

The Influence of SMEs Characteristics on Business Development

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Abstract: This study aims to determine the effect of the characteristics of small and medium enterprises which consist of business origin, capital origin, business duration and the number of workers on the development of small and medium enterprises. The sample was all owners of Small Business entrepreneurs of *tajung* weaving Crafts in Tuan Kentang Area Palembang, totaling 32 entrepreneurs. The analytical method used is multiple linear regressions. The results showed that the variables of business origin, business duration and the number of workers had a significant influence on the business development of small and medium enterprises *tajung* weaving in Tuan Kentang Area Palembang, while the variable capital origin does not have an influence on business development.

1 INTRODUCTION

Micro, Small and Medium Enterprises (SMEs) are an important and large sector of contribution in realizing national economic development goals, such as economic growth, employment opportunities, increased foreign exchange, and regional economic development. SMEs have an important role in increasing economic growth in Indonesia. SMEs are able to survive in the midst of a crisis that has hit Indonesia in 1997, and even today. The existence of MSMEs has been the source of life for most Indonesians. This makes MSMEs continue to survive during the economic crisis.

The development of small and medium enterprises in Indonesia cannot be separated from various problems. Common problems faced by small and medium entrepreneurs such as limited working capital, difficulties in raw materials, limited technology, human resources with good quality, information, and marketing (Astuti and Widiatmo in Kristian, 2010) and (Martini, Zulkifli, Hartati, & Armaini, 2018). It was further explained that the weakness of small businesses in Indonesia was caused by a combination of various factors, not only the limitations of human resources, technology, capital, and information, but also because of the lack of support from the government and the lack of willingness of national small and medium entrepreneurs to be globally oriented (Martini, Thoyib, & Periansya, 2018).

There are many types of businesses run by SMEs, and one type of business is craft. Crafting is one of the most reliable arts of use in export needs. Most crafts are influenced by the cultural heritage of the local community. Handicrafts are things that are related to handmade or activities related to goods produced through hand skills (handicrafts). Crafts made are usually made of various materials. One of the handicraft centers in the city of Palembang is located in the Tuan Kentang Region, as one of the major handicraft industry centers in Palembang City. Various kinds of craft products are made here, for example, *tajung* weaving, *songket*, and *jumpatan* fabrics. The high public interest in these craft products should be a driver for SMEs to grow and develop.

In the process, there are several SMEs that can develop and then become successful, but not a few who experience failure or not even operate. Based on previous research (Kusuma, 2013); (Kristiningsih and Trimarjono, 2014) and (Martini, Thoyib, & Periansya, 2018) it was argued that the success of SMEs was influenced by several factors, both those from entrepreneurs and from the SMEs themselves. According to Storey (Indiarti and Langenberg, 2004) it can be seen from the characteristics of entrepreneurs, characteristics of SMEs, and contextual variables.

Therefore, in this study researchers want to re-examine what factors influence the development of small businesses especially in the *tajung* weaving in

Tuan Kentang Area Palembang. Thus, the results of this study are expected to be used by businesses to break down the power they possess in order to achieve significant business development, and can also be used by the government to be used as one of the bases for policy and regulation making that supports the development of small businesses. So the formulation of the problem in this study is whether the characteristics of small and medium businesses consisting of business origin, capital origin, business duration, and business size have an influence on the development of small and medium enterprises, especially in small and medium enterprises *tajung* weaving in Tuan Kentang Area Palembang.

2 LITERATURE REVIEW

2.1 Small and Medium Enterprises (SMEs)

Based on Law number 20 of 2008 concerning SMEs, small businesses are stand-alone productive economic enterprises carried out by individuals or business entities that are not subsidiaries or not branches of companies owned, controlled, or be part of either directly or indirectly from a medium-sized business or large business that has a capital of Rp 50 million to Rp 500 million.

Whereas the Indonesian Central Bureau of Statistics in (Kristiningsih and Trimarjono, 2014) defines small businesses with the size of the workforce, namely 5 to 19 people consisting (including) paid laborers, owner-workers, and family workers. Whereas medium-sized businesses are having a size of workers between 20-100 people

The types of small and medium businesses that may be entered in Indonesia (Lupiyoadi, 2004) include:

1. The service business services business today is the largest and fastest growing in the small business world. Services also bring enormous benefits to small businesses that are able to innovate high. For example car rental, management consultants, internet services, and others.
2. Retail Business Retail business is a form of small business that is occupied by small and medium entrepreneurs. Retail business is the only business that sells manufacturing products directly to consumer stores.

3. Distribution Business Just like service and retail businesses, small and medium entrepreneurs have begun to dominate all sales in large quantities. This business is the only business that buys goods from factories or producers and sells to retailers.
4. Agriculture is perhaps the oldest form of small business. At first agricultural products were used to meet the needs of themselves and their families, but over time it became a sizeable business because of the dependence of one another. An example of this is that some farmers need land and some need tools and some are in need of workers.
5. The manufacturing business is a small business that requires capital for a large investment compared to four other types of business because it requires labor, technology, and raw materials to operate it. Examples: Handicrafts, printing, and others.

Every type of business naturally wants to reach a point called success. The success of a business can be measured through performance measurement. The intended performance is the level of achievement of results or the level of achievement of organizational goals (Kristiningsih and Trimarjono, 2014). Success or failure in entrepreneurship is influenced by several factors. According to Storey in (Indiarti and Langenberg, 2004), it can be seen from the characteristics of entrepreneurs, characteristics of SMEs, and contextual variables.

Sutrisno and Lestari (2006), based on business development, SMEs are grouped into several criteria, namely: 1) Livelihood Activities, are Small and Medium Enterprises that are used as job opportunities to earn a living, which is more commonly known as the informal sector such as street vendors; 2) Micro-Enterprise is a SME that has the nature of craftsmen but does not have the entrepreneurial nature; 3) Small dynamic enterprise is a SME that has an entrepreneurial spirit and is able to accept subcontracting and export work; 4) Fast moving enterprise is a SME that has an entrepreneurial spirit and will transform into a big business.

2.2 Characteristics of SMEs

Characteristics of SMEs can be of several things, including company origin, time of operation, business size, and source of business capital.

Smallboe, Leigh and North (1995) in a small business the owner usually also doubles as a company manager, the company's objectives can be

determined from lifestyle and family awareness factors in trading.

Capital Resources for Small and Medium Enterprises. Mahon (2001) found a large dependence between sources of funds originating from outside the business and better company growth.

Length of operation, the length of time a business has been established is connected with the learning curve. Older players may have learned a lot from their experience compared to new players.

Kristiansen, Furuholt, and Wahid (2003) found that the length of time a company operates has an important effect on business success.

Small and Medium Business Size. The business scale shows the amount of business in terms of the number of workers owned. Mahon (2002) found that business scale is connected with better company performance. Larger scale companies usually have a greater level of success.

The framework in this study can be described as figure 1.

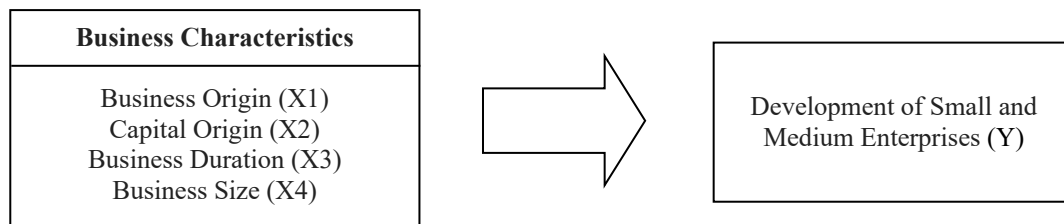


Figure 1: Framework

3 RESEARCH METHODOLOGY

3.1 Types and Data Sources

This study uses primary data collected through questionnaires and direct interviews with respondents who were based as owners or managers of *tajung* weaving in Palembang Tuan Kentang Area a number of 33 owners of *tajung* weaving. The questionnaire contains two parts, the first section contains the entrepreneur's identity which includes the owner's age, gender, level of education and work experience, while the second part contains characteristics of SMEs consisting of business origin, capital origin, business duration, and business size. Secondary data is data obtained from library data, journals, information, from relevant government agencies to strengthen primary data obtained from respondents.

3.2 Operational Definition of Research Variables

Business Origin shows, where the company originated is measured by an ordinal scale. If owned is given a value of 1, if it comes from family inheritance is given a value of 2, besides it is given a value of 3.

Capital Origin: where the source of capital comes from is obtained from measured by an ordinal

scale. If your own capital is given a value of 1, if the capital comes from a combination, it is given a value of 2 and if the capital comes from a third party is given a value of 3.

Business Duration: shows the length of time that an SME has operated, seen from the number of years the company has been operating, measured by an ordinal scale.

Business Size: shows how much the area (size) of a business, judging from the total number of employees owned, is measured by an ordinal scale.

Dependent variables that include the growth of small and medium enterprises, which are assessed from the development/decline of SME business turnover in 2017 compared to last year, 2016. The dependent variable is measured using an ordinal scale.

3.3 Data Processing Techniques

The data analysis method used a computer program, namely the Statistical Package for Social Science. Before being tested, a series of classical assumption tests consisting of data normalization tests, multicollinearity tests, heteroscedasticity tests were conducted and correlation test.

4 RESULTS AND DISCUSSION

4.1 Results

4.1.1 F Test

The F test is used to examine the effect of independent variables consisting of the origin of the business, the origin of the capital, the length of business, and the number of workers together on the dependent variable on business development. Testing is done by using a significance level of 0.05 ($\alpha = 5\%$). Acceptance or rejection of hypotheses is carried out with the following criteria:

1. If the value is significant $f < 0.05$, then H_0 is rejected or H_a is accepted which means the regression coefficient is significant, meaning that there is a significant influence between all independent variables on the dependent variable.
2. If the value is significant $f > 0.05$, then H_0 is accepted or H_a is rejected which means the regression coefficient is not significant. This means that all independent variables have no effect on the dependent variable.

The statistical F test result has an F-count of 8,107 with a significance value of 0.000, it means the significance level of $< 5\%$ ($\alpha = 0.05$) and F count of 2,714 $>$ F-table of 2.690 which means it can be concluded that simultaneous business origin variable, capital origin, length of business, and number of workers have a significant effect on business development

4.1.2 T Test

T test is used to determine the effect of independent variables on the dependent variable and the t-test is used to see the effect individually or partially. T-test is done by comparing T count with T table with significant rate of 5%: $2 = 2.5$ (two-sided test) with degrees of freedom (df) = $nk-1$ or $32-4-1 = 28$ two-sided testing (significant = 0.025) obtained results for T table is 2.045.

Based on the statistical T test result, it can be seen in the coefficients column that there is a sig value of 0,000. The sig value is smaller than the 0.05 probability value, or the value of $0.039 < 0.05$. The variable X1 has t count that is 2.189 with t table 2.048. So it can be concluded that the first hypothesis test (H_1) is accepted. This means that partially independent variables, namely business

origin have a positive and significant effect on the dependent variable, namely business development.

Based on the statistical T test result, there is a sig value of 0,000. The sig value is smaller than the 0.05 probability value, or the value of $0.289 > 0.05$. The variable X2 has t count that is 1.080 with t table 2.048. So it can be concluded that the second hypothesis (H_2) is rejected. This means that partially the independent variable that is capital origin does not affect the dependent variable, namely business development.

Based on the statistical T test result, it can be seen in the coefficients column that there is a sig value of 0,000. The sig value is smaller than the 0.05 probability value, or $0.009 < 0.05$. The X3 variable has a t count of 2.812 with t table 2.048. So it can be concluded that the first hypothesis testing (H_3). This means that partially the independent variables namely business duration have a positive and significant effect on the dependent variable namely business development.

It can be seen in the coefficients column that there is a sig value of 0,000. The sig value is smaller than the 0.05 probability value, or $0.001 < 0.05$. The X4 variable has a t count of 3.627 with t table 2.048. So it can be concluded that the testing of the first hypothesis (H_4) is accepted. Partially the independent variable, namely the number of workers, has a positive and significant effect on the dependent variable, namely business development.

4.2 Discussion

4.2.1 The Effect of Business Origin on Small and Medium Business Development

The partial test results show that the variables of business origin, have a positive and significant effect on business development. Factors related to the characteristics of SMEs such as the origin of the company whether from a family company or the pure idea of the owner turned out to affect the development of SMEs. Individuals who have strong confidence and confidence will determine the personal success in entrepreneurship.

Individual attitudes that are good at making entrepreneurial decisions are the determinants of the success of entrepreneurs. Because habits are deeply rooted, business decisions are made as they are based on existing experience. But the attitude of individuals who want to learn and increase knowledge will determine the success of SMEs because individuals who want to learn will gain new

experiences that ultimately lead to entrepreneurial success.

4.2.2 The Effect of Capital Origin on Small and Medium Business Development

The variables from capital do not have an influence on business development. Capital is a number of funds/money needed to finance daily needs (Riyanto, 2005). Capital has a significant influence on business development, because the greater the capital used and the easier it is to get capital, the business will also experience an increase and business development (Purwanti, 2013).

This means that having an influence on business development is the amount or size of capital, and not where the capital comes from. This means that wherever capital is sourced from its own capital or joint capital from family/friends/other partners, even capital from third parties does not affect business development.

The capital of *tajung* weaving entrepreneurs in the Tuan Kentang Area Palembang mostly uses capital sourced from their own capital. According to Kasmir (2011), own capital is capital obtained from the owner of the company/entrepreneur by issuing personal money. The advantage of using your own capital to finance a business is that there is no interest expense or profit sharing.

4.2.3 The Effect of Business Duration on Small and Medium Business Development

The business duration variable has a positive and significant effect on business development. It can be understood that in accordance with the characteristics of SMEs, many of which are small-scale businesses have the ability to increase sales. So they will try for years or just stand up and try to increase their turnover to the maximum.

4.2.4 the Effect of Business Size on Small and Medium Business Development

The variable size of the business proxied by the number of employees has a positive and significant effect on business development. Labor is every person who is able to do work to produce goods and or services both to fulfill their own needs and for the community (Law number 13 of 2003).

The number of workers has a significant effect on the level of income of SMEs. This is because whatever amount of labor in the production process will affect the amount of income, it's just that if the

number of workers is small, it will take a long time in the production process while a large amount of labor will facilitate the production process.

Increasing the number of workers will be able to increase production output. With the increase in output, the SME profit level will also increase. The factor of labor productivity is a factor of production that cannot be separated from the production of goods and services. Labor has an important role in increasing the growth of production value. In SME production activities, the workforce contributes to output through quantity and quality.

5 CONCLUSIONS

Simultaneously the business origin, capital origin, length of business, and size of the business proxied by the number of workers have a significant effect on business development.

Partially the business origin variable has a positive and significant effect on the business development. That business development is influenced by the factors from which the business originates.

The capital origin has no effect on the business development. This means that where capital comes from whether it is its own capital or capital originating from a combination with other funds or capital from third parties, it does not have an influence on the development of the business.

The business duration has a positive and significant effect on the business development. This means that the longer a small and medium-sized business operates, the smaller and medium-sized businesses will grow.

The business size proxied by the number of workers have a positive and significant effect on the business development. This means that the greater the number of workers owned by small and medium businesses in SMEs, the smaller and medium businesses will grow.

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