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The Influence of Business Capital and Labor on the Income of Micro, Small, and Medium Enterprises (MSMEs) in Sukadamai Village, Ujungbatu District

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Abstract
This study aims to analyze the effect of business capital and labor on the income of Micro, Small, and Medium Enterprises (MSMEs) in Sukadamai Village, Ujungbatu District, Rokan Hulu Regency, both partially and simultaneously. The research employs a quantitative associative approach. The population comprised 444 MSMEs, with a sample of 82 MSMEs determined through accidental sampling and the Slovin formula at a 10% margin of error. Data were collected via a Likert-scale questionnaire and analyzed using multiple linear regression with SPSS, following validity, reliability, and classical assumption tests (normality, multicollinearity, heteroscedasticity). The regression equation obtained was $Y = 11.763 + 0.144X1 + 0.439X2$. The t-test showed that business capital had no significant partial effect on MSME income ($t = 1.395$; $p = 0.167$), whereas labor had a significant positive effect ($t = 2.752$; $p = 0.007$). The F-test showed that business capital and labor simultaneously had a significant effect on MSME income ($F = 6.050$; $p = 0.004$), with an Adjusted R^2 of 0.111 (11.1%). These findings suggest that the quality and productivity of labor are more decisive for MSME income than the amount of capital alone, since capital gains have limited effect without adequate marketing capability, managerial skill, and market conditions. This study offers practical implications for MSME actors and village government in designing capacity-building and workforce-development programs to enhance MSME income in Sukadamai Village.

Introduction

Economic growth in Indonesia continues to advance alongside rising living costs, driving individuals to seek higher income. Micro, Small, and Medium Enterprises (MSMEs) play an important role in national development and in advancing Indonesia's economy, serving as a principal economic buffer capable of absorbing labor and contributing strategically to national economic development in both developing and developed countries alike.

MSMEs are especially important as a source of income for low-income groups, for income distribution and poverty reduction, and for rural economic development. During the 1998 crisis and even in the present day, MSMEs have proven relatively more resilient than large corporations, largely because most small businesses do not depend heavily on large capital or foreign-currency loans, making them less exposed to exchange-rate fluctuations than large, foreign-currency-dependent firms.

In practice, however, many MSME operators run their businesses without applying proper accounting concepts, keeping only simple financial records or none at all, and often fail to separate household funds from business funds. This calls for strategic efforts to improve MSME performance and sustainability as well as community welfare. Income, broadly defined as money received by a business from its ongoing sales of goods or services, remains the central objective of any business activity, large or small, in support of optimal financial performance.

This study is motivated by the factors believed to influence MSME income growth, particularly the roles of business capital and labor. Limited business capital is often a major obstacle to business expansion and investment in production or marketing capacity, while labor though it can support

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efficiency and scale also faces challenges such as limited managerial capability and operational costs. Capital, as a form of investment in production equipment and capital goods, is regarded as a key factor: larger and more sustained capital tends to support higher output and, in turn, higher income. Likewise, the quality of labor (management and production technique) affects productivity, which benefits the business as production and worker productivity rise together with income.

Based on this background, the present study investigates the effect of business capital and labor on the income of MSMEs in Sukadamai Village, Ujungbatu District, Rokan Hulu Regency replicating and extending Zakaria's (2024) study on business capital and MSME income in Gorontalo City by adding labor as a second independent variable and applying it to a different research setting.

Literature Review and Hypotheses Development.

MSME Income

Income is one of the principal elements forming a business's profit-and-loss statement, referring to money received by individuals, companies, and other organizations in the form of wages, salaries, rent, interest, commissions, fees, and profit (Zakaria et al., 2024). Income reflects the economic benefit generated by an entity during an accounting period, shown through cash inflows or asset increases and liability decreases that affect net profit (Natsir et al., 2022). The larger the income obtained, the greater a business's capacity to finance its expenditures and activities, underscoring income as the lifeblood of a business (Novyenni et al., 2021). This study measures MSME income through three indicators: growth in results (year-on-year revenue growth), capacity to expand (through reinvestment or innovation), and adequacy of results (sufficient to cover operating costs and the operator's living needs).

Business Capital

Business capital refers to a firm's balance-sheet resources encompassing both concrete (active) and abstract (passive) capital, representing output used for further production. Business capital may also be understood as expenditure on capital goods or production equipment intended to expand economic activity for producing goods and services; it is a critical factor because it enables entrepreneurs to run their businesses and generate profit. Larger and more sustained capital is expected to support business growth, procurement of equipment, and increased production capacity, which in turn raises income. This study measures business capital through the indicators of capital as a precondition for business operation and the size of capital held.

Labor

Under Indonesian Law No. 13 of 2003, labor refers to anyone capable of performing work to produce goods or services, whether for personal or public needs; more broadly, labor (manpower) denotes the working-age population capable of producing goods and services when demand and willingness to participate exist. Labor quality and quantity determine the efficiency of production and product quality, and thus influence business income. This study measures labor through the indicators of labor availability, labor quality, labor experience, tenure, and working hours.

Previous Research

Table 1. Summary of Previous Research

Researcher (Year)	Research Object	Main Findings
Zakaria (2024)	Food and beverage MSMEs, Gorontalo City	Business capital has a positive effect on business income.
Sari (2022)	MSMEs, Tanah Datar Regency	Labor and business capital have no significant effect on MSME development.
Sinaga (2024)	MSMEs, Simalungun Regency	Working capital and working hours have a significant positive effect on MSME income; education level has no effect.

Researcher (Year)	Research Object	Main Findings
Jalaliah (2022)	Tofu MSMEs, Banjarharjo District (2019–2021)	Working capital alone has no significant partial effect, but working capital, labor, and raw materials jointly affect income.
Midesia (2022)	MSMEs, Langsa Kota District	Labor has a significant negative effect and total assets a significant positive effect on MSME income; jointly both are significant (Adjusted R^2 = 98.6%).

Conceptual Framework

Based on the theoretical review above, the conceptual framework of this study describes the relationship between business capital (X1) and labor (X2) as independent variables, and MSME income (Y) as the dependent variable, as presented in Figure 1.

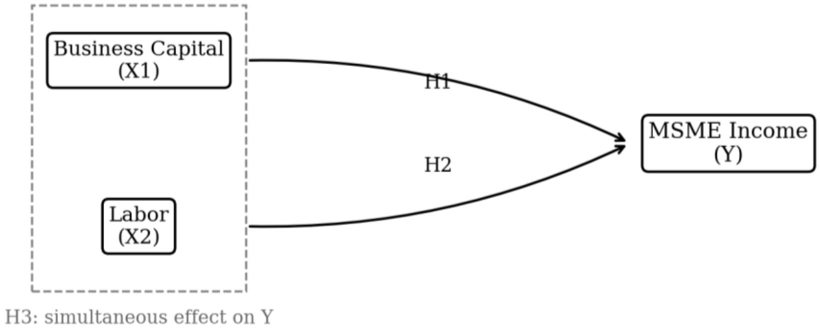

Figure 1. Conceptual Framework of the Study.

Hypotheses Development

Capital is the primary resource enabling MSME actors to run and expand their businesses optimally: sufficient capital allows firms to increase production capacity, diversify products, and improve quality, which in turn attracts more consumers and strengthens market competitiveness. Sufficient capital also allows firms to acquire modern, efficient equipment and better labor, improving operational smoothness and productivity, while limited capital restricts product development, market expansion, and production capacity. This is consistent with Zakaria (2024), who found that business capital has a positive effect on business income. Based on this, the following hypothesis is proposed:

H1: Business capital partially influences MSME income.

Labor plays a central role in MSME income because it is a key factor in the production and operational process: more labor increases potential production capacity, but the quality of that labor is equally decisive, as skilled and competent workers produce higher-quality output that commands a higher sale value. Motivated and efficient labor also raises productivity, which directly contributes to higher business income by better meeting market demand. This is consistent with Midesia (2022), who found that labor partially affects MSME income. Based on this, the following hypothesis is proposed:

H2: Labor partially influences MSME income.

Business capital and labor are complementary production factors that jointly determine a firm's ability to produce goods or services effectively and efficiently: capital supplies the material resources (raw materials, equipment, facilities) while labor is the human agent that manages, processes, and delivers products and services. When both increase together in quantity and quality, MSMEs can raise the volume and variety of output, potentially increasing income; conversely, an increase in one without the other constrains overall productivity. This is consistent with Jalaliah (2022), who found that working capital and labor jointly affect income. Based on this, the following hypothesis is proposed:

H3: Business capital and labor simultaneously influence MSME income.

Research Methods

This study employs a quantitative approach to examine a specific population or sample by collecting numerical data and analyzing it statistically to test hypotheses and determine relationships, effects, or differences among variables, aiming to produce objective, measurable, and generalizable findings. The object of the study is MSME operators in Sukadamai Village, Ujungbatu District, Rokan Hulu Regency, Riau Province, chosen because MSMEs are the dominant economic sector in the area.

The study population consisted of 444 MSMEs, based on data from the Rokan Hulu Office of Cooperatives, MSMEs, Transmigration, and Manpower. The sample was determined through accidental sampling in which any respondent encountered by the researcher and deemed to fit the required data source may be included with the sample size calculated using the Slovin formula at a 10% margin of error, yielding a sample of 82 MSMEs. Data were collected through a Likert-scale questionnaire (1–5) distributed to respondents. The independent variables are business capital (X1) and labor (X2), while the dependent variable is MSME income (Y).

Table 2. Operational Definitions of Variables

Variable	Operational Definition	Indicators
MSME Income (Y)	Money received by a business from an activity, generally through the sale of goods or services (Zakaria et al., 2024).	Growth in results; capacity to expand; adequacy of results
Business Capital (X1)	A firm's balance-sheet resources comprising concrete (active) and abstract (passive) capital, used to sustain and grow production (Riyanto).	Capital as a precondition for business; size of capital
Labor (X2)	Any person capable of performing work to produce goods and services for personal or public needs (Law No. 13 of 2003).	Availability; quality; experience; tenure; working hours

The research instrument was tested through a validity test (r-value compared with the critical r-value at $\alpha = 5\%$) and a reliability test to ensure consistent measurement. Data were analyzed through classical assumption tests normality (One-Sample Kolmogorov-Smirnov), multicollinearity (tolerance and VIF), and heteroscedasticity (Park test) followed by descriptive statistics, multiple linear regression with the equation $Y = a + b1X1 + b2X2 + e$, the coefficient of determination (R^2), and hypothesis testing through the t-test (partial) and F-test (simultaneous) at a 5% significance level using SPSS.

Results and Discussion

Classical Assumption Tests

The One-Sample Kolmogorov-Smirnov normality test produced an Asymp. Sig. (2-tailed) value of 0.200 (> 0.05), indicating that the residual data are normally distributed. The multicollinearity test showed tolerance values above 0.10 and VIF values below 10 for both independent variables (tolerance = 0.941, VIF = 1.063 for each), indicating the regression model is free from multicollinearity. The Park heteroscedasticity test produced significance values above 0.05 for both business capital (0.891) and labor (0.121), indicating no heteroscedasticity in the model.

Multiple Linear Regression Analysis and Hypothesis Testing

The multiple linear regression analysis produced the equation $Y = 11.763 + 0.144X1 + 0.439X2$, as detailed in Table 3. The positive constant of 11.763 indicates the baseline value of MSME income when both independent variables are held at zero. Both regression coefficients were positive, with labor contributing a substantially larger coefficient (0.439) than business capital (0.144).

Table 3. Multiple Linear Regression and t-Test Results

Variable	B	t-value	Sig.	Description
Constant	11.763	3.142	0.002	–
Business Capital (X1)	0.144	1.395	0.167	Not significant
Labor (X2)	0.439	2.752	0.007	Significant

Source: SPSS processed data. Table t-value = 1.66437; a = 0.05.

Table 4. F-Test and Coefficient of Determination Results

F-value	Sig.	Adjusted R^2
6.050	0.004	0.111 (11.1%)

Source: SPSS processed data. Table F-value = 3.11.

The t-test results show that business capital has a calculated t-value of 1.395 < table t-value of 1.66437, with a significance of 0.167 > 0.05, so H1 is rejected: business capital has no significant partial effect on MSME income. This finding is consistent with Jalaliah (2022), who also found no significant partial effect of working capital. Capital alone does not guarantee higher income unless supported by adequate marketing capability, managerial skill, and market conditions; many MSMEs also operate on a micro scale with simple business patterns and limited markets, so additional capital tends to be used for daily operational needs rather than for market expansion or value addition, while factors such as location, product quality, innovation, and promotion strategy tend to dominate income outcomes.

Labor has a calculated t-value of 2.752 > table t-value of 1.66437, with a significance of 0.007 < 0.05, so H2 is accepted: labor has a significant positive partial effect on MSME income. This result is consistent with Midesia (2022). Adequate labor allows production and service processes to run faster and more efficiently, meeting consumer demand in larger volumes, reducing waiting time, and maintaining product availability directly raising transaction volume and turnover. Skilled and trained labor further improves product quality and customer service, encouraging repeat purchases and word-of-mouth referrals that expand market reach.

The F-test produced a calculated F-value of 6.050 > table F-value of 3.11, with a significance of 0.004 < 0.05, so H3 is accepted: business capital and labor simultaneously have a significant effect on MSME income, with a contribution of 11.1% (Adjusted $R^2 = 0.111$), while the remaining 88.9% is explained by factors outside the model. This finding is consistent with Midesia (2022). Business capital and labor are complementary production factors: capital alone, without adequate labor, leaves production capacity underutilized, while labor alone, without adequate capital, is constrained by limited raw materials, equipment, or facilities. When both factors grow together, production runs more smoothly, service to customers is faster, and product and service quality can be maintained or improved, jointly and significantly raising MSME income.

Implication and Conclusion

Conclusion

Based on the analysis and discussion, it can be concluded that: (1) business capital has no significant partial effect on MSME income in Sukadamai Village, Ujungbatu District, Rokan Hulu Regency, indicating that increased capital alone is insufficient without adequate marketing capability, management, and market capacity; (2) labor has a significant positive partial effect on MSME income, as productive labor raises production capacity, service speed, product quality, and market reach; and (3) business capital and labor simultaneously have a significant effect on MSME income, indicating that the two production factors are complementary and must be developed together to optimize productivity, service quality, and income.

Implications and Recommendations

MSME operators are advised not to focus solely on increasing business capital, but also to strengthen management, marketing, and product quality, including making more effective and skilled use of existing labor to raise productivity. Village government and MSME support institutions should provide entrepreneurship training, basic management training, and marketing assistance so that operators can make more optimal use of their capital and labor to increase income. Financial institutions and village-level economic actors are encouraged to more actively connect MSME operators with appropriate capital access, training resources, and wider markets. Future research is advised to incorporate additional variables such as digital marketing, product innovation, and market access for a more comprehensive understanding of the factors affecting MSME income at the village level.

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