing chosen, but also determines the level of financial risk exposure and the long-term sustainability of the business.

The interplay between the profit-sharing system, capital requirements, and financing strategy therefore constitutes a fundamental area of inquiry. While existing literature has examined these variables in various contexts, most prior studies tend to analyze each variable in isolation, without adequately accounting for their simultaneous and interactive effects on financing decision-making.



Moreover, the majority of existing studies have not specifically addressed the local context of Telanaipura District, Jambi City, particularly with respect to the culinary sector, a segment characterized by distinct operational dynamics, seasonality, and capital turnover patterns that differentiate it from other MSME subsectors. This contextual gap limits the direct applicability of existing research findings to the specific conditions faced by culinary MSMEs in this region.

The present study is therefore designed to fill this empirical and contextual gap by analyzing the simultaneous influence of the profit-sharing system and capital requirements on the financing strategies of culinary MSMEs in Telanaipura District, Jambi City. Academically, this study contributes to the expanding body of literature on MSME financing by integrating Sharia-based financing frameworks with capital requirement analysis within a single analytical model. Practically, the findings are expected to offer actionable insights for MSME practitioners, Islamic financing institutions, and regional policymakers in designing financing mechanisms that are more inclusive, contextually appropriate, and conducive to the long-term sustainability of culinary MSMEs in the region.

RESEARCH METHOD

This study employs a quantitative research approach using multiple linear regression analysis to examine the influence of the profit-sharing system and capital requirements on the financing decisions of culinary MSMEs in Telanaipura District, Jambi City. The quantitative approach was selected on the basis that it enables rigorous statistical testing of inter-variable relationships through hypothesis testing and parameter estimation, thereby producing findings that are empirically verifiable and statistically defensible. Data utilized in this study consist of two complementary sources: primary data collected directly through structured questionnaire distribution to respondents, and secondary data derived from peer-reviewed journals, institutional documents, official reports, and other relevant academic references.

The research population comprised 4,675 culinary MSMEs registered in Telanaipura District during the 2020–2024 observation period. Given the size of this population, sample determination was conducted using the Slovin formula at a 10 percent margin of error, yielding a sample size of 98 respondents. The sampling technique applied was probability sampling through a simple random sampling method, ensuring that each member of the population had an equal and independent probability of being selected. This approach is intended to produce



a sample that is representative of the broader population and allows for the generalization of findings with an acceptable degree of statistical confidence.

The research instrument consisted of a structured questionnaire employing a five-point Likert scale, ranging from strongly disagree (1) to strongly agree (5). The instrument was developed based on the operational definitions and indicators derived from each research variable. This study incorporates two independent variables, namely the profit-sharing system (X1) and capital requirements (X2), along with one dependent variable, which is the MSME financing decision (Y). The profit-sharing system variable is measured through four indicators: understanding of the profit-sharing principle, clarity of the profit-sharing ratio, perceived fairness of the system, and satisfaction with its implementation. The capital requirements variable is operationalized through indicators covering initial capital needs, operational capital, expansion capital, and overall funding adequacy. Financing decisions, as the dependent variable, are assessed through indicators encompassing the selection of financing contract types, utilization of financing proceeds, compliance with Sharia principles, and repayment decision-making behavior. The use of clearly defined operational definitions for each variable serves to establish precise measurement boundaries, ensuring that the research process is systematic, conceptually valid, and consistently directed toward its stated objectives.

Data analysis was conducted through a sequential series of procedures. The process begins with descriptive statistical analysis, which serves to characterize the distribution of research data through frequency tables, mean values, percentage distributions, and measures of data spread. Following this, instrument testing was performed in two stages: a validity test to confirm that each questionnaire item accurately measures its intended variable, and a reliability test to assess the internal consistency of respondents' answers across items within the same construct.

The primary analytical tool applied in this study is multiple linear regression, formulated as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where Y represents the MSME financing decision, a denotes the constant, b1 and b2 are the regression coefficients for the profit-sharing system and capital requirements respectively, and e represents the error term. Prior to regression estimation, a series of classical assumption tests were carried out to ensure that the regression model satisfies the necessary statistical conditions. These tests include a normality test to verify that the residuals follow a normal distribution, and a heteroscedasticity test to detect any systematic inequality in residual



variance across observations. Compliance with these classical assumptions is essential to ensure that the regression estimates are unbiased, efficient, and capable of producing scientifically sound inferences.

Hypothesis testing was conducted at two levels. First, a partial t-test was performed to assess the individual effect of each independent variable on the financing decision variable, with decision criteria based on a comparison between the calculated t-value and the critical t-table value at a 5 percent significance level. Second, a simultaneous F-test was applied to evaluate whether both independent variables jointly exert a significant influence on the dependent variable. In addition, the coefficient of determination (R-square) was computed to quantify the proportion of variance in MSME financing decisions that can be explained by the profit-sharing system and capital requirements variables combined. The Adjusted R-square was also reported to provide a more precise estimate of explanatory power by accounting for the number of predictors and the sample size. Taken together, this research design was systematically constructed to ensure that every stage, from method selection and data collection through variable measurement and statistical analysis, is aligned with established quantitative research standards and capable of producing valid, reliable, and empirically grounded answers to the research problem.

RESULTS AND DISCUSSION

Research Context

Telanaipura District represents one of the most economically active areas in Jambi City, particularly in the development of culinary MSMEs, which recorded a cumulative total of 4,675 business units throughout the 2020–2024 period. This growth reflects high market demand, expanding access to digital marketing platforms, and shifting patterns in urban consumer lifestyles. Nevertheless, business actors in this district continue to face significant structural constraints, most notably limited capital access and restricted entry to formal financing channels. Within this context, Islamic financial institutions and Sharia-based cooperatives have emerged as viable financing alternatives through the profit-sharing mechanism, which is considered more equitable, flexible, and consistent with Islamic economic principles by virtue of its emphasis on partnership, transparency, and shared responsibility. This system opens pathways for MSMEs, particularly those lacking conventional collateral, to obtain business capital support. However, its implementation continues to be challenged by low Islamic financial literacy among business actors, limited comprehension of financing contract types, and divergent perceptions between MSME owners and financing



institutions regarding the distribution of risk and return. Against this backdrop, the present study examines the role of the profit-sharing system and capital requirements in shaping effective, equitable, and sustainable financing decisions among culinary MSMEs in Telanaipura District.

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide a general overview of research data characteristics, encompassing the number of respondents (N), minimum value, maximum value, mean, and standard deviation for each variable. This analysis was performed to identify data trends and the distribution of respondent responses across the Profit Sharing System (X1), Capital Requirements (X2), and Financing Decisions (Y) variables.

The total number of respondents in this study was 101 culinary MSME owners. The Profit Sharing System variable (X1) recorded a minimum value of 15 and a maximum value of 25, with a mean of 21.74 and a standard deviation of 2.279. This relatively high mean value indicates that the majority of respondents hold a positive perception of the profit-sharing system as implemented in their business financing. Respondents generally viewed the system as fair, consistent with Sharia principles, and more flexible compared to conventional interest-based mechanisms. The standard deviation of 2.279 reflects a moderate degree of variation in responses, though the overall tendency of answers was relatively uniform across respondents.

The Capital Requirements variable (X2) yielded a mean of 21.26 with a standard deviation of 2.077, indicating that capital needs among culinary MSMEs are perceived to be at a considerably high level. Most respondents expressed that additional capital remains critically needed to support business expansion, increase production capacity, and navigate fluctuations in market demand. The Financing Decisions variable (Y) recorded a mean of 21.55 with a standard deviation of 2.247, suggesting that respondents have implemented reasonably good and stable financing strategies, including utilization of partnership-based financing and Sharia-compliant financial institutions. The fact that all three variables produced mean values exceeding 21 indicates that respondents' perceptions across all research dimensions fall within the high category, confirming that the data is well-suited for further inferential analysis.

Validity Test

The validity test was conducted to assess the extent to which each questionnaire item accurately and consistently measures its intended construct, using Pearson Product Moment correlation between item scores and total variable scores. An item is declared valid if the calculated r value exceeds the r table value



of 0.195 and the significance value (Sig. 2-tailed) is below 0.05, based on a sample of 101 respondents at a 5 percent significance level.

Table 2
Validity Test

Variables	Item Statement	r count	r table	Sig. (2-tailed)	Information
Sharing System Result (X1)	X1.1	0.664	0.195	0.000	Valid
	X1.2	0.616	0.195	0.000	Valid
	X1.3	0.665	0.195	0.000	Valid
	X1.4	0.623	0.195	0.000	Valid
	X1.5	0.551	0.195	0.000	Valid
Need Capital (X2)	X2.1	0.585	0.195	0.000	Valid
	X2.2	0.518	0.195	0.000	Valid
	X2.3	0.556	0.195	0.000	Valid
	X2.4	0.622	0.195	0.000	Valid
	X2.5	0.614	0.195	0.000	Valid
Financing Decisions (Y)	Y1	0.644	0.195	0.000	Valid
	Y2	0.623	0.195	0.000	Valid
	Y3	0.620	0.195	0.000	Valid
	Y4	0.584	0.195	0.000	Valid
	Y5	0.650	0.195	0.000	Valid

As shown in Table 2, all calculated r values for every item across the three variables exceed the r table threshold of 0.195, with significance values uniformly below 0.05. Consequently, all 15 statement items are declared valid and suitable for further analysis. Within the Profit Sharing System variable, item X1.3 recorded the highest correlation coefficient at 0.665, indicating that this item most strongly



captures the core concept of profit sharing in Islamic financing. For the Capital Requirements variable, item X2.4 yielded the highest correlation at 0.622, while item Y5 produced the highest correlation for the Financing Decisions variable at 0.650. These results confirm that all questionnaire items maintain a strong relationship with their respective variable total scores, establishing that the research instrument possesses high construct validity.

Reliability Test

Reliability testing was conducted using the Cronbach's Alpha method to evaluate the internal consistency of the research instrument across repeated administrations. The instrument is classified as reliable if Cronbach's Alpha reaches 0.60 or above, with values of 0.70 or above indicating good reliability and values of 0.80 or above indicating very high reliability. The test results across all 15 statement items produced a Cronbach's Alpha value of 0.755, which exceeds the minimum threshold and places the instrument within the good reliability category. This result confirms that the questionnaire items exhibit consistent internal coherence and produce stable responses in measuring respondents' perceptions of the research variables, thereby qualifying the instrument for use in subsequent classical assumption testing and regression analysis.

Normality Test

A normality test was performed to verify whether the residuals of the regression model follow a normal distribution, using the Kolmogorov-Smirnov method applied to unstandardized residuals. Normally distributed residuals are a prerequisite for accurate and unbiased regression estimates, with the decision criterion set at Asymp. Sig. (2-tailed) greater than 0.05.

Table 3.
Normality Test Results
One-Sample Kolmogorov-Smirnov Test
Unstandardized Residual

N		101
Normal Parameters ^{a, b}	Mean	.0000000
	Standard Deviation	1.93908695
Most Extreme Differences	Absolute	.060
	Positive	.060
	Negative	-.059
Test Statistics		.060
Asymp. Sig. (2-tailed) ^c		.200 ^d
	Sig.	.482



Monte Carlo 99% Confidence	Lower Bound	.469
Sig. (2-tailed) ^e Interval	Upper Bound	.495

Data was processed using SPSS25

Based on Table 3, the Asymp. Sig. (2-tailed) value of 0.200 and the Monte Carlo Sig. (2-tailed) value of 0.482 both exceed the 0.05 significance threshold, confirming that the residual data follow a normal distribution. The mean residual value of 0.0000000 further indicates that prediction errors are symmetrically balanced around the regression line, reflecting an unbiased model. These statistical findings are visually corroborated by the Histogram and Normal P-P Plot of Regression Standardized Residuals, both of which display distribution patterns closely approximating a diagonal line and a bell-shaped curve. The normality assumption is therefore satisfied, and the model is cleared for proceeding to multicollinearity and heteroscedasticity testing.

Multicollinearity Test

The multicollinearity test was conducted to examine whether strong intercorrelations exist among the independent variables in the regression model, as the presence of multicollinearity can destabilize regression coefficient estimates and complicate their interpretation. The test was performed by evaluating Tolerance and Variance Inflation Factor (VIF) values, with non-multicollinearity confirmed when Tolerance exceeds 0.10, and VIF is below 10.

The results of the multicollinearity test in this study can be seen in the following table:

Table 4.
Multicollinearity Test Results

Variables Independent	Tolerance	VIF	Information
System For Result (X1)	0.844	1,184	No happen multicollinearity
Need Capital (X2)	0.844	1,184	No happen multicollinearity

Data was processed using SPSS25

As presented in Table 4, both independent variables recorded a Tolerance value of 0.844 and a VIF value of 1.184, both of which comfortably satisfy the test



criteria. These results confirm the absence of multicollinearity between the Profit Sharing System and Capital Requirements variables, meaning that the two predictors do not exhibit significant linear overlap and can be simultaneously incorporated into the regression model without introducing estimation bias. This finding is consistent with the theoretical premise that profit-sharing mechanisms and capital requirement levels represent conceptually and operationally distinct dimensions of MSME financing behavior, and thus their independent contributions to the dependent variable can be reliably estimated.

Heteroscedasticity Test

The heteroscedasticity test was carried out to determine whether the variance of residuals in the regression model remains constant across all levels of the independent variables, a condition known as homoscedasticity. Violation of this assumption results in inefficient estimates and potentially misleading inference. The Glejser test was applied, with non-heteroscedasticity confirmed when the significance value exceeds 0.05.

Table 5.

Heteroscedasticity Test Results

Variables	t	Sig.	Information
(Constant)	0.000	1,000	–
System Profit Sharing (X1)	0.000	1,000	No happen heteroscedasticity
Need Capital (X2)	0.000	1,000	No happen heteroscedasticity

Data was processed using SPSS25

Table 5 shows that both independent variables recorded significance values of 1.000, substantially exceeding the 0.05 threshold. This confirms that the regression model is free from heteroscedasticity, with residual variance remaining constant across observations. This statistical conclusion is further reinforced by visual inspection of the Scatterplot between ZPRED and ZRESID values, where residual points are distributed randomly above and below the zero line without forming any discernible pattern. With both the multicollinearity and heteroscedasticity assumptions satisfied alongside the previously confirmed normality assumption, the regression model is fully qualified for reliable parameter estimation and hypothesis testing.



Multiple Linear Regression Analysis

Multiple linear regression analysis was employed to quantify the simultaneous and partial effects of the Profit Sharing System (X1) and Capital Requirements (X2) on Financing Decisions (Y) among culinary MSMEs in Telenaipura District.

Table 6.

Multiple Linear Regression Analysis

Variables	Unstandardized Coefficients (B)	t	Sig.
(Constant)	8,088	3,470	0.001
System Profit Sharing (X1)	0.278	2,968	0.004
Need Capital (X2)	0.350	3,405	0.001

Data was processed using SPSS25

Based on Table 6, the multiple linear regression equation is formulated as follows:

$$Y = 8.088 + 0.278X1 + 0.350X2 + e$$

The constant value of 8.088 indicates that when both independent variables are held at zero, the baseline level of financing decision orientation among culinary MSMEs is 8.088. The regression coefficient for the Profit Sharing System (X1) is 0.278 with a significance value of 0.004, indicating a positive and statistically significant relationship with financing decisions. This finding suggests that improvements in the quality and perceived fairness of the profit-sharing mechanism are associated with more effective and well-structured financing decisions among MSME actors. Theoretically, this result aligns with the principles of Islamic financial contracting, wherein transparent and equitable profit distribution fosters mutual trust between the financing institution and the borrower, thereby encouraging more deliberate and informed financing behavior. This finding is consistent with the work of Ascarya (2012) and Rivai and Arifin (2010), who argue that the quality of profit-sharing implementation directly conditions the degree to which MSMEs perceive Sharia financing as a viable and reliable funding mechanism.

The regression coefficient for Capital Requirements (X2) is 0.350 with a significance value of 0.001, representing the strongest predictor among the two variables. This positive coefficient indicates that higher perceived capital needs



are associated with greater motivation among MSME actors to adopt structured and goal-oriented financing strategies. This finding reflects the pecking order theory of financing, which posits that firms and micro-enterprises escalate their financing engagement in direct proportion to the urgency of their capital gap. When MSME owners perceive their capital requirements as substantially unmet, the incentive to seek formal or institutional financing mechanisms, including Sharia-based arrangements, increases correspondingly. This dynamic is particularly relevant in the culinary sector, where operational capital demands are cyclical, sensitive to seasonal demand fluctuations, and subject to rapid escalation during business expansion phases.

Partial Test (t-Test)

The t-test was conducted to evaluate the partial effect of each independent variable on the financing decision variable, with decision criteria based on a 5 percent significance level.

Table 7.
Partial Test (t-Test)

Variables Independent	t count	Sig.	Information
(Constant)	3,470	0.001	–
System For Result (X1)	2,968	0.004	Influential significant
Need Capital (X2)	3,405	0.001	Influential significant

Data was processed using SPSS25

As shown in Table 7, the Profit Sharing System variable (X1) produced a t-value of 2.968 with a significance value of 0.004, which is below the 0.05 threshold, confirming a positive and significant partial effect on financing decisions. This result indicates that as the implementation quality of the profit-sharing mechanism improves within Islamic financial institutions, the financing decisions of culinary MSME actors become more effective and strategically aligned. This finding corroborates the argument advanced by Antonio (2001) that profit-sharing contracts, when implemented with sufficient transparency and institutional credibility, generate a trust-based relationship that positively influences borrowers' commitment to sound financing practices. Furthermore, empirical support for this finding can be drawn from studies such as Rahmawati and Huda (2019), who found that satisfaction with profit-sharing arrangements significantly predicts MSME financing behavior in urban Indonesian contexts.

The Capital Requirements variable (X2) produced a t-value of 3.405 with a significance value of 0.001, confirming a positive and significant partial effect on



financing decisions. The stronger t-value of this variable relative to X1 suggests that capital pressure constitutes the more immediate driver of financing decision-making among culinary MSMEs in Telanaipura. This finding is consistent with Brigham and Houston (2019), who establish that the urgency of capital requirements functions as a primary determinant of financing strategy selection, particularly among small and micro enterprises that operate with thin liquidity buffers. In the specific context of culinary MSMEs, where initial investment in equipment, raw materials, and rental space requires substantial upfront capital, the pressure of unmet capital needs creates a strong imperative toward formal and structured financing engagement. Both hypotheses are therefore accepted, with the partial effects of X1 and X2 on Y empirically confirmed.

Simultaneous Test (F-Test)

The F-test was conducted to determine whether the Profit Sharing System (X1) and Capital Requirements (X2), taken together, exert a statistically significant simultaneous influence on Financing Decisions (Y).

Table 8.

Simultaneous Test (F Test)

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	128,945	2	64,472	16,804	.000 ^b
Residual	376,006	98	3,837		
Total	504,950	100			

Data was processed using SPSS25

Based on the results of the ANOVA test in Table 8 above, the calculated F value was 16,804 with a significance value (Sig.) of 0.000, which is smaller than the significance level of 0.05. This indicates that the regression model used in this study is feasible and simultaneously significant, meaning that the variables of the Profit Sharing System (X1) and Capital Requirements (X2) together have a significant influence on Financing Decisions (Y). Thus, the research hypothesis stating that there is a simultaneous significant influence between X1 and X2 on Y is declared accepted.

These results indicate that the combination of implementing a fair profit-sharing system and appropriate capital management will increase the effectiveness of MSME financing strategies. Conceptually, these findings reinforce the theory that Islamic financing decisions depend not only on capital aspects but also on transparent and equitable cooperation mechanisms.



Therefore, the regression model used can explain the strong relationship between the independent and dependent variables and illustrate that Sharia-based financing management plays a crucial role in supporting business sustainability in the MSME sector.

Coefficient of Determination (R²) Test

The coefficient of determination test is used to determine the extent to which an independent variable can explain variations in changes in the dependent variable. The coefficient of determination is indicated by the R Square (R²) value in the Model Summary table. R² values range from 0 to 1, with values closer to 1 indicating a better predictive ability for the model, while values closer to 0 indicate a very weak ability for the independent variable to explain the dependent variable.

Table 9.
Coefficient of Determination (R²) Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.505	0.255	0.240	1,959	1,849

Data was processed using SPSS25

Based on the results in Table 9, the R Square value of 0.255 signifies that the Profit Sharing System and Capital Requirements variables jointly account for 25.5 percent of the total variance in MSME financing decisions in the culinary sector in Telanaipura District. The remaining 74.5 percent is attributable to other variables not captured within the present model, including managerial capacity, prior business experience, institutional trust, external economic conditions, and access to financial information. While an R Square of 25.5 percent may appear modest, it is consistent with findings in comparable MSME financing studies conducted in developing country contexts, where financing decisions are inherently shaped by a wide constellation of behavioral, institutional, and macroeconomic factors that are difficult to fully encapsulate within a single regression model.

Kurniawan and Puspitasari (2021), for instance, reported R Square values in the range of 22 to 30 percent in similar MSME financing studies in Indonesian urban settings, suggesting that the explanatory power obtained in the present study is empirically reasonable. The Adjusted R Square value of 0.240 further confirms this estimate after adjusting for the number of predictors and sample size, while the Durbin-Watson statistic of 1.849 falls within the acceptable range, indicating the absence of problematic autocorrelation in the residuals.



Collectively, these findings affirm that the profit-sharing system and capital requirements represent meaningful and statistically significant determinants of financing decision-making among culinary MSMEs in Telanaipura District, even as they operate within a complex and multifactorial financing environment.

The Effect of the Profit Sharing System on Financing Decisions

The finding that the profit-sharing system exerts a positive and significant partial effect on financing decisions ($t = 2.968$, $\text{sig.} = 0.004$) is theoretically grounded in the cooperative structure of Islamic financial contracting. Unlike conventional interest-based mechanisms, the profit-sharing arrangement distributes financial risk proportionally between the capital provider and the business operator, reducing repayment burdens during periods of low revenue and fostering a trust-based financing relationship. This structural equity encourages culinary MSME actors in Telanaipura to engage more deliberately with formal financing instruments, as the mechanism aligns with both their financial constraints and their religious values. The high mean value of 21.74 for this variable confirms that respondents generally hold favorable perceptions of the fairness, clarity, and Sharia compliance of the profit-sharing system, which in turn positively conditions their financing decision-making behavior. This result is consistent with Antonio (2001) and Nurhayati and Wasilah (2015), who argue that the perceived transparency and equity of profit-sharing ratios are the most critical determinants of MSME willingness to engage with Islamic financing instruments, and with Rahmawati and Huda (2019), who demonstrated that engagement with Sharia-based profit-sharing financing is positively associated with improved financial planning behavior among small business owners in urban Indonesian contexts.

The Effect of Capital Requirements on Financing Decisions

The Capital Requirements variable produced the strongest partial effect in this study ($t = 3.405$, $\text{sig.} = 0.001$, $B = 0.350$), indicating that the urgency of unmet capital needs constitutes the most immediate driver of financing decision-making among culinary MSMEs in Telanaipura District. This result is theoretically consistent with the pecking order theory of financing proposed by Myers and Majluf (1984), which holds that enterprises escalate their financing engagement in direct proportion to the magnitude of their capital gap relative to internally available funds. In the culinary sector specifically, where operational demands for equipment, raw materials, and commercial space generate substantial and recurring capital requirements, the gap between available personal funds and actual business needs creates a structural imperative toward formal financing engagement. The high mean value of 21.26 recorded for this variable corroborates



this interpretation, reflecting the pervasive and persistent capital shortfalls experienced by respondents, a condition that is consistent with the Ministry of Cooperatives and SMEs (2024) finding that 58 percent of MSME owners in Jambi City continue to rely solely on personal capital. As Brigham and Houston (2019) assert, financing strategy selection among small enterprises is most effectively predicted by the alignment between financing instrument characteristics and the enterprise's stage-specific capital requirements, a principle clearly operative in the present study's findings.

Simultaneous Effect and Broader Implications

The simultaneous F-test result ($F = 16.804$, $\text{sig.} = 0.000$) confirms that the Profit Sharing System and Capital Requirements jointly and significantly influence the financing decisions of culinary MSMEs in Telanaipura District, with an R Square value of 0.255 indicating that both variables together explain 25.5 percent of the total variance in financing decision behavior. This simultaneous significance is analytically important because it demonstrates that financing decisions in this context are not adequately explained by either the institutional quality of profit-sharing arrangements or the economic pressure of capital needs in isolation, but rather by their concurrent presence and interaction. This finding aligns with Karim (2010), who argued that Islamic MSME financing effectiveness is contingent upon the simultaneous fulfillment of contractual fairness and capital adequacy. The remaining 74.5 percent of unexplained variance points to other influential factors beyond the scope of the current model, including managerial competency, Islamic financial literacy, collateral availability, prior financing experience, and broader macroeconomic conditions, all of which represent productive directions for future research. Collectively, these findings advance the academic discourse on inclusive MSME financing by providing contextually grounded evidence from Telanaipura District and establishing an empirical basis for integrated policy interventions that address both the Sharia compliance dimension and the capital access dimension of MSME financing strategy simultaneously.

CONCLUSION

This study confirms that the profit-sharing system and capital requirements each exert a positive and significant influence on the financing decisions of culinary MSMEs in Telanaipura District, Jambi City, both partially and simultaneously. The profit-sharing system strengthens financing decision quality through its emphasis on fairness, transparency, and partnership, which builds



institutional trust and encourages more structured financing behavior among MSME actors. Capital requirements function as the more immediate driver, wherein greater perceived capital gaps generate stronger motivation to seek and commit to appropriate external financing arrangements. Simultaneously, both variables jointly explain 25.5 percent of the variance in financing decisions, confirming that sustainable financing outcomes are most effectively achieved when Sharia-compliant financing quality and adequate capital provision are addressed concurrently. These findings provide an empirical foundation for Islamic financial institutions and regional policymakers to design integrated financing programs that address both dimensions simultaneously, thereby strengthening the long-term sustainability of culinary MSMEs in the region. Future research is encouraged to extend the analytical model by incorporating additional variables such as financial literacy, managerial capacity, and collateral availability to produce a more comprehensive understanding of MSME financing decision determinants.

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