

# THE EFFECT OF ECONOMIC LITERACY, CAPITAL, LABOR, AND MARKETING ON DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES (SMEs)

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## ABSTRACT

*Economic education with economic literacy and factors of production is a major study of the development of small and medium industries. Even capital as a factor of the company's production. This study aims to examine and prove the factors that influence the development of small and medium enterprises in the tourism business industry. Internal factors identified two main formers, namely economic literacy and marketing. External factors, namely capital and labor as factors of production. The model was compiled effectively and analyzed with a single multiple regression structure to determine the direct effect with the processed questionnaire survey results from 90 entrepreneurs as the owner of the company. Research data were analyzed using AMOS 25 and SPSS 20. The results showed that labor and marketing made the main contribution, followed by economic and capital literacy. Simultaneously influential by 86% and significant. it breaks capital and economic literacy as the main thing in small and medium businesses. The implication of the results of this study is the importance of identifying and developing labor, marketing, capital, and economic literacy in Small and Medium Enterprises (SMEs).*

**Keywords:** Small and Medium Enterprises (SMEs), Entrepreneurship Development, Economic Literacy, Capital, Labor, Marketing.

## INTRODUCTION

Small and Medium Enterprises (SMEs) play a strategic power and have an important position, not only in terms of employment and public welfare but also to stabilize the problem of social inequality. Products produced by small businesses are generally also based on the needs of the wider community and have comparative advantages. Also, small businesses that have factors of production are not dependent on foreign exchange, able to withstand the crisis than large businesses. Thus, the development of small businesses is important for deeper review.

Existing small and medium businesses have created employment for around 116 million local workers. The Central Statistics Agency noted that the number of micro and small businesses in Indonesia continues to grow each year. Based on data from 2013 to 2015 the number of micro and small businesses reached 10 million units (Statistics, 2018). The increase in small and medium businesses occurs due to the ability to produce superior products with professional management (Prasanna et al., 2019); (Vandenberg et al., 2016); (Hutahayan, 2019).

The role of small industries in society has become a very important part of the Indonesian economy (Kurniawan & Managi, 2018). Almost all existing industrial activities involve the

largest share in people's economic activities. Availability of industrial development factors such as capital, raw materials, transportation, location, and marketing. It is important to study economic literacy for entrepreneurs to provide a model for increasing literacy capabilities in the management and optimization of resources (Suparno & Saptono, 2018); (Jolae et al., 2014); (Pandey & Gupta, 2018) including economic learning experience in entrepreneurial creativity (Wibowo et al., 2018).

Various obstacles often encountered in small businesses are the low quality of labor. Manpower plays an important role in encouraging business development. The thing that must be possessed by a worker is skill because it is a capital that must be possessed to become a productive workforce. Measuring the level of productivity can be known from the length of time the workforce has worked and experience. For example, a worker who works for five years will be more experienced than one who works for two years.

Small and Medium Enterprises focus on excellence and potential with innovation and good business management towards entrepreneurial independence. The tourism industry is very interesting to be studied and developed in the industrial era 4.0 and the development of this 21st-century industry due to various large industrial businesses closing businesses. The tourism industry is attached to regional excellence and potential, so the ability to survive and develop needs to be examined.

## DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

Small and medium-sized businesses are businesses that are often carried out independently (self-employment), do not require high skills, weak business or academic background, and lack insight into developments outside. Business development can be divided into 5 stages, namely, the stage conceptual, start-up, stabilization, growth (growth stage), and maturity. This discussion will discuss business development from the stage conceptual, namely (Soeharto Prawirokusumo, 2007):

1. Get to know potential opportunities.
2. Analyze opportunities.
3. Organizing resources.
4. The step of mobilizing resources and accepting risk as a final step before going to the stage startup.

Judi states that small business success is measured by business survival, numbers of employees, and income (Sakur, 2011). Meanwhile, according to Madura, business development can be measured through business performance with indicators of return and risk from investment to the business (Jeff, 2006). According to Apilido, the performance of small and medium businesses in meeting their obligations can be measured (Sakur, 2011):

5. Business continuity (survival business).
6. Employee growth.
7. Credit quality.
8. Credit growth.
9. Use of credit.
10. Monitoring from banks.

Shanmugam & Bhaduri (2007) states that the development of small businesses can be seen through production growth, sales growth, revenue growth and profit growth (Shanmugam and

Bhaduri, 2007) reflected by business performance, namely the level of achievement of results and the level of achievement of organizational goals (Kristiningsih, 2014) with sales growth (sales growth), employment growth (employment growth), income growth (income growth) and growth in market share (market share growth) as a measurement of the development of the most important small companies (Khoiruddin & Aslichah, 2017).

The business development in this research is an increase in the ability of the company both in terms of quality of work and in terms of the quantity of business carried out with new and directed patterned activities and is the result of a continuous process. Business development can be measured through production growth and sales growth. The factors that influence business development include venture capital, labor, and marketing.

## ECONOMIC LITERATION

Economic science studies the efforts of humans both individually and in the community to make choices about the use of limited resources to meet the needs for goods and services (Basiago, 1998). Economic literacy is the ability to read to determine the appropriate use of available resources will have an impact on intelligence in managing the economy and finance through priority scale in transactions and the ability to analyze economic conditions.

Metiri states that economic literacy as the ability to identify economic problems, alternatives, costs, and benefits; analyze the incentives at work in economic situations; examine the consequences of changes in economic conditions and public policies; collect and organize economic evidence; and weigh costs against benefits (Kharizmi, 2015), while Yasmin et al. (2014) states that economic literacy is the understanding and knowledge of basic economic theories, concepts and their applications (Ai Nur Solihat, 2018). According to Pandey & Bhattacharya (2012), economic literacy is the ability to use economic concepts to make decisions about income, savings, expenditure and allocate money in improving welfare (Nuraeni, 2015). Economic literacy is a means to an end, it's just that in reality, not everyone has high economic literacy, thus narrowing the chances of prosperity (Sina, 2017) The Survey conducted by the Minnesota Center for Survey Research at the University of Minnesota shows a good understanding of the principle-economic principles especially microeconomic issues, such as market operations and sources of personal income) and have the greatest direct impact on their daily lives, specifically related to microeconomic issues (Neti Budiwati, 2014; Nuraeni, 2015).

Economic literacy according to The National Center on Education and the Economy with 20 indicators measuring the level of community economic literacy (Iqomudin, 2017). In this study economic literacy for small and medium industry entrepreneurs is measured by being able to analyze changes in demand for goods, being able to manage the role of entrepreneurs, being able to analyze changes in supply and demand, being able to analyze the impact of government policies on pricing, being able to analyze the impact of changes in demand and supply on goods prices, able to explain the use of limited resources, able to analyze the costs and benefits of economic transactions, able to analyze the impact of inflation, able to analyze industrial development.

## CAPITAL

Capital is all goods that exist in the household of a company in its productivity function to form income (Bambang, 2010). The term capital as a factor of production which refers to the facilities and infrastructure produced to be used as input in the production process. To buy capital goods, capital is needed in the sense of funds or money (Muhammad, 2006). Capital is all

forms of wealth that can be used directly or indirectly in production to increase output (Tulus Tambunan, 2009; 2019). Based on the three definitions above, it can be synthesized that capital is everything that is owned by the company in the form of money or objects needed to support the process of producing goods or services.

Capital is something that is used to carry out company operations (Kasmir, 2010). Capital can be interpreted as anything made by humans that are used in the production process (Sugiarto, 2006). Capital can be in the form of buildings, machinery, and other equipment, or the form of a sum of money or funds (Bambang, 2010). Based on the three definitions above, it can be synthesized that capital is everything in the form of goods and wealth owned by the company to support production activities.

Capital is needed from the time the company was started and used to buy various inputs, including land as the location of the company. This business capital can be obtained from business partnerships that are established by small industries with other parties. The other party can be a government agency, a designated bank or a non-bank financing source. The implication of increased capital is the expansion of small industrial business networks, and this factor also indicates that an industry has developed.

Based on expert studies above, capital is one of the factors driving the variable in business development. Capital has a positive influence on business development. The greater or increased capital owned, the business will increase and vice versa if the capital owned is small or decreases, the business will decrease.

## **LABOR**

Labor is one component of production that has a significant role in the continuity of industry (Gregory, 2009). Workers can also be interpreted as individuals who offer the skills and abilities to produce goods or services so that companies can benefit. And for that individuals will get a salary or wage by the skills they have (Murti & John, 2014). Every person who works for a wage or reward and is in an employment relationship is called a workforce (Mulyadi, 2014). Based on the three definitions above, it can be synthesized that labor is an individual with the ability and skills to produce goods or services.

Manpower is a human resource that has the potential, ability, appropriate, efficient, personal in certain categories to work and participate in the development so that it is effective for himself and society as a whole (Oemar, 2005). According to Joesron, the quality of labor is the potential, strength, or ability that exists in human beings that determines human attitudes and qualities to be able to excel and keep the organization alive and running. Kasanudin measured the quality of the workforce based on productivity, attitude and behavior, communication, and relationship (Mega & Widiya, 2017).

Labor is one of the factors driving the variable business development. Labor has a positive influence on business development. The quality of labor will affect the product produced. The better the quality of the workforce, the more productive the performance will be. Business performance and increased production will affect the business development.

## **MARKETING**

William J. Stanton states that marketing is an overall system of business activities aimed at planning, pricing, promoting and distributing goods and services that satisfy the needs of both existing and potential buyers (Basu, 2007). Marketing is a social and managerial process by

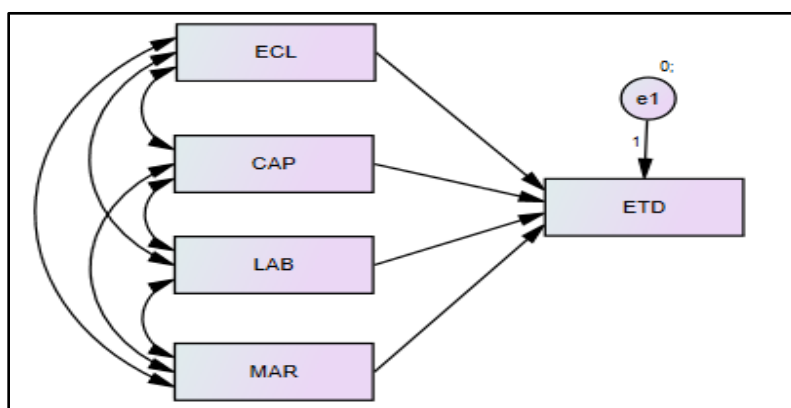
creating, offering, and exchanging products of value with others (Philip & Armstrong, 2007). The American Marketing Association says that marketing is the result of work performance from business activities related to the flow of goods and services from producers to consumers (Nur, 2010). Marketing is an activity to promote and distribute goods and services to groups of buyers. The purpose of industry is to produce goods for sale and for that marketing has an important role.

Entrepreneurial characteristics, access to capital and marketing strategies are closely related to business development. The success or failure of the marketing system is usually seen from the marketing of the product itself, competitive prices, varied and innovative promotions and places that are easily accessible to buyers (Purwanti, 2012).

Tull and Kahle state that the marketing is important to help improve the competitiveness of companies in facing the era of globalization and liberalization. Marketing is a fundamental tool that is planned to achieve company goals by developing a sustainable competitive advantage. So, marketing can help managers or company owners in carrying out tactics and other activities to improve company goals (Fandy, 2005). The success of a business is determined by the results of its marketing if the quality of the product is good and the quality of the consumer will not hesitate to order to the entrepreneur, because the price and quality are equal so that it will not disappoint consumers (Philip Kotler and G. Armstrong, 2006).

Based on the explanation above, it can be concluded that marketing is one of the driving factors of business development variables. Marketing has a positive influence on business development. A good marketing strategy will affect the number of products sold. The better the marketing strategy, the more products are sold. Increased sales volume will affect the business development. Based on the above study the following research hypotheses are formulated (Figure 1):

1. *H1: There is a positive influence between economic literacy (ECL) on business development (ETD).*
2. *H2: There is a positive influence between capital (CAP) on business development (ETD).*
3. *H3: There is a positive influence between labor work (LAB) on business development (ETD).*
4. *H4: There is a positive influence between marketing (MAR) on business development (ETD).*



**FIGURE 1**  
**THE PROPOSED MODEL**

## METHODOLOGY

This research is quantitative by using a survey of small and medium businesses shopping tourism as data analysis. The population in this study were 90 small and medium entrepreneurs in the shopping tourism industry in the city of Depok, Indonesia, All were examined as samples. This study uses the Structural Model Single Equation analyzed with multiple regression analysis. with study analysis explain the relationship between multiple independent variable (IV) and one dependent variable (DV), Predict DV values based on known IV values, Explain the effect of each IV on DV (Tabachnick & Fidell, 2013) and to find structural relationships and provide explanations for seemingly complex multivariate relationships, such as is done in path analysis, (Ho, 2014: 293). Sample size: a minimum of 20 observations for each variable independent (Ho, 2014), or  $N \geq 50+8m$  or  $N \geq 104+m$ ;  $m$ =number of IV (Tabachnick & Fidell, 2013).

The validity and reliability test of the items and the requirements for testing the hypothesis is to test the normal estimates of error, the linear test, and the significance of the regression coefficient and correlation - normality regression test using ANOVA. The formula used for the validity of the product is the Pearson test and the reliability test with Cronbach Alpha. Data were analyzed by Structural Model Single Equation analyzed with multiple regression analysis to analyze the relationship between variables on endogenous variables, data processed with AMOS 25 and SPSS 20.00.

## RESULTS AND DISCUSSION

Based on the analysis of research data, business development was measured by several indicators namely factors and measurements of the development of small and medium businesses in the tourism industry. The measured factors are economic literacy, capital, labor, and marketing. The findings showed that economic literacy, capital, labor, marketing, had a positive and significant effect. The results of the simultaneous all the variables test affected the development of small and medium businesses in the shopping tourism industry.

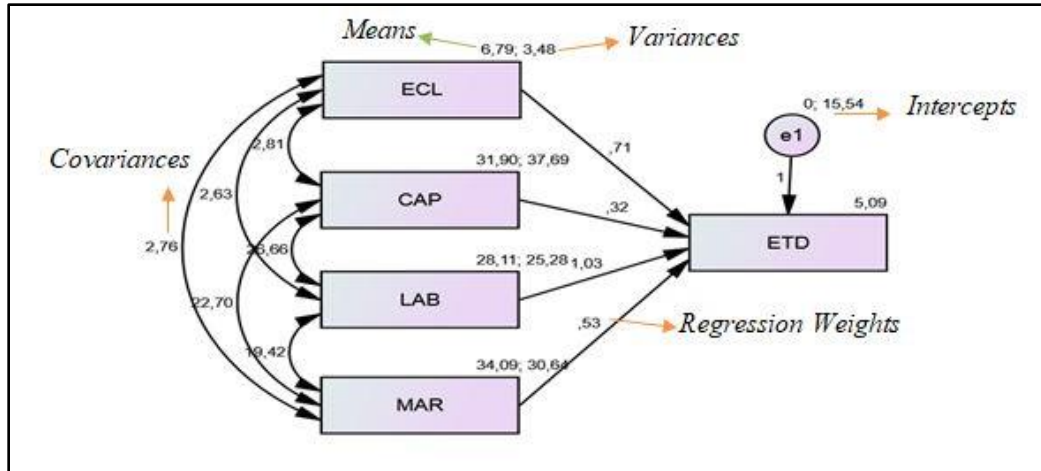
The following Table 1 is a questionnaire developed and tested for SMEs.

Multiple Regression Analysis is performed to predict the effect between variables using AMOS 21, *Unstandardized*:  $Y=b_0+b_1X_1+b_2X_2+\dots+b_kX_k+e$ . Different units of measurement,  $b_k$  predict the value of Y if the value of  $X_k$  is known. *Standardized*:  $Y= \beta_1X_1+\beta_2X_2+\dots+\beta_kX_k+e$ . Units of measurement are equated in standardized numbers (*z score*, average = 0 and standard deviation=1),  $\beta_k$  (*beta*) measure the magnitude of each effect  $X_k$  to Y. the following data are obtained (Figure 2):

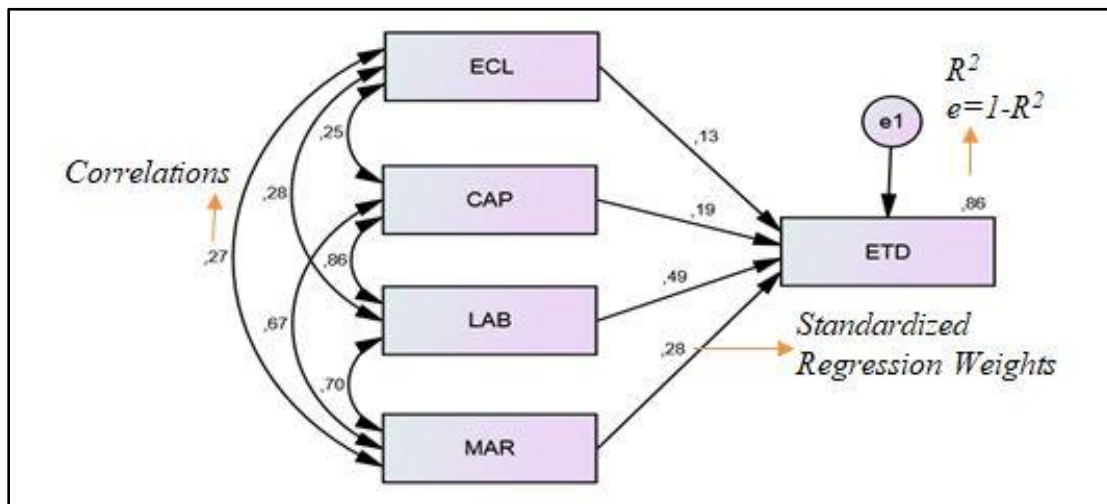
From standardized estimate, coefficient values can be seen in the table above so that the linear regression equation can be obtained as follows:

$$\hat{Y}=0.13X_1+0.19X_2+0.49X_3+0.28X_4+0.14e ; R^2=0.86$$

That is, at 86% the variation that occurs in Y can explained together by  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$ . The remaining 14% is a variation in Y that is explained by other variables that are not researched (Figure 2).



**FIGURE 1**  
**UNSTANDARDIZED ESTIMATE MULTIPLE REGRESSION**



**FIGURE 2**  
**STANDARDIZED ESTIMATE MULTIPLE REGRESSION**

**Table 1**  
**ITEM MEASUREMENT OF RESEARCH VARIABLES**

Variable and Item measurement		Validitas-Corrected Item-Total Correlation	Reliability Cronbach's Alpha	
1. ETD				
ETD1	Increased revenue in the last tree years	0.701	0.951	
ETD2	Increased production capacity	0.700		
ETD4	Production is able to meet consumer demand with supplies	0.666		
ETD6	Accountable production report	0.708		
ETD7	Able to achieve the target number and quality of production	0.673		
ETD8	Increased sales volume	0.632		
ETD10	Having innovation in new production	0.728		
ETD11	Increase customers with good loyalty	0.637		
ETD13	Having after sales service for customer satisfaction	0.695		
ETD14	Add new business units	0.613		
ETD15	Able to achieve annual sales targets	0.618		
2. ECL				
ECL1	Being able to analyze changes in demand for goods	0.631		0.859
ECL3	Able to manage the role of entrepreneur	0.631		
ECL4	Able to analyze changes in supply and demand	0.553		
ECL5	Being able to analyze the impact of government policies	0.537		
ECL6	Being able to analyze the impact of changes in demand and supply	0.586		
ECL7	Able to explain the use of limited resources	0.617		
ECL11	Able to analyze the costs and benefits of economic transactions	0.584		
ECL13	Being able to analyze the impact of inflation	0.584		
ECL14	Able to analyze industrial development	0.537		
3. CAP				
CAP1	My venture capital is from private capital	0.829	0.93	
CAP2	Access to get loans from banks	0.77		
CAP3	Availability of subsidies from local governments	0.741		
CAP4	Ease of getting capital in the form of money and goods	0.737		
CAP5	Low or affordable interest	0.773		
CAP7	Capital ability to raw materials	0.771		
CAP8	Good and regular accounting reports	0.719		
CAP9	Use of capital to increase equipment	0.733		
4. LAB				
LAB1	Manpower needed special skills	0.57	0.863	
LAB2	Manpower is not required for high education	0.641		
LAB3	Labor costs are in accordance with the Provincial Minimum Wage	0.74		
LAB4	The workforce is able to manage production	0.677		
LAB5	Productivity workforce	0.542		
LAB6	There is an increase in the skills of the workforce	0.671		
LAB7	Control of the workforce	0.596		
5. MRK				
MRK5	The average consumer is a distributor	0.59	0.845	
MRK6	The majority of consumers are from organizational institutions	0.657		
MRK7	Receive orders from consumers who are outside the region	0.659		
MRK8	Marketing of regional business results	0.618		
MRK9	Market your business online through e-commerce	0.659		
MRK10	Marketing reaches all regions	0.59		



Next measurement **Effect Size (ES)**:  $ES = R^2 - \frac{k}{n-1}$ .  $ES=0.86-4/(90-1)=0.81$ . “Effect sizes criteria are small=0.1, medium=0.25, and large=0.4” (Schumacker & Lomax, 2016).

$ES=0.41$ . Associated, fully with  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$  are able to explain strongly the variations that occur in the Y variable. Based on the further t and F tests, partially and simultaneously there is a significant economic influence literacy, capital, labor, marketing, business development with entrepreneurship as follows (Table 2):

Model	Dependent Var (Constan)	Independent Variable				F	R Square
		ECL	CAP	LAB	MAR		
Coefficient	5.086	0.126	0.185	0.493	0.281	129.106	0.859
SE	2.888	0.240	0.140	0.179	0.110		
t-test	1.761	2.947	2.253	5.745	4.823		
sig	0.082	0.004	0.027	0.000	0.000		

a. Dependent Variable: ETD

The magnitude of the coefficient the influence between variables that labor (0.493), marketing (0.281), capital (0.185) and economic literacy (0.126). This new finding is a study of entrepreneurial development in the tourism industry that labor and marketing is an important aspect for developing small and medium businesses. This study found that all variables have a significant influence including aspects of capital and economic literacy in the Small and Medium Enterprises development.

## CONCLUSION

This research studies the factors that influence the development of small and medium entrepreneurs in the shopping tourism industry. A total of 90 entrepreneurs in the shopping tourism industry were involved, taking data with questionnaires only to the industry owner as a business controller. Based on the results of research on factors affecting business development in Shopping Tourism, the higher the level of economic literacy, capital, labor, and marketing, the better the business development. The level of capital, labor, and marketing must be increased to improve business development which results in increased profits (profits) of small and medium entrepreneurs who are in the Tourism Shopping. the total effect of all variables is 86% and significant based on the study is able to explain and answer the research problems proposed, 14% is influenced by other variables.

Based on the results of the questionnaire, to develop business in SMEs the largest dimension component in the aspect of increasing production contributed 50.8%, while the increase in sales volume was 49.2%. Economic literacy factors on the ability to analyze changes in supply and demand as well as their impact on the price of goods, analyzing the development of the industry contributes the largest 58%. Capital how to get capital, ease of getting capital, availability of capital, and management in using the biggest capital in the indicator of how to get capital is 34.1%. Labor with aspects of ease of obtaining workforce, labor requirements, wages, labor, manpower training, labor inspection, and labor management. The labor force is most influenced by the indicator of ease of obtaining labor, which is 14.45%. Marketing variables with ease of marketing the results of production, consumer purchasing power, consumer status,

marketing area, strategies to determine marketing locations, and marketing distribution of marketing area indicators contributed 16.99%.

Research on the development of small and medium businesses with multi-predictor variables with the results reinforces the findings and studies of several researchers and previous theories. Hartono & Deny (2014) in Factors affecting the development of small and medium businesses, the results of the study showed that the problems with the cost of raw materials, labor costs and promotion costs, as well as in capital in developing small and medium businesses. Therefore, the business development strategy is more focused on fulfilling raw materials, marketing, production, and capital. Mega & Widiya (2017) in the factors that influence the development of Small Business in the Manufacturing Industry Sector, financial institutions and centers can support other factors, so that the processing industry can develop rapidly. Khoiruddin & Aslichah (2017) in the Analysis of Factors Influencing the Development of Micro and Small and Medium Enterprises including the fact that capital facilities have a significant contribution to the business development of the food and beverage production sector.

This research is still limited to entrepreneurs in shopping tourism with economic literacy, capital, labor, and marketing factors. The next researcher can examine on a broader scale in the tourism industry and aspects that influence its development such as education and training, government policy, innovation power, digital literacy, e-commerce and other aspects that have not been studied.

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