

THE ROLE OF BUSINESS SIZE, BUSINESS DURATION, CREDIT FACILITIES AND BUSINESS LEGALITIES ON SME'S GROWTH

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ABSTRACT

The intended objectives in this study is to explain the effect of business size, business duration, credit facilities and business legality on the growth of SMEs in Malang, East Java, Indonesia. The type of research used in this study is explanatory research with a sample of 56 SMEs. By using multiple regression analysis, it was concluded that the size of the business, the duration of business, and business legality have a positive and significant effect on the growth of SME businesses in Malang City. Credit facilities have a negative influence on the growth of SMEs in Malang City. Therefore, the suggestions taken from this research is the government should provide more convenience for SMEs that will legalize their business with legal entities. Provide business financing to maintain the sustainability of SME businesses with easy loans from financial institutions.

Keywords: Business Size, Business Duration, Credit Facilities, Business Legality and SME's Business Growth.

INTRODUCTION

In reality, especially during the New Order era, SMEs received a small attention and were marginalized compared to large businesses and national economy. Yet, SMEs during the economic crisis in 1997 have proved their role as a safety valve for the national economy. In 2000, BPS recorded the contribution of cooperatives and SMEs to national income reaching 56.3 percent, while the rest came from large economic groups and conglomerates. The people's economic sector cannot be considered small, but can be seen as a great potential. Efforts can be made so that SMEs have competitiveness such as by collaborating with large businesses or fellow SMEs, creating competitive advantages, appropriate management, appropriate technology, and continuous innovation

SMEs have an important role in providing an economic contribution to a country, because SMEs have the ability as an economic engine that can improve the quality of life of society as a considerable economic engine for the Gross National Product (GNP) in a country. Therefore, SME's need to get serious attention, so that they can continue to develop and be able to face the challenges that exist, so that it is necessary to know the factors that influence the business development of SMEs to be able to compete with products from abroad. Ratnawati (2017) The strategic role of SMEs in the national economic development leads to greater employment absorption and distribution of the results of local development. However, on the other hand, many SMEs face some constraints that should be the attention of the government and private sectors, including the limited working capital, low human resources, and the lack of modes and knowledge owned by SMEs.

Furthermore, one of indicators from the development of SMEs is to look at business growth. The business growth itself can be seen from (Shanmugam and Bhaduri, 2002): (1) production

growth, (2) sales growth, (3) income growth, and (4) profit growth. In order to formulate strategies and appropriate policy recommendations to encourage the growth of SME businesses, a study or identification study of the variables that cause the growth of the business is needed. Although many studies have been conducted on SMEs, they are still relevant to be studied deeper.

The growth of SMEs is influenced by the size of the company (firm size, business duration (age), and legality of the business unit. This can be seen by the results of a study conducted by Davidsson et al. (1987) which found evidence that the size of the business unit (firm size, business duration (age), and legality of the business unit (legal form) significantly influence business growth Shanmugam and Bhaduri (2002) also found that business growth was also significantly affected by age of the business unit and size of the company (firm size). Ratnawati (2018) Small and Medium Enterprises have a strategic role in national economic development, because in addition to playing a role in economic growth and absorption of labor, they also play a role in the distribution of development results that are limited working capital, low human resources, and lack of mastery of science and technology.

The logical reason for this study is that SMEs in various regions have unequal characteristics, although in general their profile is not different. Especially for this research, the identification and analysis of variables that affect the growth of SME businesses is very important. The results of this research can be used as a foundation for developing strategies and policies to encourage the growth of SMEs. Thus, this research is important to be examined by considering various phenomena that underlie this research.

Based on the description above, the purpose of this study is to explain the effect of company size, business duration, credit facilities from financial institutions and the legality of the business unit on the growth of SME businesses in Malang City.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT COMPANY SIZE

The size of the company shows how much assets or wealth the company has. The size of the company is measured by calculating the total assets in each company (Nisa Fidyati 2003). Ari Christianti (2006) companies with larger and complex sizes do not have problems to get external funds (debt). The results of research conducted by Davidsson et al., (1987), Shanmugam and Bhaduri (2002), Beccheti and Trovato (2002), and Glancey (1998) which states that business growth is influenced by the size or size of the business (firm size). With a greater number of production workers, the production output is also possible, this condition further enables higher business growth, *ceteris paribus*. The research findings are also supported by the results of research by Kuncoro and Supomo (2003). The research states that the more labor used in the production process, the greater the probability of the export-oriented pottery and ceramic industry. Based on this condition, of course the business units that have the opportunity to export, the probability of business unit growth is also greater.

BUSINESS DURATION

Business duration can be indicated how long the company is managed. The results of research conducted by Handrimurtjahyo, et al (2014) concluded that the business growth of the business units that were sampled was influenced by the length of the business unit / craftsman having run a business or influenced by the age of the firm (firm age). If viewed from the theoretical side, the business unit that has carried out a longer operation will get more experiences or

learning curves, then with this experience the business unit will have the ability to run a better business and in turn grow faster, *ceteris paribus* (Handrimurtjahyo, et al: 2014).

Research conducted by Davidsson et al., (1987), Shanmugam and Bhaduri (2002), Beccheta and Trovato (2002), and Glancey (1998) which stated that business growth is influenced by the length of duration the business unit operates or business duration (firm age). In line with the research, the results of the research conducted by Kuncoro and Supomo (2003) state that the older the age of the business unit, the greater the probability of the export-oriented ceramic / pottery industry. With the export opportunity that is owned, in turn it will be able to encourage business growth.

CREDIT FACILITY FROM FINANCIAL INSTITUTIONS

It is a credit in the form of capital obtained from financial institutions. The results of research conducted by Beccheta and Trovato (2002) by taking samples of small and medium industrial business units in Italy. In terms of theory, business units that obtain bank credit facilities can certainly increase their capital capabilities which can further improve business operations. With the increase in the ability of the operation, the probability of the ability of business growth is also greater, *ceteris paribus vice versa*.

LEGALITY OF THE BUSINESS UNIT (LEGAL FORM)

The legality of a business unit is legal based legality where the effort is done whether it already has a legal entity / not. The findings of the research conducted by Handrimurtjahyo, et al (2007) are significant differences between legal entities and non-statutory business units in influencing growth business. Another finding was stated by Davidsson et al. (1987) which stated that one of the factors that influence business growth is the legality of the business unit. This study was conducted by taking the case of the manufacturing industry in Sweden. In terms of concept, a business unit that is legal or incorporated as a legal entity in general is larger in size than a business unit that is not a legal entity. In addition to business units with business entities, the opportunity to operate, from the marketing and financial aspects which is greater. With these conditions, it makes sense if the business legality affects business growth.

HYPOTHESIS

- H_{a.1}: Firm size variable has a significant effect on the growth of SMEs in Malang City.
- H_{a.2}: Business duration variables significantly influence the growth of SMEs in Malang City.
- H_{a.3}: Credit facility variables from financial institutions have a significant effect on the growth of SMEs in Malang City.
- H_{a.4}: The legal form of the business unit (legal form) has a significant effect on the growth of SMEs in Malang City.

RESEARCH METHOD

population and sample

The research population is SME's engaged in the business of processed food and beverage products in Malang City consisting of 110 SMEs. The method of selecting samples is taken non-randomly (non random sampling). The criteria set for sampling are: (1) Small and Medium Enterprises engaged in food and beverage processing products located in Malang City, (2) These SMEs have an investment value of between Rp. 15,000,000 to Rp. 150,000,000, (3) If during this research was conducted, it turned out that the place of business had changed its address, then the SMEs would be cross out as a sample. Based on the criteria of the sample, there were 56 SMEs that met the requirements as samples.

Variable Identification ad Its Measurement

Identification variable is basically something in the form of what is determined by the researcher to learn, so that information can be obtained about it. The identification of variables in the study are as follows:

Y = business growth is measured by the amount of sales turnover (in rupiah)

X1 = size of business measured by the number of workers (people)

X2 = business duration measured from the year the business unit is established until the research is conducted (year)

X3 = credit facilities from financial institutions, measured by dummy variables, namely

D = 1 for business units that obtain credit and D = 0 for business units that have not / did not obtain credit

X4 = business legality, measured by dummy variables, namely D = 1 for business units with legal status and

D = 0 for business units that have not / are not incorporated

Data Analysis Technique

The purpose of this study is to find out the influence of firm size, duration of business (age), credit facilities from financial institutions and legality of the business unit (legal form) on the growth of SMEs in Malang City. Testing this hypothesis will be done with a regression model. The regression models in this study are as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 \text{DUMMY} + \beta_4 \text{DUMMY} + \varepsilon$$

Information:

Y = business growth

X1 = size of business measured by the number of workers (people)

X2 = business duration measured from the year the business unit is established until the research is conducted (year)

X3 = credit facilities from financial institutions, measured by dummy variables, namely D = 1 for business units that obtain credit and D = 0 for business units that have not / did not obtain credit

X4 = business legality, measured by dummy variables, namely D = 1 for business units with legal status and D = 0 for business units that have not / are not incorporated

$\beta_{1,2}$ = Koefisien

ε = disturbance error

The significance in this test is 5%. The rejection of the hypothesis is based on the F test produced by the multiple regression model. This model of multiple regression analysis aims to examine the effect of simultaneous (independent) of the independent variables on the dependent variable. Mathematical hypothesis formulation is as follows:

$$H_0: \beta_1, \beta_2, \beta_3, \beta_4 = 0$$

Null hypothesis (H_0) means that the independent variable simultaneously has no significant effect on the dependent variable.

$$H_a: \beta_1, \beta_2, \beta_3, \beta_4 \neq 0$$

This alternative hypothesis (H_a) means that simultaneously the independent variables have a significant effect on the dependent variable. With a significance level of $\alpha = 5\%$ and with a degree of freedom (k) and (n-k-1) where n is the number of observations and k is an independent variable.

The calculated F value is formulated as follows:

$$F = \frac{\sum Y_i / (k-1)}{\sum e_i^2 / (n-k)} = \frac{R^2 / (k-1)}{(1-R^2) / (n-k)}$$

Null hypothesis is rejected based on the following criteria:

$F_{\text{value}} < F_{\text{table}}$ means not rejecting H_0 or not supporting H_a

$F_{\text{value}} > F_{\text{table}}$ means rejecting H_0 or supporting H_a

In other words, with the significant level of $\alpha = 5\%$, or if $\text{Sig. } F < 5\%$ then H_0 is rejected and H_a is accepted

In addition to testing simultaneously, this study examines the effect partially based on the analysis of t values, which are generated from multiple regression models. The mathematical formulation of the fourth hypothesis is as follows:

$H_0: \beta = 0$, means that the independent variables partially do not have a significant effect on the dependent variable.

$H_a: \beta \neq 0$, means that the independent variables partially have a significant influence on the dependent variable.

The value of t is calculated based on the formula as follows:

$$t = \frac{\beta}{SE\beta}$$

With a significance level of $\alpha = 5\%$ then, if $\text{Sig. } t < 5\%$ then H_0 is rejected and H_a is accepted which means that the variable firm size, length of business (age), credit facilities from financial institutions and legal form of the business unit partially have a significant effect on the growth of SMEs in Malang city

RESEARCH RESULT

In this analysis, it is used to find out whether there is / is no influence of firm size, business duration (age), credit facilities from financial institutions and legality of the business unit (legal form) on the growth of SMEs in Malang City. The following table is the result of calculations from multiple regression tests.

Table 1. Results of multiple regression analysis

Variable	Beta	t	Sig t	Description
Business Size	0.257	2.437	0.018	Significant
Business Duration	0.276	4.319	0.000	Significant
Credit Facility	-0.412	-3.537	0.001	Significant
Business Legality	0.514	4.233	0.000	Significant
α	: 5 %			
R	: 0.692			
Adjusted R Square	: 0.438			
F count	: 11.731			
Sig. F	: 0.000			

Source: Processed Primary Data

Based on Table 1, it can be explained that the F Test in this study is used to test the accuracy or significance of the research model. Based on the results of the study, it obtained F value of 11.731 with a probability value of 0.000 and significant at alpha (α) of 5% (0.05). This means that firm size, business duration (age), credit facilities and legality of the business unit (legal form) have a significant effect on the growth of SMEs in Malang City.

The magnitude of the multiple correlation coefficient (R) is 0.692, this shows that the magnitude of the relationship between firm size, business duration (age), credit facilities and legality of the business unit (legal form) with SME growth in Malang City is 69.2 %. The

predictive power of the regression model formed in this test is 0.438. This means that firm size, business duration (age), credit facilities and legality of the business unit (legal form) have contributed to the growth of SMEs in Malang City by 43.8%, while the remaining 56.2% is influenced by other variables outside the model .

The value of t count for business size variable (X1) is 2.437 with a probability of 0.018 smaller than statistical significance at $\alpha = 5\%$, while the coefficient value for business size variable (X1) is 0.160 with the direction of positive coefficient, thus rejecting H0 which it means that business size (X1) has a positive and significant effect on the growth of SMEs in Malang City (Y), this result shows that the increase in business size reflected in the number of workers will increase the growth of SMEs in Malang City by 0.160.

The value of t count for the old business variable (X2) is 4.319 with a probability of 0.000 smaller than the statistical significance at $\alpha = 5\%$, while the coefficient value for the business duration variable (X2) is 0.299 with the direction of the positive coefficient, thus rejecting H0 it means that the length of effort (X2) has a positive and significant effect on the growth of SMEs in Malang City (Y), this result shows that the more duration the business runs will increase the growth of SMEs in Malang by 0.299.

The value of t count for the credit facility variable (X3) is -3.537 with a probability of 0.001 smaller than the statistical significance at $\alpha = 5\%$, while the coefficient value for the credit facility variable (X3) is -4,931 with a negative coefficient direction, thus rejecting H0 which means that the credit facility (X3) has a negative and significant effect on the growth of SMEs in Malang City (Y), this result shows that with increasing or a lot of credit facilities received it will reduce the growth of SMEs in Malang City and decrease by 4,931.

The value of t count for business legality variable (X4) is 4.233 with a probability of 0.000 smaller than statistical significance at $\alpha = 5\%$, while the coefficient value for business legality variable (X4) is 6.143 with a positive coefficient, thus rejecting H0 which it means that business legality (X4) has a positive and significant effect on the growth of SMEs in Malang City (Y), this result shows that the more effort to obtain legality of business, the more growth of SMEs in Malang City and the increase of 6,143.

DISCUSSION

Entrepreneurship has become an interesting topic, not only does in economic disciplines, but also in various theories such as sociology, psychology, and behavioral theory. Economic theory about entrepreneurship, even though it has experienced ups and downs, but because of the persistence of supra neo-classical economists pioneered by Schumpeter, placing entrepreneurship as the main (key) production factor and not just a trap is treated as an external variable. The essence of economic theory about entrepreneurship stated that entrepreneurship arises and develops, if there are economic opportunities. Therefore it is said that entrepreneurship is a person who always seeks, responds to change and uses it as an opportunity, takes the risk of innovation (Cantillon, Mc Clelland), creates new ways (Schumpeter), decision makers (Casson) and organizational builders (Leibenstein).

Opportunity is a chance that arises and can be observed, for example from an increase in changes in changes in the needs of goods and services in the community, the dispersion of economic resource content between regions (Say), little information about markets, sources of material or uncertainty about supply labor (Leibenstein), transfer of production technology and

organizations from developed countries to developing countries (Broehl) and so on. Opportunities that are developed because these various factors can be evaluated to become a successful business.

Based on the results of the analysis that have been interpreted, it turns out that the size of the business reflected in the number of workers influences the growth of SMEs in Malang City. The results of this research state that the growth of SMEs in Malang City is influenced positively and significantly by the size of the business in this case the number of workers. Theoretically, with the number of workers, the more the capacity to produce a business unit will be greater, *ceteris paribus*. The findings of this study are in line with the results of research by Davidsson et al., (2002), Shanmugam and Bhaduri (2002), Becchetti and Trovato (2002), and Glancey (1998) which stated that firm growth is influenced by size or size business (firm size). With a greater number of production workers, the production output is also possible, this condition further enables higher business growth, *ceteris paribus*. The research findings are also supported by the results of research by Kuncoro and Supomo (2003).

Duration has a positive and significant effect on the growth of SMEs in Malang City. If viewed from the theoretical side, the business unit that has carried out a longer operation will get more experiences or learning curves, then with this experience the business unit will have the ability to run a better business and in turn grow faster, *ceteris paribus*. The conclusions of this study are in line with research conducted by Davidsson et al., (2002), Shanmugam and Bhaduri (2002), Becchetti and Trovato (2002), and Glancey (1998) which state that firm growth is influenced by the unit length operating business or firm age.

Credit facilities have a negative and significant effect on the growth of SMEs in Malang City. This result can be explained that business financing is a vital instrument that will determine the sustainability of SME business activities. Problems often complained by SMEs are limited access and inability to fulfill formal requirements relating to technical banks, such as business proposals, collateral / collateral fulfillment, and a number of other administrative features. From the bank's side, there was an excessive concern about the ability of SMEs to fulfill their obligations as debtors. Even though in reality the level of Non-Performing Loans (NPL) for SME loans is relatively small. The next problem is the mismatch between the duration when funds are really needed, and the duration when funds can be disbursed and passed on to the SMEs debtor. Also noted is the problem of lack of liquidity because banking institutions, due to the Legal Lending Limit (LLL), cannot provide the full amount of funds as requested by SMEs. The combination of these three problems resulted in credit facilities having a negative and significant effect on the growth of SMEs, where SMEs were not too worried about interest rates, but really cared about aspects of service speed and ease of procedure.

Business legality has a positive and significant effect on the growth of SMEs in Malang City. These results prove that business legality is able to influence business growth. To develop its business, SME's need business financing, where business financing is a vital instrument that will determine the sustainability of SME business activities. Business financing is obtained from loans from financial institutions, so that in order to facilitate the lending process, financial institutions will often channel their loans to SMEs that have the same legality or have legal entities.

Other findings from this study are in line with the results of research conducted by Davidsson et al. (2002) which stated that one of the factors that influence business growth is the legality of the business unit. This study was conducted by taking the case of the manufacturing industry

in Sweden. In terms of concept, a business unit that is legal or incorporated as a legal entity in general is larger in size than a business unit that is not a legal entity. In addition to business units with business entities, the opportunity to operate, from the marketing and financial aspect that is greater. With these conditions, it makes sense if the business legality affects business growth.

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