The Influence of Business Scale and Financing on MSMEs Income in Malang City

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Abstract: Numerous obstacles are faced by micro, small, and medium-sized enterprises (MSMEs), one of the most important of which is restricted access to financial resources. The micro, small, and medium enterprises (MSMEs) in Malang City are the subject of this study project, which aims to explore the influence that financing and the size of the firm have on the income generated by these businesses. The information was analyzed via the use of descriptive statistics and regression analysis, and it was collected from a sample of one hundred micro, small, and medium-sized companies (MSMEs) that were of varying sizes and operating in a range of industries. According to the results of the research, there is a positive correlation between the income generated by micro, small, and medium-sized companies (MSMEs) and a range of sources of financing. These sources of funding include bank loans and government assistance programs. In addition to this, it was found that large-scale businesses have the potential to have a significant positive effect on the profitability of their operations.

Keyword: Business Scale, Financing, Income

1. INTRODUCTION

The monetary crisis in 1998 was one of the heroic chapters in Indonesia's economic history. At that time, the country faced severe pressure due to the Asian financial crisis that hit a number of countries in the region. Despite the precarious economic conditions, Micro, Small and Medium Enterprises (MSMEs) have managed to become a strong bulwark and make a significant contribution in maintaining national economic stability (Suparjo, 2020). Thus, the role of MSMEs during the 1998 monetary crisis was not only as business people, but also as heroes who fought to maintain the stability and prosperity of the country.

MSMEs therefore play a central role in economic development in many countries. They contribute significantly to economic growth and poverty alleviation through various means. MSMEs help increase public awareness and ability to participate in economic processes, as well as increase competitiveness and innovation in the industry (Amat & Joseph, 2024). According to Vinatra et al (2023) MSMEs also play a role in reducing unemployment and increasing people's income, as well as in developing local industries and improving people's

quality of life. In some countries, MSMEs are also considered an important part of sustainable and community-oriented economic development strategies, as well as a way to increase public awareness and participation in the economic development process.

Limited financial availability is one of the biggest difficulties faced by MSMEs. In India, for example, the proportion of commercial bank credit provided to the MSMEs sector is declining, and the lack of suitable collateral limits the availability of financing for the sector. Ruut Widiana et al (2023) To overcome this problem, offering various risky financing options to the MSMEs sector is essential. In Indonesia, peer-to-peer (P2P) financing has emerged as a viable source of capital for MSMEs. In addition, financial literacy is an important feature of education and knowledge because it has a beneficial and large impact on the growth of MSMEs.

According to Astuti et al (2023) E-governance is another element that affects MSMEs. An Indian study found that the implementation of e-governance has a major influence on MSMEs business performance, and the advantages of e-governance have a mediating impact on the relationship between e-governance and company revenues (Prime et al., 2023). MSMEs face a number of obstacles, including inadequate funding, low levels of education and competence, difficulty obtaining permits, lack of capital, and lack of infrastructure assistance (Azra, 2020). However, different methods/tools to increase MSMEs financial access, such as peer-to-peer financing and the use of e-governance, may have a favorable influence on MSMEs income.

The digital perception aspect has contributed significantly to the expansion of MSMEs both internationally and in Indonesia. Fintech businesses have developed new solutions to help MSMEs achieve financial inclusion, such as digital payments, alternative loans, insurance, investment, regulation, and robo-advisory services (Sailendra & Djaddang, 2022). In India, the MSMEs sector has a high rate of adoption of financial technology, and MSMEs understand the wide range of financial services offered by fintech businesses (Sailendra & Djaddang, 2022). In Indonesia, Fintech Peer-to-Peer (P2P) financing emerged as an alternative source of capital for MSMEs. According to Hamdan (2021) Digital technology has been widely used and has a major influence on MSMEs financing through various funding sources, making it an effective way to help the development and expansion of MSMEs. In addition, technology affects the readiness of MSMEs to face digital transformation. The Industrial Revolution 4.0 and the COVID-19 pandemic have become catalysts for MSMEs to undergo change.

According to Husnan et al (2002) Financing, is a concept that studies how companies acquire and manage financial resources to achieve their business goals. Financing focuses on how companies manage assets, liabilities, and capital to increase company value and ensure business continuity. In financing theory, companies must consider various factors such as costs, benefits, and risks when making financial decisions. Therefore, financing is very important in developing an effective and efficient financial strategy to achieve business goals (Hartarto, 2021).

According to Silfia et al (2018) Business scale, also known as business size, is a concept used to measure the size or size of a business or organization. Business scale can be defined as a measure that describes the amount of resources used by an organization, such as the number of employees, operating costs, and production volume (Afrianti et al., 2022). According to Keiku et al (2020) Business scale is categorized into three types, namely small scale, medium scale, and large scale. Small scales usually have a small number of employees and low operating costs, while large scales have a large number of employees and high operating costs. Medium scale, on the other hand, has a moderate number of employees and moderate operational costs.

According to Saraswati & Nugroho (2021) Revenue is one of the important aspects in the finances of individuals and organizations. Income can come from a variety of sources, such as salaries, investments, and businesses. Revenues have become more complex and dynamic,

with a variety of factors influencing revenue levels, such as financing, interest rates, and fiscal policy (Rizani et al., 2023). Therefore, it is important to understand how revenue functions and how to manage revenue effectively in order to achieve the desired financial goals.

2. METHOD

This study uses a quantitative research approach to determine the effect of funding, business scale on MSMEs income in Malang City. Cross-sectional techniques will be used to collect data at any given moment to test the relationship between the variables under consideration (Sugiyono, 2017).

Sampling Technique This study will select MSMEs operating in Malang City using a purposive sample approach. Purposive sampling allows the selection of certain individuals with traits relevant to the purpose of the study, resulting in 100 samples in this study. To ensure diversity and representation, the sample will consist of MSMEs of various sizes and sectors. Data Collection A systematic survey of MSMEs owners and managers in Malang City will be used to obtain primary data.

The survey questionnaire is intended to collect data on funding sources, Business Scale and Revenue indicators. The questionnaire will be tested first to verify that it is clear and valid. Data collection strategies include contacting MSMEs directly. The data will be analyzed using relevant statistical methods. Regression analysis will be used to determine the individual and combined impact of these factors on MSMEs incomes. SPSS Rochaety et al (2019) will be used to perform the analysis. These findings will be analyzed and discussed according to the objectives, questions, and theoretical framework of the study. This investigation will explain how funding, company size, and availability of human resources affect the income of MSMEs in Malang City.

3. RESULTS AND DISCUSSION

The author needs to report the results in sufficient detail so that the reader can see which statistical analysis was conducted and why, and later to justify the conclusions.

MSMEs, short for Micro, Small and Medium Enterprises, are a form of productive economic business owned by individuals, groups, households, or small business entities that meet the criteria as micro, small and medium enterprises(Tarantein & Narew, 2024). MSMEs play an important role in the Indonesian economy because they contribute greatly to economic growth and have the potential to increase the country's foreign exchange. The definition of MSMEs in general is a productive business owned by individuals and business entities that have met the criteria as a business(Amat & Joseph, 2024). The criteria for MSMEs are divided based on the number of working human resources, assets, and turnover per year. The types of MSMEs in Indonesia are very diverse and have their own characteristics, such as culinary, cosmetic products, and the fashion sector.

Refer to Primasari et al (2023) MSMEs have various functions, such as meeting all the needs of the community quickly, reviving the surrounding economy, opening new jobs, creating an economic system for a more equitable society, supporting the economy in Indonesia when faced with an economic crisis situation, and increasing foreign exchange. Examples of MSMEs in Indonesia include MSMEs in the culinary, beauty, and fashion sectors. MSMEs in the culinary sector are endless, with various ideas to develop the business. MSMEs in the beauty sector, such as cosmetic products, are also indispensable and have various types of products sold. MSMEs in the fashion sector also always develop following the trend or era, with the business of buying and selling clothes that are always crowded. According to Nurhayanti et al (2024) The development of MSMEs is also very important, because MSMEs

can absorb high enough labor and become a driver for other communities to compete so as to create new businesses and opportunities for other communities. In addition, MSMEs also play a role in overcoming the problem of poverty that has not disappeared from Indonesia.

In Law of the Republic of Indonesia No. 20 of 2008 concerning MSMEs, the definition of MSMEs is regulated that MSMEs are in accordance with their types of business, namely micro enterprises, small enterprises, and medium enterprises (Hilmawati &; Kusumaningtias, 2021). MSMEs also have various rules and roles given by the government to increase the competitiveness of MSMEs, such as increasing financial access, improving the quality of human resources, and facilitating MSMEs regarding access to information and promotion. In synthesis, MSMEs are a form of productive economic business owned by individuals, groups, households, or small business entities that meet the criteria as micro, small, and medium enterprises. according to Fauzi Nurhidayat et al (2023) MSMEs play an important role in the Indonesian economy and have various functions, such as meeting the needs of the community, reviving the economy, opening jobs, and increasing foreign exchange. MSMEs also have various types and examples, and have a role given by the government to increase the competitiveness of MSMEs.

This study collected data from a purposive sample of 200 MSMEs in Malang City. The sample consists of various industries and business sizes, providing a representative picture of the MSMEs sector in the region. Here is the data on MSMEs in Malang City:

Table 1. Data on MSMEs Malang City

Subdistrict	2021	2022	2023
Kedung Kandang	855	1,069	4,402
Sukun	1,462	1,478	6,011
Klojen	868	875	3,850
Blimbing	1,459	1,479	5,347
Lowokwaru	2,339	3,019	9,448
Total	6,983	7,920	29,058

Source : Bps.go.id

Regression Analysis

Multiple regression analysis was conducted to assess the effect of financing, business scale, and availability of human resources individually and in combination on MSMEs income. The result is as follows:

Table 2. Regresion result

Variable	Beta	T	Sig
(Constant)		3.703	.004
Financing	.570	.365	.000
Business Scale	.523	.491	.000

Source : SPSS 23 Output Results

Financing: Regression analysis shows that financing significantly affects MSMEs income ($\beta = 0.570$, sig < 0.00), which shows that access to diverse sources of financing has a positive impact on income.

Business scale: Regression analysis shows that business scale has a significant effect on MSMEs income ($\beta = 0.523$, sig < 0.00), indicating that larger-scale businesses achieve higher income levels.

Table 3. Coefficient Determinants

Model	R Square
.731	.701

Source : SPSS 23 Output Results

The results above show the results of statistical analysis, large derived from linear regression models. Here's a breakdown of the picture: A model refers to a specific statistical model used to analyze data. In this case, the model number is 73%. In this case the R square value is 0.701 which means 70.1% of the variance of the dependent variable is explained by the independent variable in the model. in general, an R squared of 0.701 is considered suitable for a model. In the sense of showing that financing, business scale, collectives play an important role in determining the income of MSMEs in Malang City.

Discussion

Overall, data analysis and research results show that access to diverse sources of financing, larger business scale, are key factors contributing to MSMEs income in Malang. These findings provide valuable insights for MSMEs owners, policy makers, and stakeholders in developing strategies to increase MSMEs income and sustainability in the region.

The results of the study above show evidence that the two research variables have a significant influence on MSMEs income, In line with previous research, MSMEs need financing to start, operate, and develop their business (Merliyana et al., 2022). A lack of financing can limit MSMEs ability to invest in new equipment, technology, or marketing, which can affect their competitiveness and income (Son et al., 2021). Insufficient financing can hamper MSMEs ability to improve operational efficiency, improve product quality, and reach a wider market. Thus, lack of financing can have a negative impact on the ability of MSMEs to increase their income and competitiveness in business competition (Nuha, 2021).

The scale of MSMEs can affect income. The scale of MSMEs, which is determined by the amount of net worth, assets, and number of employees, affects the ability of MSMEs to increase revenue. MSMEs with smaller scales, such as micro-enterprises, usually have lower incomes compared to larger MSMEs, such as medium-sized enterprises (Hamza & Agustien, 2019). This is because MSMEs with a smaller scale have more limited resources and the ability to develop a more limited business as well. Therefore, the scale of MSMEs affects their income in a significant way, with larger MSMEs tending to have higher and more stable incomes so this is in line with demand (Dahiri, 2020; Kolanus et al., 2020).

According to Prasetio et al (2018) MSMEs may face challenges in attracting, retaining, and developing talent, especially in highly competitive industries. To overcome this, MSMEs can use effective cost management strategies. This strategy includes reducing production costs, increasing productivity, and improving decision-making processes. Reducing production costs can be done by establishing strong partnerships with local suppliers, using local raw materials, and improving the efficiency of production processes (Hadi et al., 2018). Increased productivity can be achieved by improving technical and managerial capabilities, as well as using the right technology to improve operational efficiency. Improvement of the decision-making process can be done by using accurate data and analyzing the decisions taken. Thus, MSMEs can increase their income and competitiveness in a highly competitive industry.

Overall, the relationship between financing, business scale, and income of MSMEs is complex and diverse. MSMEs need to manage their resources carefully and adopt effective strategies in order to remain competitive and profitable in the market.

4. CONCLUSION

The analysis results of this study conclude that financing and business scale have a significant impact on MSME income. These findings confirm that access to diverse funding sources and a larger business scale significantly influence the increase in MSME income in Malang City.

These results provide valuable insights for MSME owners, policymakers, and other stakeholders in formulating strategies to enhance MSME income and sustainability. Strategies to improve funding access, such as through government assistance programs and bank loans, as well as business scale development, have the potential to strengthen competitiveness and increase the financial stability of MSMEs in facing intense market competition.

Thus, this study underscores the importance of efficient resource management and the adoption of appropriate business strategies for MSMEs to achieve sustainable success.

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