

CAPITAL AND LOCATION'S INFLUENCE ON LOCAL MICRO SMALL AND MEDIUM ENTERPRISES INCOME IN TULUNGAGUNG DISTRICT

Nurul A'yun^a
Moch. Sulchan^b

¹ Ekonomi Syariah, STAI Sabilul Muttaqin Mojokerto

²Manajemen Keuangan Mikro Syariah, IAI Al-Fatimah Bojonegoro

Email: ¹ nurulbjn2018@gmail.com, ² Sulkhanmoch@gmail.com

ABSTRACT

MSMEs (Micro, Small, and Medium Enterprises) play a critical and strategic role in national economic growth. MSMEs have been recognised as playing a role in the national economy; yet, there are still issues and impediments that MSME players confront in the course of doing business. These barriers include a lack of business capital, as well as a lack of insight and experience in selecting a site to create MSMEs. As a result, these two factors will have an effect on the revenue of MSME business players. The purpose of this study is to find out how capital and location affect the revenue of MSMEs in Tulungagung Regency. This study employs Simple Random Sampling sampling methodologies and data gathering via the distribution of questionnaires to respondents, especially MSME owners. Multiple linear regression is used in the data analysis approach. According to the findings of the study, capital and location elements have a substantial impact on company revenue, therefore the bigger the capital possessed and the strategic location of a firm, the greater the business income.

Keywords: *Capital; Location; Income; MSMEs*

INTRODUCTION

The Indonesian economy is supported by various types of businesses, from large scale to small scale. Indonesia's economy became unstable during the prolonged monetary crisis that began in early July 1997 and lasted almost two years. The monetary crisis has had a significant impact on many industrial sectors, financial institutions and society, especially the lower middle class. This crisis also has a significant impact on the existence of the country as a whole. During the financial crisis, several large companies went out of business, and others were forced to reduce production, resulting in fewer jobs. Some employees were forced to resign, meaning they lost their jobs. This increases the number of unemployed.¹

¹ Nur Wanita, Perkembangan Usaha Mikro, Kecil dan Menengah (UMKM) di Pasar Manonda Palu, ISTIQRA, Jurnal

As a way to make money, some individuals who are willing and able to work attempt to set up their own micro, small, or medium businesses. They do this to avoid unemployment and poverty, especially after the economic crisis. These companies are usually called micro, small and medium enterprises or MSMEs. Despite facing many problems, this corporate player was able to survive in the midst of the financial crisis. Micro, small and medium enterprises (MSMEs) are also equally important for economic progress. However, some MSME players are hampered by a lack of capital and many MSMEs are placed in inconvenient locations. As a result, it cannot be optimized and many people suffer because of it. Small companies, communities, and even governments are all impacted.

The importance of MSMEs in the Indonesian economy can be seen in several aspects. First, they act as main participants in economic activities in various sectors. Second, they are the main providers of employment. Third, they play an important role in developing local economic activities and community empowerment. Fourth, they act as catalysts for creating new markets and sources of innovation. Lastly, they contribute to maintaining the balance of payments through their export activities.²

However, MSMEs in Indonesia experience ups and downs, income becomes very low if MSMEs choose the wrong place to sell or promote their products. On the other hand, if an MSME player has a strategic and busy site, then the opportunity to make small amounts of money is relatively limited. So, even though we don't have the ability to sell our products, we can see that if we can position our company in an important region, it will undoubtedly attract the attention of customers.

Tulungagung Regency displays a variety of local MSME products. One of them is the skill of processing statues, household furniture and rubbish into reusable materials such as doormats, brooms and bags. Tulungagung MSMEs have grown significantly thanks to public awareness of MSMEs that are developing in the region. Based on the thoughts above, the researcher decided to use capital and location variables as independent variables with the dependent variable being MSME income. So the researchers decided to examine the influence of capital and location on MSME income in Tulungagung Regency.

LITERATURE REVIEW

a. The Role of Micro, Small and Medium Enterprises (MSMEs)

Micro, small and medium enterprises (MSMEs) are one type of creative economy industry. They use ideas, natural resources, and people to make things. In line with

Penelitian Ilmiah, Vol. 3 No. 2 Desember 2015, hal. 251

² Irma Setyawati, Peran Usaha Mikro Kecil Menengah (UMKM) Dalam Perekonomian Nasional, *Jurna Ekonomi*, hal. 26

presidential regulation no. 6 of 2009, which states that to support the growth of the creative economy, Indonesia supports measures that give more power to society. Micro, Small and Medium Enterprises (MSMEs) are given more power by the government in this way.

Article 1 paragraph 8 of Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises defines empowerment as "efforts carried out by the government, business world and society in the form of improving the business climate, guidance and development so that small businesses can develop" . the business world can grow and strengthen itself to become a strong and independent business world." This is in accordance with what we said.³

The Central Statistics Agency states that MSMEs are classified based on the number of permanent employees they have. Micro businesses are businesses that have four permanent employees, small businesses have between five and nineteen permanent employees, and medium businesses have between twenty permanent employees. 99 people or more. In contrast, large business groups have more than 99 full-time employees.⁴

MSMEs help absorb labor. MSMEs have a high level of labor absorption because their existence allows individuals with low education to enter the workforce and earn a living, thereby enabling MSMEs to reduce the unemployment rate in Indonesia. MSMEs can help balance the community's economy. This is because MSMEs are spread throughout the country, even in distant areas. As a result, small company owners may set up shop in their own homes rather than having to move to a big city to earn a living.

MSMEs help the country's foreign exchange income. The reason is, MSMEs in Indonesia have experienced significant progress, and there are many MSMEs in Indonesia whose market share reaches not only within the country but also abroad. MSMEs use a lot of local raw materials, so this has a positive impact because local resources that are not managed and exploited properly can turn into valuable materials after being processed into finished goods. In addition, raw material providers will benefit from providing these raw materials to MSMEs, so that MSMEs can stimulate local economic potential.⁵ The existence of various MSME products will help meet people's needs, so people should not be too dependent on goods from other countries. In this way, the

³ Undang-Undang RI No. 20 tahun 2008 tentang Usaha Mikro Kecil dan Menengah (UMKM).

⁴ Jerry RH Wuisang,dkk, Konsep Kewirausahaan dan UMKM, (Sulawesi Utara: Yayasan Makaria Waya, 2019), hal.57.

⁵ Dindin Abdurohim BS, Strategi Pengembangan Kelembagaan UMKM, (Yogyakarta: CV. Bintang Surya Madani, 2020), hal.44.

presence of MSMEs will change society from being a consumer society to a working society.

MSMEs are a type of business that carries out trading or entrepreneurial activities. A person engages in business or entrepreneurship to improve the quality of his life. Every Muslim is obliged to work to obtain property or wealth in Islam. This is explained in surah al-A'raaf verse 10 of the Al-Qur'an :

وَلَقَدْ مَكَّنَّاكُمْ فِي الْأَرْضِ وَجَعَلْنَا لَكُمْ فِيهَا مَعَايِشٌ قَلِيلًا مَّا تَشْكُرُونَ ﴿١٠﴾

It means: *And indeed, We have placed you on earth and there We have provided (a source of) livelihood for you. (But) you are very little grateful.*

The verse above means that Allah SWT has made life easier for mankind by spreading the earth and providing various conveniences for humans to use in seeking and earning a living. In the Islamic context, business or business is a commercial activity carried out by a person in accordance with Islamic laws and regulations. Therefore, in obtaining or utilizing property or wealth, a person must also adhere to Islamic law, namely halal and haram.⁶

Allah SWT has made it mandatory for His servants to seek wealth. This has been explained in Surah al-Mulk verse 15:

وَ الَّذِي جَعَلَ لَكُمُ الْأَرْضَ ذَلُولًا فَامْشُوا فِي مَنَاكِبِهَا وَكُلُوا مِن رِّزْقِهِ وَإِلَيْهِ النُّشُورُ ﴿١٥﴾

It means: *It is He who made the earth easy for you to explore, so explore all its corners and eat some of His sustenance. And to Him you will (return after) being resurrected.*

The verse above means that Allah SWT has directed His people to seek the sustenance that Allah SWT has provided on earth. Of course, when looking for food, you must use halal techniques, and Muslim business people must always remember Allah SWT. By always remembering Allah SWT, business actors will avoid actions that are contrary to and prohibited by Islamic norms. Moreover, because he already has this wealth, he must spend it well and correctly. So, by running a company according to sharia principles, you will bring success in this world and the hereafter.

Barriers for Micro, Small and Medium Entrepreneurs (MSMEs)

⁶ Muhammad Ismail Yusanto dan Muhammad Karebet Widjajakusuma, *Menggagas Bisnis Islami*, (Jakarta: Gema Insani Press, 2002), hal.17

There was little money and it was difficult to obtain loan financing. Capital is very important in running a company. Without adequate funding, companies will find it difficult to grow. Apart from that, MSME players often have difficulty getting loan capital because it is difficult to meet standards and guarantees. Human Resources (HR) are still limited. Because the knowledge and skills possessed are still inadequate, the low quality of human resources can disrupt the ability of business actors to manage the business they run. Apart from that, if the quality of human resources is still poor, it will be difficult to keep up with new technological breakthroughs.

Following technological breakthroughs is very beneficial for business actors in developing new opportunities and increasing the competitiveness of their goods. Insufficient company network and market penetration. Small companies will be less competitive than large companies in general. This is because large organizations have a larger business network, as well as the help of technology and advertising that increases the visibility of their goods. Meanwhile, small businesses still have limited access to business networks. Apart from that, the quality of the goods produced is still poor, and the quantities produced are also limited.

The business environment is not yet supportive. The government has made policies to support the development of MSMEs, but they have not been implemented well. This is because there is still often unhealthy competition between small and large companies. Business facilities and infrastructure are still limited. Lack of information regarding technical changes and expertise will result in the business facilities and infrastructure owned not supporting the company's success, resulting in slow business development. Apart from that, MSMEs also often experience difficulties in finding strategic business premises because of the high rental fees they pay.

b. The Role Of Capital In Running A Business

When launching a company, one of the most important aspects is capital. According to Riyanto (2008), capital is wealth that has been processed to create profits and become a source of money for investment. Capital can be in the form of cash or physical property such as company locations, equipment, trademarks, patents, and other property rights. Capital is used to fund business operations, apart from that, capital is also used to develop the business and expand the market share of the business being run.⁷

Capital can come from personal funds and loans. Since loan money is usually hard to come by, especially for newly founded companies, most entrepreneurs choose to use their own cash when launching a company. Capital itself is a financial source that comes

⁷ Diah Lydianingtias, dkk, *Kewirausahaan Teknik Sipil*, (Malang: Polinema Press, 2018), hal. 38.

directly from business actors. As a result, the money needed to run a company is financed by the business actor himself. The capital itself can come from savings held by business people, both at home and at the bank. Own capital can also be obtained by selling goods owned by a business, for example goods stored in a warehouse or other valuable objects stored.⁸

Using your own money has its advantages and disadvantages. The advantages of using your own capital include: (1) freedom from the burden of paying interest and other costs; (2) does not depend on other parties, so that the business owner has full control over the finances of the business being run; (3) there are no conditions that make it difficult to obtain capital; and (4) free from the obligation to repay the loan. Meanwhile, the disadvantages of using your own money include: (1) your own capital is limited; (2) because capital itself does not have interest costs or administrative costs that must be borne by business actors, business actors are often less motivated to work hard.

Capital has an important role in human life. as contained in the Al-Qur'an, Surah Ali-Imran verse 14 :

زَيْنَ لِلنَّاسِ حُبُّ الشَّهَوَاتِ مِنَ النِّسَاءِ وَالْبَنِينَ وَالْقَنَاطِيرِ الْمُقَنْطَرَةِ مِنَ الذَّهَبِ وَالْفِضَّةِ وَالْخَيْلِ الْمُسَوَّمَةِ وَالْأَنْعَامِ
وَالْحَرْثِ ذَلِكَ مَتَاعُ الدُّنْيَا وَاللَّهُ عِنْدَهُ حَسَنُ الْمَآبِ ﴿١٤﴾

It means : *It creates a beautiful feeling in the human view of love for what one desires, in the form of women, children, wealth piled up in the form of gold and silver, chosen horses, livestock and rice fields. That is the joy of life in this world, and with Allah is a good return.*

The meaning of the verse above is that capital becomes something that is attractive and liked by humans. However, in managing their capital, humans must not forget about life and capital in the afterlife. According to the Islamic view, business actors in developing their capital do not only pursue material profits or benefits, but are also able to provide non-material benefits or profits to other parties, for example absorbing workers, providing social assistance, and so on. Islam prohibits developing capital or property in a way that can harm other people, as well as entertaining in unlawful ways, for example wasting money, immorality, and so on.⁹

c. The role of location selection in running a business

When choosing a place or business location, you should think carefully about the following things: (1) Access, such as whether the location is easy to reach by public transportation; (2) Visibility, such as places that can be seen clearly from normal viewing

⁸ Sari Juliasty, Cerdas Mendapatkan dan Mengelola Modal Usaha, (Jakarta: Balai Pustaka, 2009), hal. 6.

⁹ Idri, Hadis Ekonomi: Ekonomi dalam Perspektif Hadis Nabi, (Jakarta: Kencana, 2017), hal.92.

distance; (3) Traffic, such as how many people are there, which can lead to impulse purchases; and (4) Distribution channel decisions, which occur without planning. When talking about strategy.

Distribution channel strategy is closely related to the work of those who send or sell goods to customers. Therefore, distribution channels play a very important role in getting goods from wholesalers to customers. Distribution channels are groups of companies that work together to obtain ready-to-use products.

According to Kasmir, location is a place to serve consumers, and can also be interpreted as a place to display merchandise. Thus, location is a place to carry out activities that serve consumers, production activities, storage activities, or to control company activities

RESEARCH METHODS

The population in this research is all 100 MSME business owners in Tulungagung Regency. The sampling technique in this research The sampling technique in this research uses the Slovin formula, namely the purposive random sampling method. The sample used was sampling based on research criteria.

Questionnaires were given to respondents who were MSME owners to collect primary data. The questionnaire includes statements regarding respondent identification as well as Likert scale questions regarding capital, location and growth characteristics of MSMEs. Before filling in the questionnaire data, the researcher first stated the reason for distributing the questionnaire, namely for scientific study purposes.¹⁰

The sampling strategy used in this research is Simple Random sampling. The population considered is more than 100 MSMEs, which is a number of MSMEs that are fostered by the government, especially those in border areas between regions, because such border areas receive less attention from the government. A sample of 85 MSMEs was taken randomly from the entire population. Validity and reliability tests are used to test the instrument. Multiple linear regression was used in the data analysis procedure using the SPSS 23.0 program analysis tool. In this research the multiple regression equation is as follows :

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots$$

Dimana:

Y = Dependent variable MSME Income

A = Konstanta

β = Regression coefficient parameters

X1 = Capital independent variable

X2 = Independent variable Location

¹⁰ Sugiyono, Metode Penelitian Kuantitatif, dan R&D, (Bandung: Alfabeta, 2008), hal. 80

RESULTS AND DISCUSSION

A. RESULTS TEST DATA

The characteristics of respondents in this survey were gathered based on their age group, gender, and degree of education.

Tabel. 1

Characteristics	Category	Number of respondents	
		@	%
Age	20 s/d 25 thn	14	16,5
	26 s/d 30 thn	22	25,9
	31 s/d 35 thn	23	27
	36 s/d 40 thn	11	12,9
	41 s/d 45 thn	6	7,7
	>45thn	9	10
	Amount	85	100
Gender	Man	48	56,4
	Woman	37	43,6
	Amount	85	100
Level of education	master	4	4,7
	bachelor	17	20
	Diploma	5	5,8
	senior high school	37	43,5
	junior high school	22	26
	Other	-	-
	Amount	85	100

According to Table 1, the majority of respondents are between the ages of 31 and 35, male respondents outnumber female respondents, and respondents with a high school degree outnumber those with a lower level of education.

For further study, the obtained data was analysed using the SPSS version 23.0 computer application. A good data gathering instrument must satisfy two criteria: validity and reliability. Validity, reliability, and multiple linear regression tests were performed.

Validity tests are performed to determine the reliability of the questionnaire questions used to gather data. Validity testing are carried out using the bivariate person correlation formula. If the estimated r value exceeds the r table value, the questionnaire item is deemed legitimate. For $N=85$, the r table value is 0.210, and the significance level is 5%. Table 2 displays the validity test results for each item.

Tabel 2

Variable	Item	Information	
		r Count	Conclusion
Capital	X1.1	0,631	<i>Valid</i>
	X1.2	0,657	<i>Valid</i>
	X1.3	0,691	<i>Valid</i>
	X1.4	0,577	<i>Valid</i>
	X1.5	0,534	<i>Valid</i>
Location	X2.1	0,532	<i>Valid</i>
	X2.2	0,629	<i>Valid</i>
	X2.3	0,621	<i>Valid</i>
	X2.4	0,631	<i>Valid</i>
	X2.5	0,505	<i>Valid</i>
MSME income	Y1	0,643	<i>Valid</i>
	Y2	0,596	<i>Valid</i>
	Y3	0,669	<i>Valid</i>
	Y4	0,5,12	<i>Valid</i>
	Y5	0,550	<i>Valid</i>

Table 2 reveals that all questionnaire questions used to assess the variables Capital, Location, and Income of MSMEs are legitimate since $r_{count} > r_{table}$ ($r_{table} = 0.210$).

Following that, a reliability test was performed to assess the consistency of the questionnaire sent to responders. The Cronbach Alpha formula was used for reliability testing, with a threshold of $= 0.05$. Cronbach Alpha levels are classified as follows :

1. Cronbach's alpha ranges from 0.00 to 0.20, indicating that it is less dependable.
2. Cronbach's alpha ranges from 0.21 to 0.40, indicating that it is moderately dependable.
3. Cronbach's alpha ranges from 0.41 to 0.60, indicating that it is fairly dependable.
4. Cronbach's alpha ranges from 0.61 to 0.80, indicating dependability.
5. Cronbach's alpha ranges from 0.81 to 1.00, indicating that it is extremely dependable..

The stronger the consistency of the score replies to the statement questions, the closer the alpha coefficient of the variable being examined is to one. The instrument is considered trustworthy if the Cronbach Alpha value is more than r_{table} , where r_{table} is 0.210 for a value of $N=85$ and a significance level of 5%.

Tabel 3

Variable	Cronbach Alpha	Information	
		r Table	Conclusion
Capital	0,522	0,210	Quite Reliable
Location	0,739	0,210	Reliable
MSME income	0,609	0,210	Reliable

According to the reliability test findings in the table above, the value of each variable is more than the rtable value. It may be stated that the questionnaire employed in this study is trustworthy and consistent, allowing it to be utilised as a research tool.

The t test was then used to assess whether or not the capital and location variables had a significant influence on the MSME income variable in the multiple linear regression analysis. The SPSS version 23.0 programme was used to perform the multiple linear regression test, and the t test results are shown in the table below:

Tabel 4
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.004	.407		32.733	.000
	Capital	.212	.096	.106	2.608	.000
	Location	.415	.101	.253	3.832	.000

a. Dependent Variable: Income MSME

From the calculation results in the table above, the following regression equation is obtained :

$$Y = 20.004 + 0,212X_1 + 0,415X_2 + e \dots\dots\dots (2)$$

The basis for decision making is done by comparing the tcount value with ttable and looking at the significance value. If you type > ttable or sig 0.05, Ha will be written and Ho will be deleted. If ttable or sig is greater than 0.05, Ha is rejected and Ho is rewritten. In this study, for = 0.05%, the table is about 1.662.

RESULT AND ANALYSIS

- **Effect of capital (X1) on MSME income (Y)**

According to the regression equation generated by the output table above, the tcount value of X1 is 2.608 and the significance level is 0.000. This demonstrates that the tcount > t table value is $2.608 > 1.662$, and the significance value is less than 0.05, namely 0.000 < 0.05, indicating that the choice is to accept H_a and reject H_o . Based on the research findings, it can be concluded that Capital (X1) has a significant positive influence on MSME Income (Y), such that if the value of the Capital variable increases by one unit, the value of the MSME Income variable increases by 2.608 assuming the other independent variables remain constant.

- **Effect of Location (X2) on MSME income (Y)**

The X2 t value is 3.832, and the significance level is 0.000, according to the regression equation generated by the output table above. This demonstrates that the tcount > ttable value is $3.832 > 1.662$, and the significance value is less than 0.05, specifically 0.000 < 0.05, indicating that the choice is to accept H_a and reject H_o . Based on the research findings, it can be concluded that Location (X2) has a significant positive influence on MSME Income (Y), such that if the value of the Capital variable increases by one unit, the value of the MSME Income variable increases by 3.832, assuming the other independent variables remain constant.

The questionnaire instrument employed in this study has been validated and reliable. According to the test findings, the questionnaire was valid and trustworthy. The t test was then used to assess the previously defined hypothesis using multiple linear regression analysis.

According to the t test, Capital (X1) has a significant impact on MSME Income (Y) in Tulungagung Regency ($t = 2.608$, $sig = 0.000$), meaning the more capital possessed, the more income earned. MSMEs with adequate business capital may develop firm facilities and infrastructure to ensure business continuity. These facilities and infrastructure include more advanced manufacturing equipment, bigger premises, marketing and sales devices, and more competent human resources, among other things.

Furthermore, the t test indicates that geography (X2) has no effect on MSME income (Y) in Tulungagung Regency (tcount = 3.832, sig = 0.000). This demonstrates that the business location of MSME players has no effect on MSME revenue. One potential reason is that the location in which an MSME actor conducts their business plays a crucial function and has influence over it. MSMEs often examine regions that are frequently frequented by individuals to determine what people in that area need.

CONCLUSION

According to the debate, MSME revenue is primarily driven by capital and location variables, where the quantity of capital and strategic location would further boost firm income. Non-strategic location considerations, on the other hand, have no substantial impact on revenue, therefore MSMEs with little and high capital have the same possibility to enhance their firm income.

The recommendation offered to MSME players is to expand capital and locate their firm in a strategic location, since these two factors impact the business revenue they get. Meanwhile, the Tulungagung Regency administration is encouraged to give additional assistance to MSMEs via Cooperatives Service programmes. The factors investigated in this study are simply two: capital and location. It is intended that future research will include additional characteristics not detected in this study by using a bigger research sample.

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