



# The Effect of Business Capital on the Development of Micro, Small, and Medium Enterprises in Garut Regency

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**Abstract.** Micro, Small, and Medium Enterprises is a general terminology that refers to enterprises possessed by people or business entities that met the criteria set by the law. Meanwhile, income is one factor that can measure a business's success rate. However, based on a survey conducted by researchers on MSE actors in Garut Regency, it is stated that the income obtained has not been able to develop a business. Accordingly, it is crucial to focus on the factors that cause the increase in business, namely, business capital. This study aims to test and analyze the effect of business capital on the development of MSMEs in the Garut Regency. The strategy utilized in this review uses quantitative methods. The information examination technique utilized in this study is relapse investigation. The population in this study is all MSME actors in Garut Regency. The results of this study show that there is an influence of working capital on the development of MSMEs in the Garut Regency. Business capital has proven to have a positive and significant effect on business development; this needs attention because the research results show that business capital has the most dominant influence. MSMEs need the convenience of obtaining capital, especially MSMEs in the Garut Regency.

**Keywords:** business capital · development of MSMEs

## 1 Introduction

Miniature, Little, and Medium Ventures (MSMEs) are productive business actors with incomes with such large amounts that they have contributed significantly to the national and regional economies. MSMEs, for the most part, enjoy benefits in using nearby and work concentrated Regular Assets (SDA, for example, food crop cultivating, manors, creature farming, fisheries, exchange, and cafés. Therefore, MSMEs significantly contribute to local governments through Regional Original Income (PAD). The role of MSMEs in the Indonesian economy can be seen from their current position in the business world. The position of MSMEs can be divided into (1) the place of MSMEs as the fundamental entertainers in monetary exercises in different areas, (2) MSMEs as the biggest suppliers of work, and (3) MSMEs as significant players in the improvement of territorial financial exercises and local area strengthening, (4) MSMEs as makers of new

business sectors and advancements. Miniature, Little, and Medium Ventures (MSMEs) significantly contribute to Indonesia's economy. When Indonesia experienced a monetary emergency in 1998, limited scope organizations were moderately ready to endure, contrasted with huge organizations. This is because most limited-scale organizations are not excessively reliant upon huge capital or credits from outside in unfamiliar cash. Their population shows the job of MSMEs in the economy in Indonesia as the most prominent business actors, as well as their contribution to employment, the formation of Gross Domestic Product (GDP), exports, and the creation of fixed capital/investment. Aside from low efficiency, MSMEs have better strength in emergencies, framed because of the authoritative construction and labor force of MSMEs that are more adaptable in acclimating to advertise changes. The sturdiness of this adaptability makes MSMEs involved by the vast majority as the essential wellspring of vocation. Based on the level of productivity and the need to increase the population of small and medium ventures, the increase in the productivity of micro-enterprises is used as a target for empowering MSMEs in the future. Improving microenterprises' capacity and productivity can be done by fortifying resources, abilities, and connectedness to business networks and marketing in one established business system. Increasing the capacity of micro-enterprises is also expected to increase the income of the community in general, which will further contribute to reducing the poverty rate. The role of small and medium enterprises also needs to be increased in strengthening the domestic production business, participation in export markets, and investment.

The government's attention to MSMEs is a substantial strategic step needed by the Indonesian nation. The seriousness and concern of the government for MSMEs with programs to foster the development of MSMEs in Indonesia. Although the government's support in Indonesia is tremendous for MSMEs to be successful and develop, it does not mean there are no obstacles.

Economic development in Indonesia is not just the public authority's liability yet. It is a shared responsibility. The people group is the principal advancement entertainer, and the public authority has a targeted contribution in terms of being able to direct and guide to obtain supporting facilities. The narrowing of employment is a settlement that cannot be delayed any longer because the population is a valuable asset to the Bangsa and the country. Independent entrepreneurship is needed for individuals who are prepared to battle business on the grounds of their efforts to be sensitive to conscience and keen business instincts to penetrate competitive market share. Entrepreneurial characteristics can affect the development of their business, want to face challenges, certainty, and a powerful urge to carry on with work; likewise, to the characteristics of business entrepreneurship, business capital is necessary for carrying out business activities. Capital is a business factor that ought to be accessible while completing exercises. The size of business capital will influence business advancement in accomplishing pay. Business capital can be obtained from two sources, own capital and outside capital credit institutions. Smaller than expected, Close to nothing, and Medium Undertakings MSMEs are helpful specialty units that remain solitary and are done by people or Business Elements in all areas of the economy. On a basic level, the qualification between Miniature Endeavors (UMi), Little Undertakings (UK), and Medium Ventures (UM) are overall considering the value of starting resources (barring area and structures), the typical turnover every year, or the

amount of incredibly strong experts. The definition of MSMEs is an implication of the division/business criteria in the context of Indonesia.

This is very important considering that these criteria impact the relevant business policies. UMKM stands for Micro, Small, and Medium Enterprises (Sofyan, 2017).

MSMEs are, all the more explicitly, business substances with a benefit or benefit of not in excess of 200 million in view of the estimation of yearly benefit (Dynamics & Sharia, 2022). A business or business can be suggested as an MSME if it meets the guidelines for little ventures. As per regulation Number 20 of 2008, MSMEs are recognized in view of each sort of business: miniature, little, and medium ventures.

In Indonesia, the meaning of MSMEs is directed in view of the Law of the Republic of Indonesia Number 20 of 2008 concerning, Nearly nothing and Medium Undertakings. The reason, as per Regulation No. 20 of 2008, is as per the following:

### 1. Micro

Useful organizations are claimed by people and business substances that meet the models for Miniature Undertakings as specified in this Regulation. A private company is a convincing monetary business that stays single, and is finished by an individual or business component that is unquestionably not a helper or not a piece of an association that is guaranteed, controlled, or is part either clearly or by implication of a medium-sized business or enormous business that fulfills the guidelines for Little Business as alluded to in the law. Micro-enterprises are business units with assets of at most IDR 50,000,000, barring land and buildings for business premises, with annual sales proceeds of at most IDR 300,000,000.

### 2. Small Business

Small businesses are expected to be able to provide new jobs. Suppose the growth of employment by the large and medium enterprise sectors is consistent, then the unemployment target. In that case, even if the development of entrepreneurship and the growth of new business units are implemented optimally, open unemployment will be suppressed. The existence of employment and increasing income are expected to help realize a prosperous Indonesian society.

It is difficult to realize this if people live in poverty and high unemployment rates due to the inequality of control of productive resources is still very real. Small businesses with an asset value of more than Rp. 50,000,000 up to a maximum of Rp. 500,000,000 excluding land and buildings where the business has annual sales proceeds from Rp. 300,000,000 to a maximum of Rp. 2,500,000,000.

### 3. Medium Enterprises

Medium Undertakings are valuable financial ventures that are free, which are finished by individuals or business components that are not auxiliaries or parts of organizations that are claimed, controlled, or part either straightforwardly or in a roundabout way with Private companies or huge organizations with how much total assets or yearly arrangements go on as determined in the law. Medium-sized undertakings are organizations with total assets of more than Rp.500,000,000 to a limit of Rp.100,000,000,000 yearly deals proceeds above Rp.2,500,000,000,000 billion to a maximum of Rp. 50,000,000,000.

Definition of Business Capital

Capital is a production factor that strongly influences productivity or output; macro-capital is a significant driver to increase investment both directly in the production process and production infrastructure to encourage an increase in productivity and output.

Working capital is one of the essential elements that must be paid attention to by the company's management in carrying out business activities. In the activities of a business, working capital is indispensable. The company needs working capital for daily operational activities (Habibah, Djuanda 2019).

The capital is used to carry out the company's operating activities. Working capital can also be interpreted as investments in current or short-term assets, such as cash, securities, receivables, inventory, and other assets [4].

Business capital can be interpreted as funds used to run a business to keep it running. Business capital can also be analyzed from various aspects, namely capital for the first time opening a business, capital to expand the business, and capital to run a daily business.

- a. Capital first opened a business,
- b. Capital to expand the business,
- c. Capital to run a daily business.

Based on the benefits, business capital is divided into:

- a. Working capital, also known as current assets, is more synonymous with capital in the form of capital money that is used to finance production expenditures or operational activities such as:
  - 1) Purchase raw materials or auxiliary materials.
  - 2) Paying employee salaries.
  - 3) The cost of electricity, water, telephone, and internet;
  - 4) Transportation costs.
  - 5) General administrative expenses
- b. Investment capital (assets), known as fixed assets, is money spent on purchasing goods. If the business is in production, it buys production equipment and machines. If the service sector business usually invests in or buys a place and equipment that supports the business.

The sources of capital consist of:

- a. Own capital is a fund prepared by entrepreneurs in starting and developing a business and derived from savings aside from past income, either stored at home or in banks in savings and deposits.
- b. Investment funds and Credits Helpful is helpful with its business field of reserve funds and credit administration for its individuals.
- c. Monetary establishments are business elements that have the capability to gather assets from the local area as stores and convey them to people in general as credit or advances, in light of appropriate regulations and guidelines.
  - 1) Regulation No. 7 of 1992 was corrected by Regulation No. 10 of 1998 on banking,
  - 2) Law No. 2 of 1992 on insurance,
  - 3) Law No. 11 on pension funds,
  - 4) Law No. 8 of 1996 on the capital market
  - 5) Law No. 23 of 1999 on Bank Indonesia

### Business Capital Indicators

Several things need to be considered in how to obtain business capital [5], namely:

- a. Capital structure: own capital and acquired capital
- b. Utilization of extra capital
- c. Barriers to getting to outside capital.
- d. The condition of the business in the wake of effective financial planning development of MSMEs

Likewise, with the development of MSMEs, the advancement of miniature, little, and medium endeavors can be measured by the increasing income level received (Sumardi & Djulpahmi, 2017). So that measuring the development of MSMEs can be seen from the income received. If it experiences an increase it can be called experiencing growth or development. If there is a decrease in revenue, it can be interpreted that the MSME is experiencing a decline.

Connected with the monetary improvement of miniature, little and medium endeavors in Indonesia, the Government provided Official Guidance No. 6 of 2009, dated August 5, 2009, on the Improvement of the Innovative Economy. To encourage the acceleration of creative economy development in various regions, especially regencies/cities as the leading producers of superior products, it is necessary to accelerate towards utilizing local economic resources and using products that have obtained a touch of additional value optimally and sustainability.

This potential will correlate with economic development and growth and improve the community's welfare. In this effort to develop MSMEs, the government and technical agencies that have primary duties and functions in developing MSMEs also seek to submit proposals for activities to the Central Regional Government and make several programs or strategic plans for the smooth development process of these MSMEs.

The level of business growth is measured by increasing income, labor, and the number of consumers using their products (Asriansyah, 2017).

## 2 Methods

### 1. Hypothesis

#### Business capital

Business capital is essential to do business exercises. In this manner, a specific measure of assets is required as the reason for the business' monetary measures. Wellsprings of business capital can be acquired from own capital, government help, monetary organizations, the two banks, and non-bank monetary establishments. Working capital is one of the significant components that should be focused on by the organization's administration in completing business exercises. In the activities of a business, working capital is indispensable. The company needs working capital for daily operational activities (Habibah, Djuanda 2019). The capital is used to carry out the company's operating activities. Working capital can also be invested in current or short-term assets, such as cash, securities, receivables, current inventory, and other assets [4].

- 1: There is an influence of working capital on the development of MSMEs in Garut Regency

## 2. Method

### 1) Research Plan

The assessment approach used is quantitative. The quantitative procedure permits scientists to gather mathematical information through factual examination of tests utilizing predefined instruments (Creswell, 2012). The examination configuration utilized in this study is a review research plan. The overview research strategy is a quantitative exploration technique completed to portray the populace’s mentalities, ways of behaving, and qualities obtained through examples of the populace (Creswell, 2012). The sort of study utilized is cross-sectional, an examination configuration gathering information from an example immediately (Creswell, 2012).

### 2) Participants

The research was conducted by involving participants from MSME actors. The characteristics of MSME actors who are used as participants in the collection of research data are those who have had a business for more than one year, are engaged in all business sectors, and are carried out by themselves and their employees.

### 3) Population and Sample

Populations are groups of individuals who share the same characteristics (Creswell, 2012). The population of this study is MSMEs in Garut Regency, which are engaged in all business sectors. In this study, the object that will be examined is MSMEs in all sectors in the Garut Regency, with a population of 50 MSME actors. The improvement of miniature, little, and medium undertakings /questionnaires of answer choices based on 5-point Likert numbers. All answers will be actualized and then processed based on specific sequences.

The review test is a piece of the populace with similar qualities and attributes, so it addresses the populace. The example likewise implies that a part of the populace or a little gathering is noticed. In this review, the example taken was 45 MSME entertainers.

$\frac{n}{1+Ne^2}$
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$$n = 50 / (1 + 50 \times 0.05 \times 0.05)$$

$$n = 50 / 1.12 = 45$$

### 4) Research Instruments

This method is carried out by distributing a questionnaire in the form of structured questions; each question has been prepared with 4–5 alternative answers that are distributed to respondents to be filled in according to the conditions experienced by the respondents. The instruments utilized in this study are expected to deliver precise information utilizing the Likert scale. The Likert scale estimates a demeanor, assessment, and view of an individual or gathering about a social peculiarity”. In this review, analysts utilized the accompanying sorts of poll instruments: SA (Strongly Agree) scored 5.

- a) A (Agreed) is rated 4
  - b) N (Neutral) is scored 3
  - c) D (Disagree) is scored 2
  - d) SD (Strongly Disagree) is scored 1
- 5) Research Procedure
- a) Conceptual Stage (figuring out and recognizing issues, checking on critical writing, characterizing a hypothetical framework, figuring out theories).
  - b) Plan and Arranging Stage (choosing research plans, recognizing the population under study, practicing techniques for estimating research factors, planning testing plans, finishing and exploring research plans, doing research, and making amendments).
  - c) Making Instruments and gathering research information.
  - d) The Observational Stage (information collection, data preparation for examination) collects research information completed in the field.
  - e) Insightful stage (examining information and computing the consequences of exploration information), handling and lysing research information. The information that has been gathered from the field is handled and examined to reach inferences that include ends from the aftereffects of testing research hypotheses.
  - f) Dispersal Stage, planning research results. In the last stage, so that the results of the review can be read, understood, and known by readers, the consequences of the research are compiled in the type of ends from the results.
- 6) Data Analysis

Information Examination Procedures are exercises after information from all respondents or different information sources are gathered. Exercises in information examination are gathering information in view of factors and sorts of respondents, arranging information in light of factors from all respondents, introducing information on every variable contemplated, making computations to answer issue plans, and making estimations to test speculations that have been proposed (Bekti, 2017). The information examination method in this study utilizes the SPSS (Factual Bundle for the Sociologies) application to break down the information that has been gathered.

### 3 Results and Discussion

#### 1. Validity and Unwavering quality Tests

The legitimacy test is a test that sees whether an estimating instrument is substantial (legitimate) or invalid [9]. Based on data processing on 45 respondents, they conducted a test of the validity and reliability of research instruments using SPSS and Microsoft Excel to obtain output conclusions. Based on the output of the results, the researcher can determine whether the instrument's items are valid or invalid. Validity test decision-making is:

- If  $r$  counts  $\geq r$  table, then the data is valid
- If  $r$  counts  $< r$  table, then invalid data

Table Summary Table of Business Capital Validity Test Results.

NO GRAIN	R CALCULATE	INFORMATION	INTERPLAY
1	0,612	>0,349	Valid
2	0,650	>0,349	Valid
3	0,144	<0.349	Tidak Valid
4	0,538	>0,349	Valid
5	0,503	>0,349	Valid
6	0,624	>0,349	Valid
7	0,569	>0,349	Valid
8	0,559	>0,349	Valid
9	0,542	>0,349	Valid
10	0,459	>0,349	Valid
11	0,300	<0.349	Tidak Valid
12	0,500	>0,349	Valid
13	0,401	>0,349	Valid
14	0,460	>0,349	Valid
15	0,301	<0.349	Tidak Valid
16	0,258	<0.349	Tidak Valid
17	0,499	>0,349	Valid
18	1	>0,349	Valid <sup>i</sup>

The results in the table above show that items no. 3, 11, 15, and 16 are invalid, so that the instrument item can be omitted in the study. The instruments used in the study were only items from 1–2, 4–10, 12–14, and 17–18 without items no. 3, 11, 15, and 16 that could be utilized as an information assortment instrument on the viewpoint under study.

A dependability Test is a list test that shows the degree to which an estimating device can be relied upon or depended upon [10].

Reliability Statistics	
Cronbach's Alpha	N of Items
.720	18

Research Instruments Using SPSS

The figure above shows that the value of Cronbach's alpha is 0. 720, with a total of 18 items. It can be interpreted that the statement/item has very agreeable reliability.

2. Analysis

a) Regression Coefficient Value (Relationship between dimensions)

The primary examination was completed to decide the worth of the relapse coefficient in each component of the business capital variable against the element of the advancement



variable. In light of the aftereffects of information handling, it shows that the variable element of business capital influences the changing component of advancement.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Itself.
		B	Std. Error	Beta		
1	(Constant)	25.052	4.104		6.105	.000
	Business Capital	.402	.126	.438	3.191	.003

a. Dependent Variable: Development of MSMEs

From the picture above, it can be interpreted that:

- The steady number of unstandardized coefficients for this situation is 25,052. This figure actually intends that assuming there is no Business Capital (X), the steady worth of Improvement (Y) is 25,052.
- The relapse coefficient number in the figure above is 0.402. This figure intends that for 1% of the item advancement rate (X), the upper hand (Y) will increment by 0.402. Since the worth of the relapse coefficient is positive (+), it can, in this way, be said that business capital (X) decidedly affects improvement (Y). So the relapse condition is  $Y = 25.052 + 0.402 X$ .
- Value of coefficient of determination (relationship between variables)
- The second analysis is conducted to determine the relationship between business capital and development, expressed with an R-value of 0.438 is high. While the value of R<sup>2</sup> is 0.191 is defined as a coefficient of determination which means that business capital is affected by development by 59.3%. Meanwhile, 40.7% is another independent variable outside the regression model.

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Itself. F Change
1	.438 <sup>a</sup>	.191	.173	4.13192	.191	10.184	1	43	.003

#### a) Hypothesis Test

The third analysis was conducted to determine whether the joint venture capital variables affect competitive advantage. In this study, the main hypothesis will be tested, namely H1: Business capital significantly affects the development of MSMEs in the Garut Regency. The significance value of  $0.00 < 0.05$ , then H1 is accepted and can be widely applied outside the research focus.

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Itself.
Regression	173.873	1	173.873	10.184	.003 <sup>b</sup>
Residual	734.127	43	17.073		
Total	908.000	44			

a. Dependent Variable: Development of MSMEs

## 4 Conclusions

Business capital has proven to have a positive and significant effect on business development; this needs attention because the research results show that business capital has the most dominant influence. MSMEs need the convenience of obtaining capital, especially MSMEs in the Garut Regency.

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