International Journal of Economics and Management Sciences
Volume. 2 Number. 1 Year 2025
e-ISSN: 3046-9279, p-ISSN :3048-0965, Page 344-351
DOI: https://doi.org/10.61132/ijems.v2i1.480
Available online at: https://international.areai.or.id/index.php/IJEMS

Analysis of the Influence of Capital and Production Cost's on MSME Income

Ezra Aufa Razqa [1], Doni Andrian [2], Muhammad Fadly [3], Sanusi Ghazali [4]
[1,2,3,4] Program Studi Manajemen, Universitas Pembangunan Panca Budi, Indonesia
E-mail: ezrasaga7@gmail.com , doniandr69@gmail.com , fadlyparno@gmail.com, sanusi.gazali.pane@gmail.com

Abstract. *This research uses a descriptive qualitative approach to understand the relationship between capital, production costs, and income of MSMEs based on the experience and perspective of an entrepreneur. The subjects of this research are the owners or managers of MSMEs engaged in various sectors, such as food, crafts, and trade. The data collection techniques in this research used interviews, observation, and documentation techniques. This research data analysis technique uses data reduction, data presentation and conclusion drawing. This research shows that capital management and production cost efficiency play an important role in determining the income of MSMEs, adequate capital support allows entrepreneurs to increase their production capacity and quality, while efficient production cost management ensures the sustainability of a business. External factors, such as accessing and utilizing technology, are also something that can drive the success of MSMEs.*

Keywords*: Analysis of the Influence of Capital, Costs, Production, Income of MSME*

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in driving a nation's economic growth, particularly in generating employment opportunities and enhancing the overall welfare of the population. These enterprises are widely recognized as the backbone of the economy, especially in developing nations like Indonesia, where their significant contribution to the Gross Domestic Product (GDP) underscores their importance. Beyond merely supporting economic stability, MSMEs foster innovation, promote local entrepreneurship, and stimulate regional development, making them indispensable in reducing poverty and bridging economic disparities across diverse communities (Fitriyanti & Suprantiningrum, 2024).

Developing countries such as Indonesia, due to their contribution to gross domestic product (GDP). However, the growth of MSMEs often faces various challenges, including limited capital and efficient management of production costs (Wulandari Kumala Hida, 2022). Capital is one of the most important things to determine the ability of MSMEs to operate and develop. With sufficient capital, it allows MSME actors to be able to carry out operations, such as purchasing production materials, production equipment, and marketing costs later. On the other hand, poorly managed production costs can be a serious obstacle that can reduce marginal profits and hinder business growth. Therefore, the management of capital and production costs is a crucial factor that greatly affects the income of MSMEs (Karina Putri et al., 2023).

Received: December 15, 2024; Revised: December 30, 2024; Accepted: January 28, 2025; Online available: January 30, 2025

Research from Wafiroh et al., (2023) shows the results of production costs have a positive influence on revenue. However, it is different from Chandrawan et al., (2024) research which shows that production costs can lead to a negative direction in income. Based on these problems, for this reason, there are differences in the results of previous studies, so this research was conducted.

Moekijat explains the concept of capital is "everything that a company must have is, cash budgets, credit, production and marketing licenses, and various concrete goods contained in the company's household. In addition, to assess total ownership, capital is often used, which consists of many assets, surpluses, and undistributed profits.

Production costs are the total costs incurred by the company through the production process whose purpose is to produce an item or product that is ready to be marketed. It is also stated that the concept of production costs is the accumulation of costs required in the production process, including the cost of production materials, direct labor costs and factory overhead costs. Thus it can be concluded that production costs are the production costs incurred by a company to produce a finished product until the product is sold in the market.

According to Manalu et al., (2023) the economic recovery process in Indonesia has a very strategic and important role which can be viewed from various aspects. From the large number of industries found in every sector of the economy, and their great potential in collecting labor. Each unit of investment in the MSME sector can create more opportunities when compared to the same investment in larger businesses. Indeed, the contribution of MSMEs in the formation of GRDP is quite significant at 54.22% of total GRDP, and the contribution of MSMEs to exports is 70%. The MSME sector can be seen as a savior in the process of national economic recovery, both in driving the rate of national economic growth and employment.

According to Ompusunggu & Gulo (2023), the factors that determine the development of MSMEs consist of total revenue which is an indicator of growth, a cash flow statement that provides information on the inflows and outflows of a business. Customers or Customers who repeatedly buy our products or services. A significant increase in customers can be a growth engine for small businesses as it increases overall revenue. The cash flow statement also plays an important role. Cash is a managed asset with the same liquidity as other managed assets and is often the focus of investors to assess a company's financial health. Moekijat explains that the concept of capital includes everything owned by the company, including cash, credit, production and sales rights.

Production costs are the total costs incurred by the company from the production process to produce marketable products. Charles T. Horngren categorizes production costs into direct costs, direct labor costs, and total production costs.

Capital is one of the factors that affect MSME income, when business capital is added, traders can buy goods in large quantities and more varied according to the needs of buyers, so that sales increase which also has an impact on increasing their income. Capital is a pool of money or goods used as a basis for carrying out a job. Production costs affect MSME income. Production costs are all expenditures made by the company to obtain factors of production and raw materials.

Companies to obtain factors of production and raw materials that will be used to create the goods produced (Amalia, 2022). When the production costs used are small, the production will also be small so that it affects income. Meanwhile, how long the business has been established also affects the income of MSMEs, the longer a person is in his business field, the greater the opportunity to get greater income.

2. OVERVIEW

Micro, Small, and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) are productive business units that are managed independently by individuals or business entities in various economic sectors (Tambunan, 2012). Generally, the distinction between Micro Enterprises (ME), Small Enterprises (SE), Medium Enterprises (ME), and Large Enterprises (LE) is based on three main indicators: initial asset value (excluding land and buildings), average annual turnover, and the number of permanent employees. However, the definition of MSMEs based on these three indicators may differ in each country.

In Indonesia, the definition of MSMEs is regulated in the Indonesian Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises. Based on this law, the definition of MSMEs is as follows:

1. **Micro Enterprises**: These are productive businesses owned by individuals or sole proprietorships that meet the criteria for micro enterprises as defined in the law.
2. **Small Enterprises**: These are independent economic businesses managed by individuals or business entities, which are not subsidiaries or branches of medium or large enterprises, with the criteria for small enterprises as outlined in the law.

3. **Medium Enterprises**: These are independent economic businesses, not affiliated with small or large enterprises, and with a net worth or annual sales that meet the criteria for medium enterprises as specified in the law.

This distinction helps provide appropriate support, facilities, and policies according to the needs of each type of business, ensuring optimal development of MSMEs in Indonesia.

Theory of Capital

The theory of capital refers to funds that come from the business owner to be used in the company's operations and development (Jumingan, 2009). Own capital, according to Susnaningsih (2008) in Gonibala et al., (2019), is capital that comes from the company and is embedded in the company for an indefinite period. Syafri (2005) in (Gonibala et al., 2019) states that own capital is the owner's equity, which reflects the remaining assets after deducting the company's liabilities. In accounting, capital is the difference between assets and liabilities and does not include the sale value of the company. Capital can come from the owner's investment and the company's earnings, which may decrease due to withdrawals by the owner, dividend distribution, or incurred losses. The addition of paid-in capital can be recorded based on the amount of money received or the amount of loss incurred or debt canceled.

Production Cost

Production costs refer to expenses related to the manufacturing of goods and the provision of services. According to Carter and Usry (2002) in Gonibala et al., (2019), production costs are the sum of three cost elements: direct materials, direct labor, and factory overhead. Rayburn (1999) adds that production costs include direct materials, direct labor, and overhead incurred to produce goods or services.

Theory of Income

The theory of income explains that income is the receipt obtained from economic activities related to the company's operations and the sale of the factors of production owned by the company (Boediono, 2000). The entrepreneur's income is the profit obtained after subtracting the costs incurred from the sales proceeds. This income is related to the flow of earnings derived from providing factors of production such as natural resources, labor, and capital, each given in the form of rent, wages, and interest according to the period.

3. METHODS

This research uses a descriptive qualitative approach to understand the relationship between capital, production costs, and MSME income based on the experiences and perspectives of business actors. The research subjects were owners or managers of MSMEs engaged in various sectors, such as food, crafts, and trade. Data collection techniques in this study used interviews, observation, and documentation.

Interviews focus on the experience of entrepreneurs in managing capital and production costs, as well as their impact on income, observations focus on observing the production process, capital use, and cost efficiency strategies at the place of business and documentation focus on analyzing simple financial reports, raw material purchase records, and sales records to support interviews. The data analysis technique of this research uses data reduction, data presentation and drawing conclusions.

4. RESULTS AND DISCUSSION

This study aims to analyze the influence of capital and production costs on MSME income. Based on the results of interviews, observations, and documentation conducted on several MSME actors, several important points were found:

Capital as the Main Factor for Business Development

The initial capital owned by MSME actors greatly affects production capacity, marketing strategies, and product innovation. Respondents stated that limited capital often hinders business expansion, for example in buying new equipment or improving product quality.

With sufficient capital, business actors can increase efficiency and productivity, which in turn affects the increase in income. This is in accordance with the theory of Rahman (1995: 285) in Gonibala et al., (2019) which states that capital is the result of work, and if the income earned exceeds the expenses incurred, it can increase the amount of capital and assets available. And it would be better if micro businesses can continue to increase their income. Capital can also vary, namely there is capital obtained from own capital to start the business, and then there is capital obtained from direct lending efforts from financial institutions, whether banks or not through bank institutions.

Production Costs and Operational Efficiency

Production costs include raw materials, labor, and utilities such as electricity and water. MSME players who are able to reduce production costs without reducing product quality tend to have higher marginal profits. However, some businesses complain that rising raw material prices have resulted in declining revenues. Production cost efficiency is a major challenge that requires innovation in resource management. According to Soeharno (2009) production costs are all expenses used in the production process to produce goods and services. Increasing production costs means an increase in the amount of goods/services produced so as to increase revenue directly, however, an increase in production costs without an increase in demand for goods/services to be produced and without being adjusted to demand will affect capital.

The Relationship between Capital, Production Costs, and Revenue

The combination of sufficient capital and efficient management of production costs has proven to be a key factor in increasing MSME revenues. Optimal capital allows businesses to expand production scale and improve product quality. On the other hand, uncontrolled production costs can be an obstacle to business growth. Despite sufficient capital, the use of capital and production costs have a significant influence on the income of MSMEs. This can happen because in spending production costs that must take into account consumer demand. For goods or services so that MSME owners do not take the wrong steps in making decisions to increase production costs or for capital and business.

Impact of Capital and Production Costs on Revenue

The impact of capital and production costs on revenue is significant, especially for MSMEs. When a business has sufficient capital and efficient production costs, its revenue tends to increase, particularly when coupled with an excellent marketing strategy (Mahmud et al., 2024). On the other hand, businesses with limited capital and high production costs often experience stagnant or declining revenue due to the burden of high-interest loans or uncompetitive selling prices.

External factors also play a crucial role. Government policies that provide entrepreneurship training and subsidize raw materials are highly beneficial for MSMEs, helping them manage production costs effectively. Moreover, digital technology, such as social media and e-commerce platforms, has become a key driver in boosting MSME revenue by expanding their reach and market visibility.

The research highlights a strong relationship between capital, production costs, and MSME income:

1. Capital as a Long-Term Investment: Capital is not just the starting point for a business; it is an essential resource for long-term growth. MSMEs that take calculated risks by utilizing capital loans and creating sound financial plans can significantly increase their income over time.

2. Efficiency in Production Costs: Efficient management of production costs is crucial to maintaining profitability. MSMEs often reduce costs by using cheaper local raw materials and relying on family labor to minimize expenses.
3. Government Support and Technology: Government assistance through entrepreneurship training and financial support has been a significant factor in MSMEs' success. Additionally, integrating technology in production and marketing helps MSMEs lower operational costs and expand their market reach.
4. Implications for Theory and Practice: These findings reinforce the Microeconomic theory, which posits that capital and production costs are fundamental determinants of business output. In practice, MSMEs should adopt better financial management strategies to ensure that capital and production costs contribute to sustainable business growth.

5. CONCLUSION

This study highlights the significant role of capital management and production cost efficiency in determining the income of Micro, Small, and Medium Enterprises (MSMEs). Sufficient capital allows MSMEs to enhance production capacity and quality, while efficient cost management ensures long-term sustainability and competitiveness. By controlling costs effectively, businesses can maximize profitability and maintain competitive pricing.

External factors like access to financing and technology further drive MSME success. Access to financing enables businesses to invest in growth, while technology helps streamline operations, reduce costs, and expand market reach. Together, these factors provide MSMEs with the resources needed to thrive in a competitive business environment. Effective internal management, coupled with external support, is key to achieving sustainable success for MSMEs.

6. REFERENCE

Amalia, N. (2022). Pengaruh modal, biaya produksi, jumlah tenaga kerja dan tingkat pendidikan terhadap pendapatan UMKM pada industri batu bata di Kecamatan Teras. *Jurnal Manajemen Informatika & Teknologi, 2*(2), 69–78. https://doi.org/10.51903/mifortekh.v2i2.208

Boediono. (2000). *Ekonomi internasional*. BPFE.

Chandrawan, D., Fajarwaty, A., Mardiyah, S., & Aditya, S. (2024). Analisis pengaruh modal dan biaya produksi terhadap pendapatan UMKM Bontot Ngopi. *Nilai*, *2*(1), 252–268.

Fitriyanti, L., & Suprantiningrum, R. (2024). Pengaruh modal, biaya produksi dan lama usaha terhadap pendapatan dengan volume penjualan sebagai intervening pada UMKM industri roti di Kecamatan Welahan. *Serat Acitya*, *13*(1), 38–53. https://doi.org/10.56444/sa.v13i1.1401

Gonibala, N., Masinambow, V. A. J., & Maramis, M. T. B. (2019). Analisis pengaruh modal dan biaya produksi terhadap pendapatan UMKM di Kota Kitamobagu. *Berkala Ilmiah Efisiensi*, *19*(1), 56–67.

Jumingan. (2009). *Analisis laporan keuangan*. Bumi Aksara.

Karina Putri, J., Sugianto, & Juliana Nasution. (2023). Pengaruh modal, biaya produksi, dan pembiayaan Arrum Pegadaian Syariah terhadap tingkat pendapatan usaha mikro di Kota Langsa. *JEMSI (Jurnal Ekonomi, Manajemen, dan Akuntansi)*, *9*(5), 1813–1822. https://doi.org/10.35870/jemsi.v9i5.1470

Mahmud, M., Bumulo, F., & Toralawe, Y. (2024). Business capital, production costs, business income level. *Jurnal Bisnis dan Ekonomi*, *5160*(2).

Manalu, E. A., Kumaat, R. J., & Sumuat, J. I. (2023). Analisis pengaruh modal, jumlah jam kerja, dan jumlah pembeli/konsumen terhadap pendapatan usaha kecil Kota Manado (Studi di Kecamatan Wenang). *Jurnal Berkala Ilmiah Efisiensi*, *23*(10), 62–63.

Ompusunggu, D. P., & Gulo, L. A. (2023). Analisis pengaruh modal dan biaya produksi terhadap pendapatan usaha mikro, kecil dan menengah depot isi ulang air minum di Kota Palangka Raya. *Journal of Management and Social Sciences (JIMAS)*, *2*(2), 2963–5047.

Rayburn, G. (1999). *Akuntansi biaya*. Erlangga.

Soeharno. (2009). *Teori mikro ekonomi*. Andi.

Tambunan, T. (2012). *UMKM di Indonesia*. Ghalia Indonesia.

Wafiroh, H., Lailatul, I. N., & Evhin, A. (2023). Analisis pengaruh modal dan biaya produksi terhadap pendapatan UMKM. *Jurnal Ekonomi, Manajemen, Bisnis dan Sosial*, *3*(2), 194–201.

Wulandari, K. H. (2022). Pengaruh modal kerja, tenaga kerja, dan bahan baku terhadap pendapatan. *Jurnal Penelitian Pengabdian Masyarakat Indonesia*, *1*(1), 68–78.