

Determinant Analysis of Informal Sector Business Revenue in Labuhanbatu Regency

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ABSTRACT

The aim of this research is to analyse the influence of capital, number of labor, time allocation for doing business, and duration of running a business to informal sector revenue in Labuhanbatu Regency. This research uses double linear regression model processed using EViews version 7. This research uses non-probability sampling that is purposive sampling with Ordinary Least Square (OLS) method.

The result shows that capital ($p = 0,0000$), number of labour (0,0061), time allocation (0,0225), duration of running the business (0,0000) and business location (0,0002) do influence significantly to informal sector revenue in Labuhanbatu Regency.

Keywords: Informal Sector Revenue, Capital, Number of Labor, Time Allocation, Duration of Running a Business, and Business Location

INTRODUCTION

Development is nothing but a conscious, planned and sustainable process of change with the main objective is to improve the welfare of a people's life or society. This means that development always departs from a state or condition of life that is not good to a better life in order to achieve the national goal of a nation (Tjokroamidjojo & Mustopadidjaya, 1999).

The process of development and economic growth basically determined and influenced by two kinds of factors namely economic and non-economic factors.

Economic factors in the form of natural resources, human resources (HR), capital and managerial workers that organize and manage the factors of production. Non-economic factors are in the form of social institutions, political conditions, moral values and sort of that are not economic factors that affect not only those that support but also hinder the

process of development and economic growth in a country.

The existence of development besides has positive impact also has negative impact especially indicated by various problems of labor and employment. This becomes a very serious problem for Indonesia, considering the number of people who in turn is the excessive labor supply, while demand for labor in the labor market is very limited.

According to the CIA World Factbook (2015), Indonesia is the fourth most populous country in the world with total population of 255 million. Large population is believed to be the basic capital in achieving national development goals, but on the other hand, with improper management, a large population will cause a crucial population problem especially in the employment field.

High urban population growth has had an impact on the number of labor

supply, if not matched by labor demand then will increase unemployment (Wahyuni, 2005). Rapid population growth rates will increase the growth rate of labor and workforce. The current high population growth leads to an imbalance between job seekers and the availability of adequate employment in both village and city.

Long before the economic crisis, the informal sector already existed; the national economic recession in 1998 only increased the number of workers employed in the informal sector. Informal sector workers are people who have relatively little capital to work in the production of goods and services to meet the needs of certain groups in society. The business is carried out in places that are considered strategic in an informal environment (Winardi, 2000).

Workers in the informal sector are typically less having formal education, generally untrained and lack of access to capital, as a result their productivity and incomes tend to be lower in this sector than in the formal sector. Moreover, they do not enjoy the protection provided by the modern formal sector in terms of job security, decent work environment and pension funds. The workers who entered this sector are mostly migrants from the suburb area or outside the area who are unable to get a job in the formal sector. Their motivation is usually to earn enough income to survive, relying on local resources available to create jobs (Todaro P. dan C. Smith, 2011).

Some types of work are included in the informal sector is street vendors, such as small restaurant, cigarette seller, newspaper and magazines seller, snack and beverages seller, and others. They can be found on the sidewalks in the crowded city center. They provide the goods for the middle to lower class economy with affordable price. However, often those from the upper economic class also invaded the informal sector.

Thus, the informal sector has an important role in contributing to the development of urban areas, due to its ability to absorb labor (especially the lower

classes) that are significant enough in reducing the problem of urban unemployment and increasing the income of urban poor. In addition, the informal sector contributes to local government revenue.

However, the rapid growth of the informal sector without good handling can lead to urban planning disorder. As we know, many informal sector traders run their activities in places that are supposed to be public spaces. Public spaces are common places where people can relax, communicate, and enjoy the city skyline. It can be parks and others.

To overcome the issue of the informal sector, the firmness of the local government is required. During this time, the government only did the controlling in overcoming the informal sector. But it proved ineffective, because after the street vendors were disciplined then a few days later they will return to the original place to sell. In addition, there is a tendency where the place used to sell is traded, even though they sell at locations that are owned by the government. This can be said to be illegal.

According to Todaro (2000) the characteristics of the informal sector vary greatly in the area of small-scale production of goods and services, individual or group-owned production units, use a lot of labor (labor-intensive), and the technology used is relatively simple, the workers themselves usually do not have a formal education, generally do not have the skills and working capital. Therefore, their productivity and income tend to be low compared to business activities conducted in the formal sector. The income of informal sector workers is not a fixed wage received every month, unlike formal labor. Wages in the formal sector are intervened by the government through Provincial Minimum Wage (UMP) regulations. But the income of informal workers is free from government interference.

The average informal sector in each province absorbs more than 50 percent of urban workforce. This sector is also able to survive in an economic crisis than any other business. This is due to this sector is

relatively independent, particularly the capital, flexible, able to adapt to the surrounding environment and to identify emerging opportunities (Lugianto,2015).

Prospects and growth of the informal sector that increased from year to year was not in line with the problems faced by the informal sector, both internal and external issues. Internal problems faced include: the number of similar business competitors, the lack of adequate coaching and access to credit is still difficult and limited. While the external problems faced by the informal sector include: weakness in capital structure, weak in organizational structure and management, limited of commodity that are ready to be sold, lack of cooperation among informal sector actors, low education and inadequate quality of human resources (Firdausy,1995).

Trading in the informal sector is less able to evolve towards larger businesses despite having a fairly high selling power, this is due to limited ability in business management which still traditional, additional loan capital from third parties is still small and information about the business world is narrow, the number and quality of labor is limited, the quality of goods sold only limited to the need for merchandise only. Therefore, what must be achieved in this informal business sector in increasing the income should be supported by controlling the business.

In increasing their income, the informal sector will find it difficult to make it happen without the support and assistance of the parties concerned, however they face limitations that sometimes they can not solve on their own. The absence of support given to these informal sector traders by the government is an obstacle to their efforts to be more advanced and developed. The informal sector besides fraught with controversy also has benefits that in fact aid, particularly in the economy. Kadir and Bintoro (2000) studied that informal sector has two advantages:

1. In its various limitations and in a situation of tight capitalist competition, the informal

sector has shown its ability to survive, though in its deficiencies and inadequacies.

2. The informal sector has created jobs for those who do not have the opportunity to work in the formal sector. The informal sector consists of various types of businesses such as street vendors, hawks, tailors, restaurants, etc.

Labuhanbatu Regency itself does not escape from the urban problems, which certainly also be experienced by other large districts in Indonesia, namely the issue of employment. The workforce participation rate of both women and men in the informal sector in Labuhanbatu Regency fluctuated from 2010 to 2016. The fluctuation of informal sector workforce in Labuhanbatu Regency indicates that there are factors causing the participation rate of informal sector workers in Labuhanbatu Regency.

The number of small businesses in Labuhanbatu increased from year to year, seeing the potential and the reality of this, the researcher interested to examine the factors that affect the income of informal sector traders located in Labuhanbatu regency. However, as the informal sector is vast, it is specified only in the informal sector engaged in food and beverage business.

We specified on this sort of business due to the fact that nowadays the location of food and beverage businesses in the Labuhanbatu Regency shows steady growth, it can be seen from the increasing business location of food and beverage that flooded every roadside in Labuhanbatu regency.

The increasing number of food and beverage business locations can we assume that people purchasing power is quite high. When viewed in terms of promotion of product design and business location can drag consumers' purchasing power, food and beverage products have good and acceptable tastes, competitive prices, friendly and courteous employees also attract consumers. This study specifically purpose to observe and analyze the four factors that influence the revenue of food and beverage seller in Labuhanbatu regency, namely: capital,

labor, time allocation, length of business and location.

The government's role in Government Regulation No. 32 of 1998 on Guidance and Development of Small Business stated that it is clear that the role of the government in guiding and developing small-scaled business in the informal sector in order to remain having role in realizing a better and balanced national economy based on economic democracy in Indonesia.

Revenue can be defined as the sum of all money received by a person or household for a period of time (usually one year), revenue consists of wages, or labor receipts, revenue from wealth such as rent, interest and dividends, as well as transfer payments or receipts from government such as social benefits or unemployment insurance (Samuelson and Nordhaus, 1997).

In the economic sense, the revenue is fee for the use of production factors owned by the household sector and the corporate sector which can be in the form of salary/wages, rent, interest and profit(Sukirno,2000).

According to Sawir (2001) capital is the total current assets owned by the company or it may also be refereed as available funds to finance the company's operations. Since the capital is very supportive in the smoothness of company activities, for example the production requires raw materials, then first they must purchase such materials, or the marketing department will conduct promotional activities to introduce the goods or services they offer to consumers, or personnel department requires new employees then the recruitment activity should be done.

Among production factors used in the production process to produce goods or services is labor. Under the main labor law No. 14 of 1969, labor force is any person who is capable of doing work both inside and outside the employment relationship to produce services or goods to meet the needs of the community. Related to that, the number of labor as one of the production

factors has an influence in increasing production.

MATERIAL AND METHODS

Method of Collecting Data

This study is concerning the revenue of informal sector business, especially food and beverage merchants in Labuhanbatu Regency and factors that influence it.

The location of the research was conducted in Labuhanbatu Regency's subdistricts, namely: Rantau Utara, Rantau Selatan, Bilah Hulu, Bilah Barat, Bilah Hilir, Pantai Hulu, Panai Tengah, Panai Hilir, and Pangkatan.

This study uses non probability sampling, particularly purposive sampling. Purposive sampling is chosen because this method considered the best in answering the research objective, taking 90 respondents due to unknown number of total population and the population is homogeneous.

In this study, the sample size will be determined by the sampling technique mentioned above. The sample size distribution specified in this study is as follows:

Table 1. Research Sites and Sample Size

No	Subdistrict	Sample Size
1	Rantau Utara	10
2	Rantau Selatan	10
3	Bilah Hulu	10
4	Bilah Hilir	10
5	Bilah Barat	10
6	Panai Tengah	10
7	Panai Hilir	10
8	Panai Hulu	10
9	Pangkalan	10
Total		90

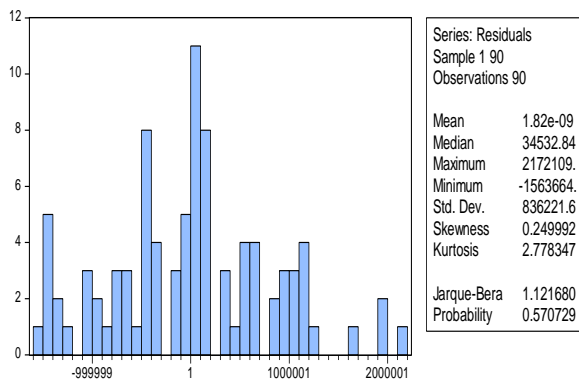
RESULT

Normality Test

The normality test aims to test whether within the regression model, disturbing or residual variable is normally distributed. Based on the results of data processing program, EViews 7, it shows the existence of normality. To find out the residual normality, researchers analyze and compare between Probability value with error rate of 0.05.

Decision-making:

1. The p value > 0,05 then the residual is normally distributed.
2. The p value <0,05 then the residual is not normally distributed.



Graph 1: Normality Test

The result of residual normality test above shows that the p value is 0.570729 > 0.05, which means the residual is normally distributed.

Multicollinearity Test

Multicollinearity is a indication of independent variables that are strongly correlated with each other. To determine the presence of strongly correlated independent variables can be observed by Variance Inflation Factor (VIF) test.

Decision-making:

1. VIF > 10 then it is suspected to have multicollinearity problems.
2. VIF < 10 then there is no multicollinearity.

Table 2. Multicollinearity Test

Variance Inflation Factors			
Date: 06/14/18 Time: 14:39			
Sample: 1 90			
Included observations: 90			
Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
X1	0.001361	75.56248	6.732176
X2	4.20E+10	25.92843	4.816901
X3	36776238	234.8298	6.607206
X4	8.62E+09	27.92434	7.557236
X5	6.92E+10	4.482555	2.091859
C	7.90E+11	95.98702	NA

VIF in the above table shows that all variables in this study has nomulticollinearity. It is indicated by great VIF value.

Heteroscedasticity Test

The heteroscedasticity test basically wants to test whether a group has a different variance among the group members. In this study, the methods used to detect heteroscedasticity were performed using the Auto Regressive Conditional Heteroscedasticity (Arch) test.

Decision-making:

1. The p value > 0,05 then there is no heteroscedasticity.
2. The p value <0,05 then has heteroscedasticity problem.

Table 3. Heteroscedasticity Test

Heteroscedasticity Test: ARCH			
F-statistic	1.174415	Prob. F(1,87)	0.2815
Obs*R-squared	1.185411	Prob. Chi-Square(1)	0.2763

P value indicated by prob. chi-square (1) on obs * r-squared ie 0.2763. Therefore the value of p value 0.2763 > 0.05 which means the regression model is free from indication of heteroscedasticity.

Conformity Test

The statistical coefficients of each independent variable can be calculated with the assistance of a computer through the EViews 7 program with the following results:

Table 4. Capital, Number of Labor, Time Allocation of Business, Duration of doing business, and Location against Revenue

Var	coefficient	Prob. t	Statement
C	2326574.	0,0105	(n)90
X1	0,952317	0,0000	
X2	577176.7	0,0061	
X3	14100.33	0,0225	
X4	444696.9	0,0000	
X5	1016098.	0,0002	
R ² = 0,990490			
Prob. F = 0,0000			

Based on the result of estimation model business revenue function presented in table 4, the result of equation as follows:

$$Y = 2326574. + 0,952317X_1 + 577176.7X_2 + 14100.33X_3 + 444696.9X_4 + 1016098.X_5$$

Analysis of the estimation model results can be interpreted as follows:

a. Coefficient of Capital (X₁)

Based on Table 4. it can be seen that the coefficient of Capital is 0,952317. The

coefficient of Capital variables shows a positive effect that means if Capital increase by one million per month, assuming other factor remain (*ceteris paribus*), it will increase the Business Revenue 0,952317 million rupiah. It means in accordance with the hypothesis that capital has a positive effect to increase the revenue of informal sector in Labuhanbatu regency.

b. Coefficient of Labor (X₂)

Based on Table 4 it can be seen that the coefficient of Labor is 577176.7. Number of Labor coefficient indicates a positive effect which means that if number of labor increase by 1 person, assuming other factors remain constant (*ceteris paribus*), it will increase business revenue by 577176.7 million. It is in accordance with the hypothesis that stated the relation between labor and revenue is positive.

c. Coefficient of Business Time Allocation (X₃)

Based on Table 4 it can be seen that coefficient of time allocation is 14100.33. It shows positive effect that means if time allocation for doing business increase by one hour per day assuming other factors constant (*ceteris paribus*), it will increase business revenue by 14100.33 million rupiah. It is in accordance with the hypothesis that stated there is a positive relation between time allocation and revenue in informal sector in Labuhanbatu regency.

d. Coefficient of Duration of Business (X₄)

Based on Table 4 it can be seen that the coefficient of duration of business is 444696.9. It shows positive relation between the duration of business and business revenue. If the duration of business increase by a year, assuming other factors constant (*ceteris paribus*), then it will increase revenue by 444696.9 million rupiah. It is in accordance with the hypothesis that stated there is a positive relation between duration of business and business revenue in Labuhanbatu regency.

e. Coefficient of Location of Business(X₅)

Based on Table 4. it can be seen that the coefficient of location of business is 1016098. It has significantly positive effect to business revenue. It means the revenue of business that located in strategic location is higher than business revenue in a not strategic location. It is in accordance with the hypothesis that stated there is a positive relation between location and revenue in Labuhanbatu regency.

Coefficient of Determination(R²)

Based on Table 4. empirical model results show R² is 0.9904 which means R²> 0.90. This gives the meaning that the model built for informal sector business revenue determined by the Capital (X₁), Number of Labor (X₂), Business Time Allocation (X₃), Duration of Business (X₄), Business Location (X₅) is good because R² = 0.9904> 0.90.

The coefficient of determination value (R²) is 0,9904 it means that Capital (X₁), Number of Labor (X₂), Business Time Allocation (X₃), Duration of Business (X₄), Business Location (X₅) are capable to provide variable of revenue by 99,049%, while the rest of 0.951% is explained by other factors not included in this research model.

Test Statistic F (Simultaneous Test)

The probability F value can be obtained from EViews processing result

Table 5. Koefisien F Prob.

Prob(F-statistic)	Statement
0,000000	Significant

Decision making criteria:

H₀ accepted if prob. F value > error rate (α) 0,05

H_A accepted if prob. F value < error rate (α) 0,05

Based on the analysis above, prob. F is 0.000000 < error rate (α) 0.05. Thus Ho is rejected and Ha accepted. It shows that Capital (X₁), Number of Labor (X₂), Business Time Allocation (X₃), Duration of Business (X₄), Business Location (X₅) simultaneously have an effect to informal

business sector revenue (Y) in Labuhanbatu regency.

Test Statistic t (Partial Test)

The degree of probability value is obtained from the processing result of Eviews 7 program as shown in the following table:

Table 6. Regression Results of Capital, Number of Labor, Business Time Allocation, Duration of Business, Location to Business

Variable	Prob.	Statement
Capital (X_1)	0,0000	Significant
Labor (X_2)	0,0061	Significant
Business Time Allocation (X_3)	0,0225	Significant
Duration of Business (X_4)	0,0000	Significant
Business Location (X_5)	0,0002	Significant

DISCUSSION

Capital

The probability value for Capital variable is 0,0000 at the error rate (α) 5%, so it can be concluded that partially Capital has significantly positive effect (0,0000 <0,05) to Informal Sector Revenue in Labuhanbatu Regency.

Labor

The probability value for Number of Labor is 0.0061 at the error rate (α) 5%, so it can be concluded that partially number of labor has significantly positive effect (0.0061 <0.05) to the Business Revenue in Labuhanbatu District.

Time Allocation

The probability value for Business Time Allocation variable is 0,0225 at error level (α) 5%, so it can be concluded that partially variable of Business Time Allocation has significantly positive effect (0,0225 <0,05) to Informal Sector Business Revenue in Labuhanbatu Regency.

Duration of Business

The probability value for duration of business is 0,0000 at 5% error rate (α), so it can be concluded that partially duration of business has significantly positive effect (0.0000 > 0.05) to Informal Sector Business Revenue in Labuhanbatu Regency.

Business Location

The probability value for Business Location variable is 0.0002 at 5% error rate (α), so it can be concluded that partially Business Location variable has significantly positive effect (0.0002 > 0,05) to Informal Sector Business Revenue in Labuhanbatu Regency.

CONCLUSION

Based on the result from this study, the conclusions are as follows:

1. Capital (0,0000) has significantly positive effect on revenue in informal business sector in Labuhanbatu regency.
2. Labor ($p= 0,0061$) has significantly positive effect on business revenue in Labuhanbatu regency.
3. The allocation time for business ($p = 0.0225$) has significantly positive effect on revenue of informal sector business in Labuhanbatu Regency.
4. Duration of business ($p = 0,0000$) has significantly positive effect to informal sector business revenue in Labuhanbatu regency.
5. Location of Business ($p = 0.0002$) has significantly positive effect to business revenue in Labuhanbatu Regency.

Recommendation

Based on the study results of and conclusion above, the authors provide some suggestions, as a form of implementation of the results as follows:

1. Capital gives positive and significant impact on the income of traders in informal sector within Labuhan Batu District. Therefore, it is suggested for the trader to maximize the utilization of capital. Meanwhile, for those traders which experience difficulty to acquire additional capital, the traders can get capital loan from Bank, Cooperative, Bank Pembiayaan Rakyat, or any financial institution.
2. The Amount of Labor gives positive and significant impact on the income of traders in informal sector within Labuhan Batu District. Therefore, it is suggested for the trader to maintain their skill by increasing the quality of the existing labor.
3. The Duration of Business gives positive and significant impact on the income of traders in informal sector within Labuhan Batu District.

Therefore, it is suggested for the trader to maintain the continuity of their business experience. Since the longer the existence of one business will make the brand more famous, the trader will have their own consumer that keeps coming within years. This condition will definitely increase the income of traders in informal sectors within Labuhan Batu District.

4. The Location of Business also gives positive and significant impact on the income of traders in informal sector within Labuhan Batu District. Therefore, it is suggested for the business owner to locate their business at strategic location in order to increase their income.

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How to cite this article: Simatupang DRS, Ulfah M, Zulfikar. Determinant analysis of informal sector business revenue in Labuhanbatu regency. *International Journal of Research and Review*. 2018; 5(10):335-342.
