



Identify Factors in Increasing the Income of Micro, Small and Medium Enterprises (MSMEs) in Padang City

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Abstract

Micro, Small and Medium Enterprises (MSMEs) are the largest segment for national economic actors. MSME players can help the government reduce the number of unemployed people. So in Indonesia, micro, small and medium enterprises are often associated with government efforts to reduce unemployment, fight poverty, and equalize income. This research aims to identify the factors that influence the income of MSMEs in the city of Padang. The research design used in this research is causative research to identify factors that influence the income of micro, small and medium businesses in the city of Padang, where the research subjects used a purposive sampling approach with a margin of error of 5% so that the number of samples of micro and small business actors who have been and Having carried out digital promotions, the target was 385 respondents as measured by distributing a Likert scale questionnaire. Data analysis uses validity, reliability, classical assumption tests, multiple regression tests, F-tests and t-tests. The results of data analysis show that the role of government, capital, entrepreneurial competence and length of business have a significant effect, both partially and significantly, on MSME income.

Keywords: Income, MSM Enterprises, Padang City

1. Introduction

MSMEs play an important role in economic aspects, especially the economy in developing countries. MSMEs contribute to the economy, accounting for up to 45% of total employment, and contribute up to 33% to GDP in developing countries (Tekola & Gidey, 2019). In the development of MSMEs in several developing countries, including Indonesia, on average, the main problems are financing, marketing and government support (Tambunan, 2018). In conditions of economic crisis, it turns out that MSMEs are businesses that are resistant to crisis shocks because they do not use many imported raw materials. When large-scale businesses experience destruction due to the economic crisis, MSMEs are a lifeline from the impact of the economic crisis. Apart from that, small businesses are a basic need for our country which adheres to a people's system. Seeing its enormous role and potential, it is very reasonable to develop these small and medium businesses as much as possible in order to improve community welfare while supporting the regional economy.

On the issue of internal factors for MSMEs, it can be reviewed by looking at the quality of human resources,

technical aspects in business, operational capabilities in terms of effectiveness and efficiency, as well as mastery at the level of business and marketing strategy (Hernita et al., 2021). Meanwhile, external factors can be reviewed by looking at the role of government policy in supporting or hindering business, whether the business climate is conducive or not, economic conditions are stable or not, and the influence of economic competition (Machmud & Sidharta, 2016).

Apart from that, the problems faced by MSMEs are also in the form of increasingly tough business competition, which has implications for raw materials that are difficult to obtain, lack of competence or technical production capabilities, lack of ability to manage human resources (HR), and minimal financial management and accounting capabilities (Mukherjee, 2018). Most small industries have self-confidence and a high level of independence. Due to limited knowledge, small industries develop rather slowly. Apart from that, the obstacles faced are limited capital for development, it is difficult to get employees who have high skills, and they are relatively weak in specialization. The length of time a person has been an entrepreneur will also influence the income that the

business actor will receive. The longer the business runs, the more customers or consumers should come (Womack & Jones, 2015), but it is not uncommon for some businesses that have been running for a long time to be empty of buyers and may even go bankrupt.

The Financial Accounting Standard Board or FASB in (Yusra, 2019) provides the understanding that income is cash inflow / increase in assets / payment of debt (liabilities) which has a purpose, provides services, and also other activities which are the main activities. According to (Kusuma, 2020) Income is an increase in equity which is caused by an increase in economic benefits in the form of cash inflows or an increase in assets during the accounting reporting period or a decrease in liabilities and does not come from the participation of investors or capital providers. The income in question can be in the form of income and profits. Income according to (Nurjanna, 2020) is income or an increase in assets or a reduction in liabilities which causes additional economic benefits or an increase in capital and does not come from capital depositors during one accounting period.

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Micro, Small and Micro Enterprises (MSMEs) are an important sector and have a large contribution to realizing national economic development targets, such as economic growth, employment opportunities, increasing the country's foreign exchange and regional economic development. MSMEs are expected to have the ability to contribute to spurring national economic growth so that MSMEs need protection in the form of government policies such as laws and government regulations. The existence of regulations, both in the form of laws and government regulations relating to MSMEs from the production side and banking side, will spur an increase in the role of MSMEs in the economy.

Regulations are a set of rules intended to provide protection and benefits for society in general or a group of people. The Ministry of Finance also programs efforts to ensure the progress and

development of MSMEs through Minister of Finance Decree (Menkeu) No.316/KMK.016/1994. The decree requires State-Owned Enterprises (BUMN) to set aside 1-5% of company profits for Small Business and Cooperative Development (PUKK). Djamhari (2004: 522), "In Indonesia, policies towards MSMEs are more often associated with government efforts to reduce unemployment, combat poverty and equalize income. Therefore, the development of MSMEs is often considered indirectly as a policy of creating job opportunities or a policy of income redistribution. Several previous studies have shown that the role of government has a significant positive effect on MSMEs income (Atsu & Ojong, 2014); (Nursini, 2020); (Sahela et al., 2021).

H₁: The role of government has a significant positive effect on MSMEs' income

In running a business, one of the supporting factors needed is capital. If we compare starting a business by building a house, then capital is part of the foundation of the house to be built. The stronger the foundation, the stronger the house will be built. Likewise, the influence of capital on a business, its existence is the initial foundation for the business to be built. Some of the capital needed to run a business includes determination, experience, courage, knowledge, working net, and cash capital, but most people are prevented from starting a business because it is difficult for them to get cash capital. Business consultants generally divide the definition of capital, including small business capital, into two, namely tangible capital and intangible capital. Tangible capital is tangible capital, both in the form of movable and immovable goods.

In the capital aspect, MSMEs generally have several obstacles to accessing capital in formal financial institutions. Of course, if MSMEs have easy access to capital, this will certainly have implications for increasing economic growth. In supporting the continuity of business operations, access to capital is considered an important thing. Access to capital can be interpreted as the absence of obstacles experienced by MSMEs when making loans/credit in terms of administration costs at formal financial institutions, because if MSMEs do not have the skills to keep financial records, this could result in hampered access to capital from credit financing. Apart from that, high interest rates and large guarantees can also make it difficult for MSMEs to gain access. As is known, formal financial institutions as providers of capital services have wider access and availability of funds compared to informal ones. Several previous studies have stated that capital has a significant positive effect on MSME income (Candraningrat et al., 2021); (Nursini, 2020); (Prasetyo, 2020).

H₂: capital has a significant positive effect on MSMEs' income

Human resource (HR) competency turns out to be a very important factor in the MSME industry. By increasing HR competency through increasing knowledge and skills, this is the key to improving the performance of MSMEs. HR management in MSMEs also includes recruitment, selection, placement, development, compensation (wages), retention, evaluation, promotion and termination of employment. To achieve competitive advantage, SMEs must know their knowledge assets, determine how to manage human resources (HRM) and use these assets to maximize returns. SMEs have great potential to apply knowledge management to achieve competitive advantage. Several previous studies show that entrepreneurial competence has a significant positive effect on MSME income (Subagyo et al., 2020); (Esubalew & Raghurama, 2020); (Mardikaningsih et al., 2022)

H₃: Entrepreneurial competence has a significant positive on MSMEs' income

Length of business can be interpreted as the length of time an entrepreneur runs a business. The longer a business runs, the more an entrepreneur will know market conditions and the ups and downs of a business, in contrast to a business that has just been established and must be able to adapt to the new business environment. The indicators for length of business are 1.) length of business can affect business income, 2.) length of business can increase productivity such as the skill or professionalism of the entrepreneur, 3.) length of business can increase knowledge about consumer tastes or behavior, 4.) business management can improve strategic selection in business. Several previous studies have shown that the length of business has a significant positive influence on MSME income

H₄: Length of business has a significant positive on MSMEs' income

2. Research Method

The approach used in this research is a quantitative approach, because the data obtained allows statistical analysis techniques to be used. According to Riduwan (2017) quantitative research methods can be defined as research methods based on the philosophy of positivism, used to research certain populations or samples. The research design is descriptive research on secondary data, namely to evaluate the performance of micro, small and medium enterprises based on the role

of government, capital and entrepreneurial competence in Micro and Small Enterprises in Padang City. The location of this research was carried out in Padang City, by visiting Micro and Small Business actors and related agencies to collect research data.

The subjects of this research were Micro and Small Business actors who were selected using purposive sampling. The number of micro, small and medium enterprises located in the city of Padang is 11,516 businesses (Statistik, 2022). Subjects were selected based on criteria, namely having a business that is classified as a Micro and Small Business and has been established for more than 5 years. The total research subjects used are based on Slovin with a margin of error of 5%, namely:

$$n = N / (1 + Ne^2)$$

$$n = 11,516 / (1 + (11,516 \times 0.052))$$

$$n = 387$$

Where n is the sample value and e is the specified margin of error, while N is the population size which is the research subject. So from the multiplication results it was found that the research subjects would take a sample of 387 respondents from micro and small businesses in Padang City. The variables that will be discussed in this study are the dependent variable MSMEs; income (Y), the independent variable role of government (X₁), capital (X₂), entrepreneurial competence (X₃), and length of business (X₄). facilities, comfortable workplace, security, and peace. In order to determine the degree to which participants agree with statements, a five answer Likert Scale consisting of 1) Strongly disagree 2) Disagree 3) Neutral 4) Agree 5) Strongly agree were used in the answer section. The analysis used in this study consists of convergent validity test, discriminant validity test, reliability test, composite reliability test, multicollinearity test, the goodness of fit test, coefficient determination test and t-test by using Smart-PLS.

3. Result and Discussion

Result

Table 1 interprets the data and answers given by respondents regarding the characteristics and demographics of MSME actors in the city of Padang. This is done to analyze respondents' demographic data based on predetermined criteria such as gender, age, highest level of education and income. In this study there were 387 questionnaires distributed to respondents. For further clarity, the following are the characteristics of MSME respondents as shown in Table 1 below.

Table 1. Demographics of Respondents

Demographics		Numbers of respondents (NR)	Percentage of NR to number of Total Respondent
Gender	Male	296	76.5%
	Female	91	23.5%
Age	age < 30	79	20.4%
	30 ≤ age ≤ 40	91	23.5%
	Age > 40	217	56.1%
Education	High School or below	36	9.2%
	Junior college	124	32.1%
	Bachelor	171	44.2%
	Master or above	56	14.5%
Income (IDR)	< 4,000,000	61	15.8%
	4,000,000 ≤ salary ≤ 10,000,000	200	51.6%
	> 10,000,000	126	32.6%

Source: Data processed by authors, 2023

The results of Average Variance Extracted, Composite Reliability and Cronbach's Alpha will be shown in table 2 below:

Table 2. Result of Average Variance Extracted, Composite Reliability and Cronbachs Alpha

Variables	AVE	Composite Reliability	Cronbach's Alpha
MSMEs Income (Y)	0.853	0.989	0.985
Role of Government (X ₁)	0.846	0.989	0.985
Capital (X ₂)	0.867	0.993	0.982
Entrepreneurial Competence (X ₃)	0.885	0.987	0.983
Length of Business (X ₄)	0.858	0.985	0.984

Source: Data processed by authors, 2023

The results of the coefficient of determination test are in table 3 below:

Table 3. Coefficient Determination Test Result

Variable	R Square
MSMEs Income (Y)	0.926
Role of Government (X ₁)	-
Capital (X ₂)	-
Entrepreneurial Competence (X ₃)	-
Length of Business (X ₄)	-

Source: Data processed by authors, 2023

Based on the coefficient of determination test, the effect of the independent variable on the dependent variable is equal to 92,6%, other variables outside this research

influence the rest. The result of the hypotheses test are presented in table 4 below:

Table 4. Hypotheses Test Result

Hypotheses	Description	Original Sample	Standard Deviation	T Statistic	P Values	Information
H ₁	X ₁ ->Y	0.597	0.173	3.667	0.000	Accepted
H ₂	X ₂ ->Y	0.355	0.165	3.085	0.001	Accepted
H ₃	X ₃ ->Y	0.326	0.121	3.065	0.002	Accepted
H ₄	X ₄ ->Y	0.118	0.056	2.393	0.009	Accepted

Source: Data processed by authors, 2023

Hypothesis 1 stated role of government has a significant positive effect on MSMEs income. The original sample coefficient is 0.597, which is statistically significant at prob. $0.000 < 0.05$ (t-statistic = $3.667 > 1.96$). The statistical significance of hypotheses 1 confirms the role of government has a significant positive effect on MSMEs income.

Hypothesis 2 stated capital has a significant effect on MSMEs income. The original sample coefficient is 0.355, which is statically significant at prob $0.001 < 0.05$ (t-statistic = $3.085 > 1.96$). The statistical significance of hypothesis 2 confirms the capital has a significant effect on MSMEs income.

Hypothesis 3 stated entrepreneurial competence has a significant effect on MSMEs income. The original sample coefficient is 0.326, which is statically significant at prob $0.002 < 0.05$ (t-statistic = $3.065 > 1.96$). The statistical significance of hypothesis 3 confirms the entrepreneurial competence has a significant effect on MSMEs income.

Hypothesis 4 stated that the length of business has a significant effect on MSMEs income. The original sample coefficient is 0.115, which is statically significant at prob $0.009 < 0.05$ (t-statistic = $2.393 > 1.96$). The statistical significance of hypothesis 4 confirms the length of business has a significant effect on MSMEs income.

Discussion

Infrastructure development: Adequate infrastructure will help MSMEs increase operational efficiency and expand their market reach. Development of digital connectivity infrastructure, such as the Palapa Ring Satellite and Base Transceiver Station, so that business actors in remote areas will be connected digitally. The government provides support through the KUR (Kredit Usaha Rakyat) program and Ultra Micro financing for MSME Digitalization. Digitalization can provide many benefits for MSMEs, including operational efficiency, increasing productivity, expanding market reach, and increasing competitiveness. Synergy and Coordination, increasing synergy and coordination with the public, academic and private sectors, including how to develop sharia financial schemes for MSMEs is very necessary in order to increase the empowerment of

Micro, Small and Medium Enterprises (MSMEs). income, create jobs, and contribute significantly to national and regional economic growth. The results of this research are in line with previous research conducted by (Rahmah et al., 2020); (Islami et al., 2021); (Salam & Prathama, 2022)

Capital is an important foundation in building and even developing a business. Not only large companies but also micro, small, and medium enterprises (MSMEs) need capital. For MSME players, business capital is very important to maintain business existence. Business capital has an influence on business profits. If you have high capital, your business profit will be high. However, on the other hand, if business capital is low, the profits obtained will also be low. Capital is useful as savings or branch funds. The existence of capital to increase the trust of other parties. Capital is useful for meeting other needs. Such as opening new branches, expanding markets, transportation, credit, company inventory, and other company needs. These results are in line with previous research conducted by (Gonibala et al., 2019); (Hasanah et al., 2020); (Aji & Listyaningrum, 2021).

As an MSME actor, you must be good at communicating effectively with investors, customers and employees. By having effective communication skills, business actors can introduce business models to all related parties, especially to investors and several stakeholders in seeking capital. This ability includes the ability to anticipate, identify problems, create problem solving options, and make the right decision on each problem. In the era of digitalization, business actors are required to adapt to the digital world, especially social media as an effective and efficient platform for marketing products. Therefore, the higher the entrepreneurial competency, the more MSME income will increase. The result is in line with previous research carried out by (Utami & Mulyaningsih, 2016); (Suryana & Burhanuddin, 2021); (Murtadlo, 2018)

Longer-lived MSMEs mean businesses that have clear plans and mature strategies. Creative and innovative qualities must exist in MSMEs so that MSMEs continue to exist. Apart from that, it is an MSME that has been around for a long time, meaning it is able to

face competitors and has a good strategy. On the other hand, the ability of MSMEs to survive shows that MSMEs are able to follow market trends and developments. In addition, a MSMEs that has been established for a long time means that it is able to maintain customers so that the MSME continues to operate. So it can be concluded that if the MSMEs operate longer, their income will increase. The result is in line with previous research carried out by (Nainggolan, 2016); (Polandos et al., 2019); (Furqon, 2018).

4. Conclusions

The role of government, entrepreneurial competency capital and length of business partially and simultaneously have a significant positive effect on MSMEs income. The government is expected to help MSMEs with regulations so that MSME players can easily obtain capital and other business permits. For MSME actors themselves, they must improve their entrepreneurial abilities. The only limitation of this research is that it only applies to MSMEs in the city of Padang. It is hoped that future researchers will be able to look for other factors that influence MSME income for a larger scope at the provincial level.

Acknowledgement

Putra Indonesia University YPTK Padang funded this work through the 2023 Research and Community Service Grant program. The opinions expressed here are those of the author and do not necessarily reflect the views of the funding agency.

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