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THE EFFECTS OF DISCOURAGED BORROWERS ON BUSINESS SUSTAINABILITY THROUGH FINANCIAL BOOTSTRAPPING AND FINANCIAL INCLUSION (STUDY OF CREATIVE ENTREPRENEURS IN THE STARTUP PHASE)

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***Abstract*:**
This quantitative study aims to examine the effects of discouraged borrowers on financial bootstrapping and financial inclusion, as well as how they affect business performance and business sustainability among startup creative economy entrepreneurs. Data were gathered from innovative MSME participants and analyzed using the Structural Equation Modeling-Partial Least Squares (SEM-PLS) method. The results indicate that the hesitance of business stakeholders to pursue formal funding substantially promotes the use of bootstrapping techniques, while concurrently diminishing the level of financial inclusion. Moreover, both financial bootstrapping and financial inclusion positively influence business performance, thereby enhancing business sustainability. These findings highlight the significance of alternative funding techniques and participation in the formal financial system in encouraging small enterprises' growth and resilience. Policy implications necessitate enhancing financial bootstrapping, providing management support, and streamlining access to financial services to promote firm autonomy and sustainability.

Keywords : Discouraged borrowers, Financial bootstrapping, Financial inclusion, Business performance, Business sustainability.

INTRODUCTION

Creative economy is a commercial sector that emphasizes the utilization of creativity, innovation, and talent for development. The existence of creative arts offers avenues for individuals to escape poverty and enhance economic well-being. In Indonesia, the export value of the creative economy—which employed a total of 19.24 million individuals—has been reported to reach US$19.67 billion in 2019 (Kemenparekraf, 2020). However, despite its significant contributions to the country, challenges persist in this sector. Creative entrepreneurs can have limited funding and various financial management issues, particularly during the startup phase, making them struggle to progress to the growth phase or even face bankruptcy (Rita, 2019). The startup phase marks the beginning of a business life cycle, defined by the development of the business model and the initiation of business activities. During this phase, creative entrepreneurs may encounter difficulties in meeting loan requirements and providing collateral, and consider interest rates as excessively exorbitant, thus being hesitant to apply for a bank loan. Kon and Storey (2003) define them as discouraged borrowers. This situation arises due to asymmetric knowledge in the banking sector, which elevates interest rates, complicates lending conditions, and inflates collateral costs.

To establish sustainable businesses that are both profitable and capable of advancing to the growth phase, discouraged borrowers within the creative economy sector need continued support from the Indonesian government. Numerous prior studies have identified two applicable measures: enhancing financial bootstrapping and promoting financial inclusion (Koomson et al., 2023). Financial inclusion pertains to enhancing access to diverse financial services, while financial bootstrapping is a method that utilizes internal funding effectively and efficiently, enabling businesses to operate despite funding constraints (Vaid et al., 2020). Creative entrepreneurs exhibit ingenuity not only in product development but also in resource optimization, allowing them to access financial services and cultivate positive relationships with banks.

Several prior studies have examined various factors that may elevate the number of discouraged borrowers, such as application expenses, reciprocal trust, self-efficacy, financial literacy, overconfidence, and inherent optimism (Mardika et al., 2024; Morales, 2022; Rostamkalaei et al., 2024). Nevertheless, no studies have identified the impacts of discouraged borrowers on business sustainability with the aim of producing targeted solutions for creative entrepreneurs in the startup phase, enabling them to develop their businesses, attain bankability for credit applications, and progress to the growth phase. Furthermore, the Indonesian government has not conducted an extensive mapping of innovative entrepreneurs in the startup phase.

Based on the aforementioned explanation, this study presents four innovations as follows. First, this study investigates the impact of discouraged borrowers on financial bootstrapping and financial inclusion, a topic that has not been previously explored. Second, this study integrates business performance into the model by examining the effects of financial bootstrapping and financial inclusion on business sustainability, which have the potential to manifest indirectly through business performance. Third, this study concentrates on creative entrepreneurs at the startup phase, a crucial period that has rarely been examined in prior studies, despite the fact that all successful creative entrepreneurs must navigate this stage. Fourth, this study specifically observes creative entrepreneurs in the startup phase, who have thus far received limited attention from the government.

THEORETICAL FRAMEWORK AND HYPOTHESES

Discouraged borrowers

Discouraged borrowers are people or business organizations in need of finance who refrain from applying for a loan due to the belief that their application would be denied (Rostamkalaei et al., 2018). In other words, they have preemptively excluded themselves from the credit market before receiving a formal rejection from financial institutions. This situation predominantly affects micro, small, and medium enterprises (MSMEs), women, the younger generation, and community groups that have traditionally experienced restricted access to conventional financial institutions. Kon and Storey (2003) have identified the primary factors contributing to an individual becoming a discouraged borrower, which include negative perceptions of banking bureaucracy, bad experiences with credit rejection, insufficient information regarding financial products, and a lack of self-confidence in their business acumen or financial status.

Financial bootstrapping

Financial bootstrapping encompasses alternative financing strategies employed by individuals or firms, particularly small and medium enterprises (SMEs), to fulfill funding requirements without dependence on official external financing sources, such as banks or other financial institutions. The concept was initially popularized and then elaborated upon by Winborg and Landström (2001), who classified different bootstrapping approaches frequently employed by business practitioners. Winborg and Landström (2001) define financial bootstrapping as a collection of tactics designed to reduce the need for external funding while effectively utilizing internal resources and existing company partnerships.

Financial inclusion

Financial inclusion ensures that individuals and businesses, particularly those from vulnerable or marginalized communities, gain access to affordable, high-quality, and relevant financial products and services, e.g., savings, credit, insurance, and payment systems (Ndlovu & Toerien, 2020). Financial inclusion is a key pillar for inclusive economic growth, social equality, and individual well-being worldwide. According to the World Bank (2015), many people in developing nations have limited access to formal financial services due to geographical, economic, educational, and cultural barriers.

Business performance

Business performance is a critical variable in the examination of management and entrepreneurship since it indicates the degree to which a business attains its financial and non-financial objectives. Generally, business performance is defined as the total results achieved by a company within a specified timeframe, signifying the efficacy and efficiency of resource management (Howell, 2018). It is frequently assessed using measures such as the achievement of substantial sales, profit generation, effective cash flow management, maintenance of an ideal inventory of items, and enhancement of manufacturing capacity (Perera & Baker, 2007).

Business sustainability

In contemporary management studies, the notion of business sustainability is a critical subject as it pertains directly to an organization's ability to endure, prosper, and provide long-term benefits to stakeholders. Business sustainability refers to a company's capacity to operate sustainably by focusing on financial gains while simultaneously considering the social and environmental aspects of its actions (Evans et al., 2017). Companies focusing on business sustainability not only pursue strong economic success but also aim to positively influence the surrounding community and environment through their activities. In this context, business sustainability demonstrates a company's efforts to integrate short-term objectives (profit) with long-term priorities (business continuity, environmental sustainability, and social welfare) (Rasheed & Siddiqui, 2019).

The relationship between research variables

The notion of business sustainability is a critical subject in contemporary management studies, since it pertains directly to an organization's capacity to endure, prosper, and deliver enduring advantages to stakeholders. Business sustainability refers to a company's capacity to conduct its operations in a sustainable fashion, focusing not solely on financial gains but also considering the social and environmental aspects of its actions (Evans et al., 2017). In this context, business sustainability denotes a company's endeavors to reconcile short-term objectives (profit) with long-term priorities (business continuity, environmental sustainability, and social welfare) (Rasheed & Siddiqui, 2019).

H1: Discouraged borrowers have a positive effect on financial bootstrapping

Discouraged borrowers indicate that business individuals are hesitant to seek financing from formal financial institutions due to their pessimism about the likelihood of credit approval. This adversely impacts financial inclusion, since business actors consciously decide not to utilize financial products and services offered to them. An increase in self-exclusion among business actors, stemming from emotions of inadequacy or fear of rejection, correlates with a decrease in public engagement in the formal financial system (Brixiová et al., 2020; Vaid et al., 2020). Consequently, the greater the likelihood of individuals becoming discouraged borrowers, the lower the level of their engagement in financial inclusion, since their reluctance to use financial services obstructs the attainment of full financial inclusion.

H2: Discouraged borrowers have a negative effect on financial inclusion

Financial bootstrapping is a financing approach employed by entrepreneurs to fulfill capital requirements without dependence on conventional financial institutions by leveraging internal or alternative resources such as personal finances, familial loans, or expedited cash flow (Manzi-Puertas et al., 2024). This method is considered capable of assisting business operators, particularly small enterprises, in sustaining operational continuity and addressing the problem of restricted access to funding. Financial bootstrapping enables companies to enhance flexibility in financial management, alleviate debt obligations, and adapt swiftly to market fluctuations (Rita et al., 2021). The more proficiently business entities employ financial bootstrapping, the higher the potential to boost business performance, as indicated by increased revenue growth, operational sustainability, and competitiveness.

H3: Financial boostrapping has a positive effect on business performance

Financial inclusion facilitates seamless access for business entities, particularly creative entrepreneurs, to utilize diverse formal financial services, including credit, savings, insurance, and payment systems, that bolster operational activities. Moreover, financial inclusion provides commercial entities with opportunities to broaden their market through the utilization of digital financial technology (Solihat et al., 2023). Therefore, a higher degree of financial inclusion afforded to company actors correlates with enhanced opportunities for improving firm performance, revenue development, profitability, and operational sustainability.

H4: Financial inclusion has a positive effect on business performance

Strong business performance is a crucial prerequisite for ensuring business sustainability as it indicates the capacity of enterprises to produce profits, sustain growth, and manage resources effectively and efficiently (Ratnasari & Levyda, 2021). Enterprises exhibiting stable or improved performance typically possess a superior ability to invest in innovation, broaden markets, and meet social and environmental obligations within a long-term sustainability framework. Furthermore, robust business performance fosters increased trust among stakeholders (investors, customers, and business partners), ultimately bolstering corporate sustainability (Supramono et al., 2025). Hence, superior business performance correlates with enhanced opportunities for the company to attain sustainability.

Discouraged borrowers, financial bootstrapping, financial inclusion, and business performance contribute to business sustainability by providing a comprehensive understanding of how the problem of limited formal financial access can be overcome through financial bootstrapping, increased financial inclusion, and optimized business performance, which in turn strengthens business sustainability in the long term (Ebben, 2009). This correlation emphasizes that financial limitations can encourage innovations in resource management rather than acting as an absolute barrier to business sustainability.

H5: Business performance has a positive effect on business sustainability

The following conceptual framework describes the relationship between discouraged borrowers (DB), financial bootstrapping (FB), financial inclusion (FI), business performance (BP), and business sustainability (BS).

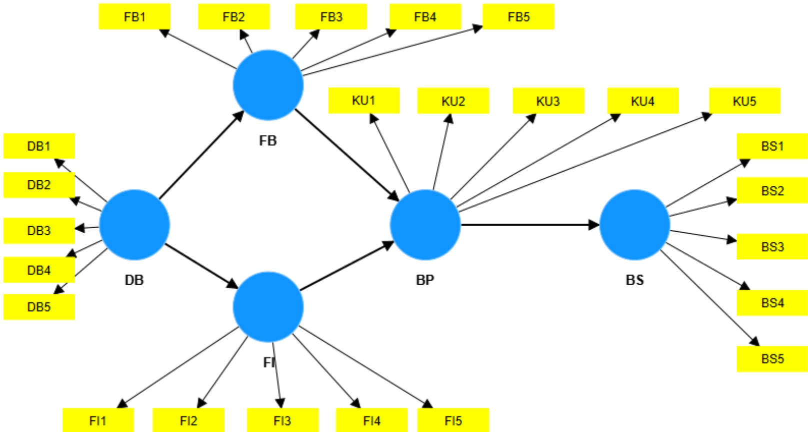

Figure 1. Research Model

RESEARCH METHODS

Research design

This study employed the variance-based Structural Equation Modeling (VB-SEM), utilizing a Partial Least Squares (PLS) technique to address the formulation of the research model. This study involved discouraged borrowers as the independent variable (exogenous), financial bootstrapping, financial inclusion, and business performance as the intervening variables, and business sustainability as the dependent variable (endogenous). Model estimation used the Ordinary Least Squares (OLS) approach, comprising two primary stages: the inner stage, which ensures the model's validity and reliability, and the outer stage, which assesses the measurement model.

Data collection

The study population consisted of startup entrepreneurs experiencing discouraged borrowers within the culinary, fashion, and craft sub-sectors. These three creative industries significantly contribute to the national GDP, amounting to 821.77 trillion rupiah. Research location covered Pekalongan Regency, Pekalongan City, Salatiga City, Semarang City, Surakarta City, Rembang Regency, and Jepara Regency.

Sample size was calculated following the rule of 5 to 10 times the number of research indicators (Hair et al., 2019). Since the variables of this study had a total of 25 indicators, 250 samples were used for the analyses. A purposive sampling method was adopted with the following conditions:

1. Using informal funding (owner's capital and/or loans from friends or family).
2. Marketing the products locally (within the same city or district).
3. Needing external funding but being concerned about high interest, complicated procedures, the inability to provide guarantees, and the possibility of rejection.

Data analysis

Variables were measured using the 7-point Likert scale (strongly disagree – strongly agree). The definitions and indicators of variables used in this study are presented in Table 1.

Table 1. Summary of Operational Variables

Variables	Variable Definition	Indicators	Scale
Discouraged Borrowers	Decision not to apply for bank credit due to concerns about the possibilities of application rejection, high interest rates, demanding collateral requirements, complicated loan procedures, and the fear of cooperating with banks	1. Not applying for credit for fear of being rejected 2. Not applying for credit because interest rates are too high 3. Not applying for credit due to demanding collateral requirements 4. Not applying for credit because the loan procedure is too complicated 5. Not applying for credit for fear of cooperating with banks Source: Chakravarty and Xiang (2013)	Likert 1–7
Financial Bootstrapping	Business strategy by optimizing existing resources without relying on formal funding sources	1. Choosing suppliers who can accept tempo payments 2. Deferring owner withdrawal 3. Minimizing credit sales 4. Prioritizing rent or borrowing over buying 5. Using profits to increase venture capital Source: Winborg and Landström (2001)	Likert 1–7
Financial Inclusion	Availability of financial products that can be accessed by the creative economy	1. Savings 2. Warehouse 3. Credit 4. Transfer 5. Online banking Source: Ndlovu and Toerien (2020)	Likert 1–7
Business Performance	Results of work achieved by a business to generate sales, profits, cash flow, and the number of products, as well as to increase production capacity	1. Ability to achieve high sales 2. Ability to create profits 3. Ability to maintain good cash flow 4. The amount of the product in optimal condition 5. Increased production capacity Source: Perera and Baker (2007)	Likert 1–7
Business Sustainability	Ability of the business to deliver short- and long-term impacts to stakeholders	1. Setting a decent price 2. Reducing plastic waste 3. Participating in social activities 4. Prioritizing consumer convenience 5. Using water and energy efficiently Source: (Supramono et al., 2025)	Likert 1–7

RESULTS AND DISCUSSION

Results

Validity Test

A validity test was performed to measure the degree to which each indicator effectively represented the latent components evaluated in this study through its outer loading value, where it is considered valid if the outer loading value is more than 0.70 (Hair et al., 2019). The value indicates a robust association between the indicator and the represented latent variable. The results of data processing in SmartPLS (Table 2) indicate that all indicators in this model possess outer loading values exceeding the established threshold, ranging from 0.848 to 0.984. This signifies that all indicators in the model satisfy the criteria for convergent validity and substantially contribute to the formation of the construct being measured.

Reliability Test

Reliability tests were done using Cronbach's Alpha and Composite Reliability to assess the extent to which the construct has internal consistency and stability in measuring the latent variables. In constructs with reflective indicators, values greater than 0.70 are generally considered reliable as they reflect stable and consistent measurements. As seen in Table 2, the constructs in the model show Cronbach's Alpha and Composite Reliability values above the threshold. This means that they have a high degree of reliability, thus supporting the overall validity of the measurement model.

Table 2. Measurement Model Analysis

Variable	Item	Factor Loading	Cronbach's alpha	Composite Reliability	AVE
Business Sustainability (BS)	BS1	0.947	0.973	0.974	0.904
	BS2	0.944			
	BS3	0.951			
	BS4	0.949			
	BS5	0.962			
Discouraged Borrowers (DB)	DB1	0.947	0.978	0.980	0.918
	DB2	0.961			
	DB3	0.973			
	DB4	0.950			
	DB5	0.959			
Financial Bootstrapping (FB)	FB1	0.925	0.982	0.985	0.934
	FB2	0.965			
	FB3	0.976			
	FB4	0.984			
	FB5	0.980			
Financial Inclusion (FI)	FI1	0.965	0.982	0.982	0.934
	FI2	0.968			
	FI3	0.965			
	FI4	0.968			
	FI5	0.965			
Business Performance (BP)	BP1	0.848	0.962	0.968	0.869
	BP2	0.935			
	BP3	0.945			
	BP4	0.966			
	BP5	0.962			

Source: OutputSmart-PLS 4 (Data processing, 2025)

Model Fit Test

Table 3 displays the coefficient of determination (R-squared), which quantifies the extent to which an endogenous variable is elucidated by the independent variable. According to the analysis, the Business Performance (BP) variable had an R-squared value of 0.674, indicating that Financial Bootstrapping and Financial Inclusion contributed to 67.4% of the variation in BP. Conversely, Financial Inclusion (FI) and Financial Bootstrapping (FB) were explained by DB at 16.1% and 1.6%, respectively, reflecting a negligible influence on the pathway. Nonetheless, several variables exhibited low R-square values, suggesting the necessity of additional model refinement—either through the incorporation of new constructs or the application of more sophisticated analytical methods—to enhance the model's comprehensibility across all examined variables.

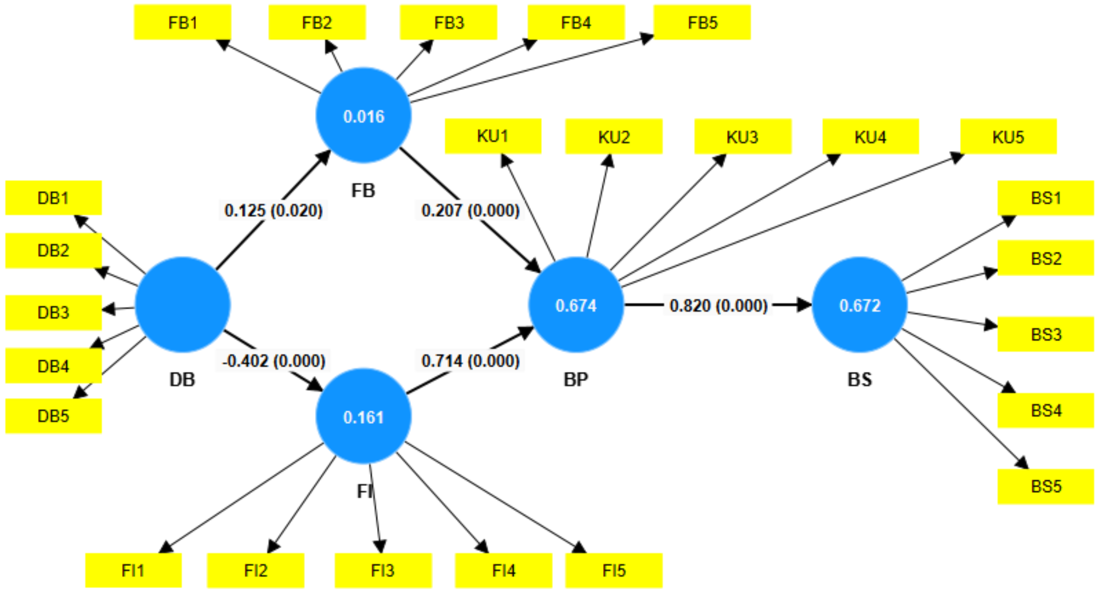

Figure 2. Bootstrapping Results of the Structural Model

Table 3. R-squared Values

Variables	R-squared	Adjusted R-squared
BS	0.672	0.670
FB	0.016	0.012
FI	0.161	0.158
BP	0.674	0.672

Source: OutputSmart-PLS 4 (Data processing, 2025)

Hypothesis Testing

To assess the statistical significance of the links among the constructs in the model, hypothesis testing was done by examining path coefficients and employing a P-value threshold of less than 0.05 ($p < 0.05$) to indicate significance. The results (Table 4) indicate that all hypotheses satisfy the criteria, demonstrating a statistically significant link between the variables. These findings enhance the validity of the proposed model and illustrate its significance in elucidating the relationship among discouraged borrowers, financial bootstrapping, financial inclusion, business performance, and business sustainability.

Table 4. Hypothesis Testing Results

No.	Hypothesis	Path Coefficients (β)	P-value	Significance	Direction of Relationship
1.	DB → FB (Discouraged Borrowers → Financial Bootstrapping)	0.125	< 0.001	Significant	Positive
2.	DB → FI (Discouraged Borrowers → Financial Inclusion)	-0.402	< 0.001	Significant	Negative
3.	FB → BP (Financial Bootstrapping → Business Performance)	0.207	< 0.001	Significant	Positive
4.	FI → BP (Financial Inclusion → Business Performance)	0.714	< 0.001	Significant	Positive
5.	BP → BS (Business Performance → Sustainability)	0.820	< 0.001	Significant	Positive

Source: OutputSmart-PLS 4 (Data processing, 2025)

Disscusion

The effect of discouraged borrowers on financial bootstrapping

The path analysis results indicate that the Discouraged Borrowers variable has a significant positive effect on Financial Bootstrapping ($\beta = 0.125$; $p < 0.001$), meaning that business actors who are reluctant to apply for credit tend to rely more on alternative sources of funds through bootstrapping strategies. This supports the finding of Al Issa (2020) that financial bootstrapping is frequently employed by entrepreneurs with restricted access to external capital. Similarly, Rostamkalaei et al. (2024) also reveal that when external financing is limited, business individuals typically seek internal solutions, such as utilizing personal resources or borrowing from social networks. While its R-squared value is low, financial bootstrapping can be affected by other variables aside from discouraged borrowers.

The effect of discouraged borrowers on financial inclusion

As shown in the path analysis results, the Discouraged Borrowers variable has a significant negative impact on Financial Inclusion ($\beta = -0.402$; $p < 0.001$), meaning that the greater the reluctance to borrow, the lower the participation of business actors in the formal financial system, thus hampering the level of financial inclusion. This suggests that increased reluctance among business actors to pursue formal funding correlates with diminished participation in the inclusive financial system. This disposition affects their minimal engagement with formal financial services, including the use of bank accounts, access to microcredit, and digital finance services. These findings align with a study by Brixiová et al. (2020), which indicates that perceptions of procedural complexity and the possibility of rejection constitute significant obstacles to financial inclusion in developing nations. While its R-squared value is low, financial inclusion can be affected by other variables aside from discouraged borrowers.

The effect of financial bootstrapping on business performance

According to the path analysis results, the effect of financial bootstrapping on business performance is significant and positive ($\beta = 0.207$; $p < 0.001$), meaning that business operations can be strengthened through the adoption of alternative financing strategies. Bootstrapping refers to entrepreneurs' attempts to meet the financial needs of their businesses independently, without resorting to external financing, by utilizing personal capital, soliciting assistance from family, postponing payments to suppliers, or liquidating personal assets. Zwane and Nyide (2016) have emphasized that bootstrapping serves as the fundamental basis for creative entrepreneurs to establish a corporate reputation before qualifying for external funding. In the context of Indonesia's creative economy, bootstrapping tactics are crucial, particularly during the earliest stage of business growth when entrepreneurs are establishing markets and financial frameworks.

The effect of financial inclusion on business performance

The path analysis results reveal that financial inclusion has a significant positive effect on business performance ($\beta = 0.714$; $p < 0.001$), although not as great as that of financial bootstrapping. This indicates that increased participation of business players in the formal financial system correlates with improved business success. Financial inclusion denotes the provision and accessibility of sufficient financial services for all demographics, including small businesses. These findings confirm that of a study by Ozili (2021), which highlights that financial inclusion increases transaction efficiency, strengthens accountability in firm financial management, and improves access to capital opportunities. Studies conducted in various developing nations have demonstrated that financial inclusion enhances business frameworks and fosters a more competitive economic environment.

The effect of business performance on business sustainability

Business performance shows a strong and significant positive impact on business sustainability ($\beta = 0.820$; $p < 0.001$), suggesting that effective and efficient business practices are the main determinants of the sustainability of creative economy businesses in the early stages of development. This indicates that excellent business performance, as evidenced by metrics such as heightened revenue, operational efficacy, market growth, and customer contentment, correlates with an increased potential for long-term business sustainability. These findings are in line with a study by Agbanyo et al. (2023), which reveals that creative entrepreneurs exhibiting strong business performance are more capable of investing in innovation, digitization, and the development of strategic networks that enhance sustainability.

CONCLUSION

This study investigates the impacts of discouraged borrowers, financial bootstrapping, financial inclusion, and business performance on business sustainability among startup-phase creative economy entrepreneurs. The path analysis and hypothesis testing results indicate that all variable linkages in the model have a significant effect, both directly and indirectly. Discouraged borrowers have been shown to positively influence financial bootstrapping, suggesting that business actors who are reluctant to seek formal financing typically rely on internal funding sources for financial autonomy. Conversely, discouraged borrowers have a negative effect on financial inclusion, indicating that unfavorable attitudes of financial institutions impede engagement in the formal financial system. Furthermore, both financial bootstrapping and financial inclusion exert a beneficial impact on ensuring business success. In this regard, self-financing techniques and access to financial services enable businesses to manage their finances with greater flexibility and efficiency. To support local businesses during the early stage of their development, the government can provide entrepreneurs with training programs on financial bootstrapping, particularly with topics concerning resource optimization, more effective and efficient production techniques, and communication between creative and creative companies and suppliers. In addition, financial inclusion can be improved by introducing banking products to creative economy entrepreneurs so that they have sufficient knowledge of how to confidently use these products.

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