



# ANALYSIS OF THE CONTRIBUTION OF MEDIUM SMALL MICRO ENTERPRISES (MSMEs) TOWARDS THE REGIONAL DEVELOPMENT IN MEDAN JOHOR SUB-DISTRICT, MEDAN CITY

**Juliana Khairina Harahap<sup>1</sup>**

*<sup>1</sup>Department of Regional and Rural Development Planning, University of Sumatera Utara, North Sumatra, Indonesia*

**Rujiman<sup>2</sup>**

*<sup>2</sup>Department of Regional and Rural Development Planning, University of Sumatera Utara, North Sumatra, Indonesia*

**Agus Purwoko<sup>3</sup>**

*<sup>3</sup>Department of Regional and Rural Development Planning, University of Sumatera Utara, North Sumatra, Indonesia*

## ABSTRACT

*This study aims to analyze the contribution of micro, small, and medium enterprises (MSMEs) to regional development in the Medan Johor sub-district, Medan city. The method of analysis used in this study is multiple regression analysis. The results showed that the factors of capital, number of workers, place of business, formal education, informal education, and legality of business entities simultaneously affect the income of MSMEs in Medan Johor sub-district, Medan City. Partially the variables of capital, number of workers, and formal education show a significant influence on the income of MSMEs in Medan Johor Kota Medan District. Meanwhile, the dummy variables for a place of business, informal education, and legality of business entities do not show a significant effect on the income of MSMEs in Medan Johor sub-district, Medan City.*

**KEYWORDS:** MSMEs, employment and regional development

## 1. INTRODUCTION

Based on data from the Central Statistics Agency (BPS) in the Ministry of Cooperatives and Small and Medium Enterprises (UKM) (2011), it shows that 99.99% of all business actors in Indonesia are MSMEs, the remaining 0.01% are Large Enterprises (UB). When viewed from the perspective of employment, MSMEs can absorb an average of 97.17% of the workforce. Meanwhile, the average contribution of MSMEs to Gross Domestic Product (GDP) was 57.88%.

Industrial development in a country is very supportive of economic growth so that one of the strategies taken by the government is to empower and grow Micro, Small, and Medium Enterprises (MSMEs) as the basis for populist economic development. History has shown that Micro, Small,

and Medium Enterprises (MSMEs) in Indonesia still exist and thrive despite the economic crisis since 1997. Until 2011, MSMEs were able to contribute significantly to state revenues by contributing 61.9% of gross domestic product (GDP) income through tax payments, which are described as follows: the micro-business sector contributed 36.28% of GDP, the small business sector 10.9%, and the medium business sector 14.7% through tax payments. Meanwhile, the large business sector only contributed 38.1% of GDP through tax payments (Central Bureau of Statistics (BPS), 2011).

At the regional level, especially in the city of Medan, it can be seen that the economic growth of the city of Medan can not be separated from the contribution of MSMEs in general. This can be seen



from the large number of MSMEs, with a total of approximately 242,890 MSMEs units consisting of the types of service trading ventures, the handicraft industry and various other enterprises, where both the licensing and the legal aspects of MSMEs in Medan City have not been optimally arranged. As for the types of MSMEs in Medan, namely businesses in the culinary field, printing services, making handicrafts, and so on. The proportion of the number of micros, small and medium entrepreneurs reaches 99.8% of the total economic enterprises in Medan. It means that the number of MSMEs is nearly 500 times that of large companies. MSMEs' contribution to the city of Medan, however, is estimated to have reached just 39.8 percent, while large companies have reached 60.2 percent. The influence of the large business sector and the small MSME sector is shown by this (BPS North Sumatera, 2014).

Medan Johor District as one of the sub-districts in Medan City, North Sumatra Province, has developed MSMEs with types of businesses such as handicrafts, shoes, cakes, food, and beverages. The existence of MSMEs in Medan Johor sub-district, Medan City has a positive impact on alleviating poverty and unemployment problems to make ends meet. MSMEs' development, however, still faces numerous problems, resulting in poor competitiveness of the imported products. Restricted infrastructure and government access related to licensing and bureaucracy, as well as high tax costs, are the main issues affecting MSMEs. The enormous potential of MSMEs is affected by all the existing problems. Even though MSMEs are said to be able to survive the global crisis, in reality, the problems faced are many and more severe. This is because

apart from being indirectly affected by the global crisis, MSMEs must also face unresolved domestic problems such as labor wages, labor and illegal levies, corruption, and others.

### Objective of the study

Analyzing the influence of capital factors, the number of workers, place of business, formal education, informal education, and legality of business entities on the income of MSMEs in Medan Johor Kota Medan District. The research was conducted in Medan Johor Sub-district, Medan City, with the research object of Analysis of the Contribution of Micro, Small and Medium Enterprises (UMKM) to Regional Development. The research was conducted in all areas of the Medan Johor sub-district..

## 2. RESEARCH METHODOLOGY

This study is qualitative and quantitative according to the type of data and analysis. The population in this study was all actors in the Medan Johor Sub-district of Micro, Small, and Medium Enterprises (UMKM), totaling 452 business units (Medan City Central Bureau of Statistics and Medan City MSMEs and Cooperatives Office, 2015). Sampling is done using probability sampling, namely a sampling technique that provides equal opportunities for each member of the population to be selected as a sample (Sangadji and Sopiah, 2010). Furthermore, using the Slovin formula, the total sample size is 81.88 people and rounded up to 82 respondents as a sample.

**Table 1**

**Population and Sample of MSME Actors per Urban Village**

No	Urban village	Total	Sample
1	Kwala bekala	70	$70/452 \times 82 = 13$
2	Gedung Johor	65	$65/452 \times 82 = 12$
3	Kedai durian	104	$104/452 \times 82 = 19$
4	Suka maju	67	$67/452 \times 82 = 12$
5	Titi kuning	80	$80/452 \times 82 = 14$
6	Pangkalan Masyhur	66	$66/452 \times 82 = 12$
	Total	452	82

Source: Medan City Statistics Agency (2015)

### Hypothesis

Capital factors, number of workers, place of business, formal education, informal education, and legality of business entities have a positive and significant effect on the income of MSMEs in Medan Johor Sub-district, Medan City.

## 3. LITERATURE REVIEW

Research by Nurafuah (2015) shows that SME managers should take advantage of business partners for business training, books, and the internet in

finding market information and business management methods so that their business can develop more effectively. Research by Hapsari, Hakim, and Soeaidy (2014) states that the empowerment of SMEs has a significant effect on regional economic growth in Batu City. And from the partial test results, the variables of the number of small and medium enterprises (SMEs) and labor did not find a significant effect on economic growth in Batu City, while for the SMEs Capital and Profit variables, there was a significant effect on economic



growth in Batu City. Research by Rahim and Karana (2014) shows that starting a micro business does not require a large amount of capital, as shown by only 8.6% of micro-entrepreneurs who need capital of more than IDR 9 million.

Micro, small and medium-sized enterprises (MSMEs) are business activities that are capable of expanding job opportunities, providing the community with massive economic services, playing a role in the process of equalization and growing community income, promoting economic development, and playing a part in realizing national stability (Iman and Adi, 2009).

The Central Statistics Agency (BPS) defines MSMEs based on the quantity of labor. Small businesses are businesses that have a workforce of 5 to 19 people, while medium enterprises are businesses that have a workforce of 20 to 99 people. According to the Ministry of Finance, based on Decree No. 316 / KMK 016/1994 of 27 June 1994 of the Minister of Finance, Small Businesses, as individuals/business organizations, have carried out activities/businesses with annual sales/turnover of IDR 600,000,000 or properties with a maximum value of IDR 600,000,000 (excluding occupied land and buildings). The firm, Commanditaire Vennootschap (CV), Limited Liability Corporation (PT), and Cooperatives, for example, in the form of a business organization. While examples in the form of individuals include craftsmen of the home industry, breeders, fishermen, traders of products and services, and others.

According to the 2006 Central Statistics Agency report in Tambunan (2012), there are differences between MUs, UK and MUs in the background or motivation of entrepreneurs to do business. The difference in the motivation of entrepreneurs should be seen as the most important characteristic to differentiate between Micro, Small and Medium Enterprises and Large Enterprises, as well as between sub-categories within the MSME group. Tambunan (2012) states that small entrepreneurs' backgrounds are more varied than micro-entrepreneurs, while their economic background is also the key factor, through looking at potential market opportunities with limited capital constraints, some others have a more realistic history.

According to Dwiwinarno in Haryadi (2010), several factors are inhibiting the development of MSMEs (Micro, Small and Medium Enterprises), including lack of capital and low managerial ability. According to Andang in Afifah (2012), MSME problems can be categorized as follows:

1. Problems that are classical and fundamental to MSMEs (basic problems) include problems

with capital, generally non-formal forms of legal entities, human resources (HR), product development, and access to marketing;

2. Advanced problems, including the introduction and penetration of the export market that has not been optimal, lack understanding of product design by market characteristics, legal issues concerning patent rights, sales contract procedures, and regulations in force in export destination countries;
3. In order to be able to properly face advanced problems, intermediate problems, namely problems from relevant departments, to solve simple problems. These challenges include financial management, collateral, and entrepreneurship limitations.

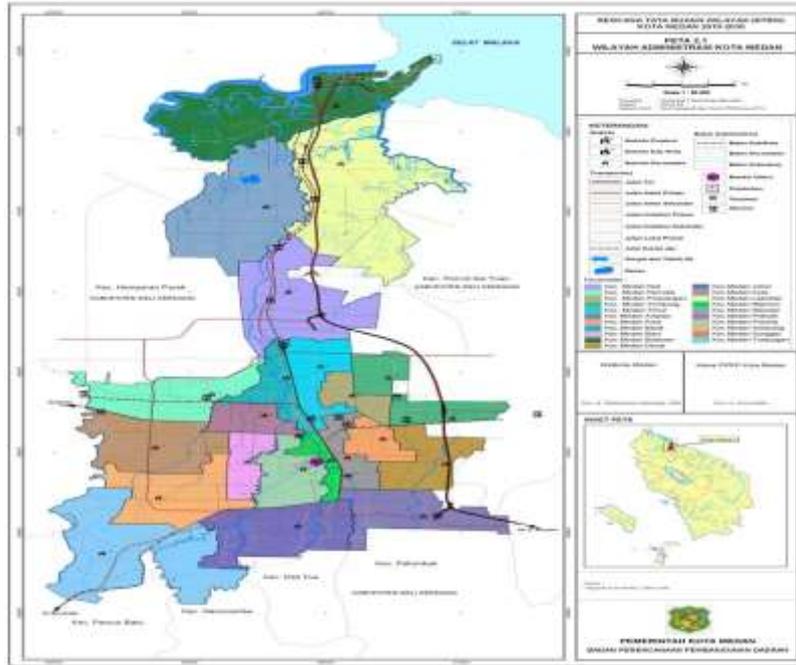
According to I Gusti in Afifah (2012), the challenges faced by MSMEs and cooperatives include technology, human resources (hr), management, capital, organizations, and institutions. Development can be defined as an activity to add, increase, improve, or expand. The concept of regional development in Indonesia was born from an iterative process that combines the basics of theoretical understanding with practical experiences as a form of dynamic application (Sirojuzilam and Mahalli, 2010). Regional development aims to achieve rapid growth in per capita income, provide and expand employment opportunities, equalize income, reduce disparities in prosperity between regions and promote a balanced economic transformation between the agricultural and industrial sectors through the use of available natural resources while still paying attention to their sustainability aspects. (Todaro 2000).

Simanjuntak (2001) explains that workers are residents who are already or currently working, who are looking for a job and doing other activities such as going to school or taking care of the household, with an age limit of 15 years. Sitanggang and Nachrowi (2004) state that labor is a part of the total population that can potentially produce goods and services. So from this statement, it can be concluded that labor is a part of the population who can produce goods and services if there is a demand for goods and services.

Job opportunities can be generated when there is labor market demand, so that, in other words, job opportunities often indicate labor demand (Sudarsono, 1998). The increase in company labor demand depends on the increase in the public demand for manufactured goods and services (Simanjuntak, 2001). According to Kuncoro (2002), employment is the number of positions filled in as shown in the number of people employed.

#### 4. RESULT

##### Overview of Medan City and Medan Johor Sub-District



**Figure 1. Administrative Map of Medan City**

Astronomically, Medan City is located at position 3 ° 30' - 3 ° 43' north latitude and 98 ° 35' - 98 ° 44' east longitude with an area of 265.10 km<sup>2</sup>. Most of the city of Medan is a lowland area with a topography that tends to tilt to the North and is the meeting point for two important rivers, namely the Babura river and the Deli river. Medan City is at an altitude of 2.5 -

37.5 meters above sea level and administratively has the following boundaries:

- North : Deli Serdang Regency and the Malacca Strait
- South : Deli Serdang Regency
- West : Deli Serdang Regency
- East : Deli Serdang Regency

**Table 2**  
**Total Population and Percentage of Medan City in 2015 Based on Sub-District**

No	Sub-district	Population (people)	Percentage
1	Medan Tuntungan	85.613	3.87
2	Medan Johor	132.012	5.93
3	Medan Amplas	123.850	5.48
4	Medan Denai	146.061	6.69
5	Medan Area	98.992	4.56
6	Medan Kota	74.439	3.83
7	Medan Maimun	40.663	1.87
8	Medan Polonia	55.949	2.52
9	Medan Baru	40.540	1.87
10	Medan Selayang	106.150	4.73
11	Medan Sunggal	115.785	5.32
12	Medan Helvetia	150.721	6.81
13	Medan Petisah	63.374	2.92
14	Medan Barat	72.683	3.34
15	Medan Timur	114.720	5.13
16	Medan Perjuangan	95.882	4.41
17	Medan Tembung	137.178	6.31

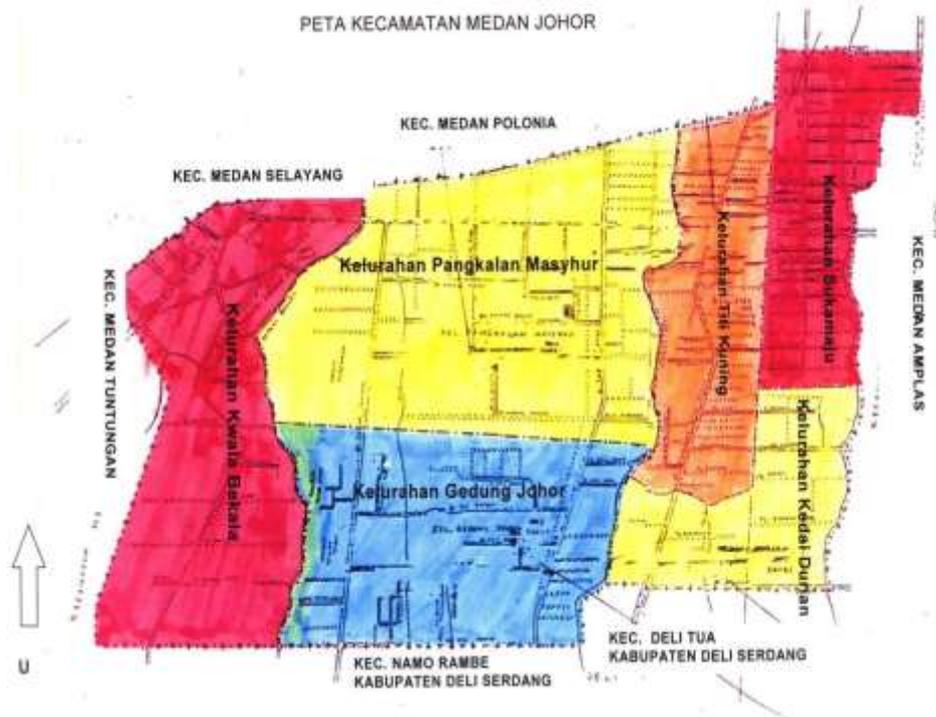
18	Medan Deli	181.460	8.06
19	Medan Labuhan	117.472	5.31
20	Medan Marelan	162.267	6.94
21	Medan Belawan	98.113	4.51
<b>Total</b>		<b>47,24</b>	<b>12.224</b>

Source: Medan City Statistics Agency, 2016

Medan Johor District is one of the sub-districts in Medan City with an area of 16.96 km<sup>2</sup> with an area ratio of 11.57% to the area of Medan City. Medan Johor District is bordered by:

- North : Medan Polonia Sub-District
- South : Deli Serdang Regency
- West : Medan Tuntungan Sub-District
- East : Medan Amplas Sub-District

Geographically, Medan Johor Sub-District is located between 03o 53' North Latitude and 98o 67' East Longitude. This area is located at an altitude of 3 m above sea level, with climatic conditions influenced by sea breezes with relatively high humidity and rainfall. The average temperature is 21o C - 32o C



**Figure 2. Administrative Map of Medan Johor Sub-District**

The administrative area of Medan Johor Subdistrict covers six urban villages with the area of each urban

villages in Medan Johor Sub-district can be seen in Table 3.



**Table 3**  
**Area of Medan Johor Sub-District in Every Urban Village, 2015**

No	Urban villages	Area (km <sup>2</sup> )	%
1	Kwala Bekala	5.50	32.43
2	Gedung Johor	3.15	18.57
3	Kedai Durian	0.98	5.79
4	Suka Maju	1.52	8.96
5	Titi Kuning	1.81	10.67
6	Pangkalan Masyhur	4.00	23.58
	<b>Medan Johor</b>	<b>16.96</b>	<b>100</b>

Source: Medan Johor Sub-District in Numbers, 2016

In Table 3 above, it can be seen that Kwala Bekala urban village has the largest area in Medan Johor Sub-District, namely 5.50 km<sup>2</sup> (32.43%). Then followed by Pangkalan Masyhur Urban Village covering an area of 4.00 km<sup>2</sup> (23.58%), Gedung

Johor Urban Village covering an area of 3.15 km<sup>2</sup> (18.57%), Titi Kuning Urban Village covering an area of 1.81 km<sup>2</sup> (10.67%), Suka Maju Urban Village is 1.52 km<sup>2</sup> (8.96%), and Kedai Durian is 0.98 km<sup>2</sup> (5.79%).

**Table 4**  
**Total Population, Urban Village Area, Population Density per Km<sup>2</sup> in Medan Johor Sub-District, 2015**

No	Urban Village	Total Population	Area (Km <sup>2</sup> )	Population Density per Km <sup>2</sup>
1	Kwala Bekala	34.210	5,50	6.220
2	Gedung Johor	24.211	3,15	7.689
3	Kedai Durian	6.989	0.98	6.132
4	Suka Maju	10.160	1.52	6.684
5	Titi Kuning	22.017	1.81	12.164
6	Pangkalan Masyhur	32.817	4.00	8.204
	<b>Medan Johor</b>	<b>130.414</b>	<b>16.96</b>	<b>7.690</b>

Source: Medan Johor Sub-District in Numbers, 2016

Table 4 explains that the population density is high enough because it is above 100 people / km<sup>2</sup>.

**Table 6**  
**Respondent Characteristics**

Variabel	Category	Frequency	Precentage
Age	20-30	16	19.51
	31-40	34	41.46
	41-50	20	24.39
	51-60	12	14.64
Gender	Male	63	76.83
	Female	19	23.17
Education	Junior high school	17	20.73
	High school	52	63.42
	Higher education	13	15.85
Labor market	2	19	23.17
	3	12	14.63
	4	7	8.54
	5	6	7.32
	6	10	12.20
	8	11	13.41
	9	2	2.44
	10	3	3.66



12	2	2.44
24	5	6.10
25	1	1.22
26	1	1.22
27	3	3.66

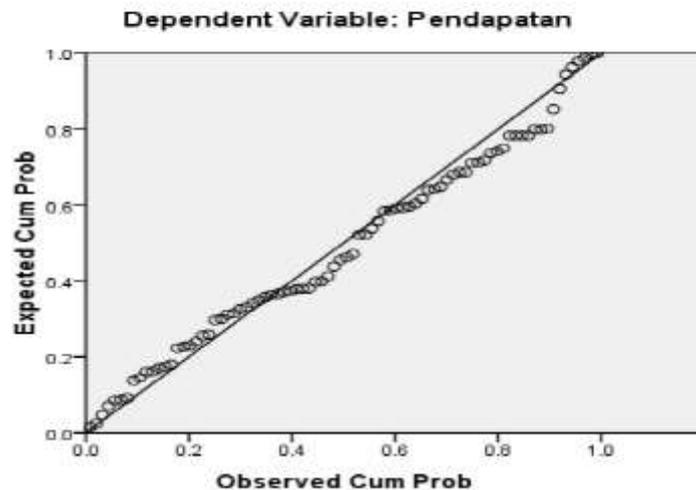
Source: Primary data processed, 2016

These results can be concluded that the majority of MSME respondents in the Johor Sub-district are 20-60 years old, and in general, UMKM respondents are at the productive age to be able to carry out business activities to make a living for the family. Male respondents are still the backbone of the family in earning a living. The majority of MSMEs

respondents in Medan Johor Sub-District have high school education. The respondents of this study have involved the community with diverse labor, and describe that the activities of MSMEs in Medan Johor Subdistrict utilize people who have a labor of 2 to 27 people.

**Influence of Capital Factors, Number of Workers, Business Place, Formal Education, Informal Education, and Business Entity Legality on MSME Income in Medan Johor District**

**Normal P-P Plot of Regression Standardized Residual**



**Figure 3. Normality Test Results of Factors Affecting MSME Income**

Based on the data processing results as shown in Figure 3, the results show that all data is normally distributed and there is no deviation so that the collected data can be analyzed using additional methods.



**Table 7**  
**Kolmogorov - Smirnov Test**

		Unstandardized Residual
Normal Parameters <sup>a,b</sup>	N	82
	Mean	.0000000
	Std. Deviation	.02696027
Most Extreme Differences	Absolute	.092
	Positive	.092
	Negative	-.046
	Kolmogorov-Smirnov Z	.829
	Asymp. Sig. (2-tailed)	.497

a. Test distribution is Normal.

b. Calculated from data.

Source: Primary Data Processed, 2016

In Table 7, the results of statistical tests show that the Kolmogorov-Smirnov Z value is 0.829 and the significance is 0.497 and the value is above alpha =

0.05 (Asymp. Sig = 0.497 > 0.05), so that the Ha hypothesis is accepted, meaning that the residual data is typically distributed.

**Table 8**  
**Results of Multicollinearity Assumption Test Analysis**

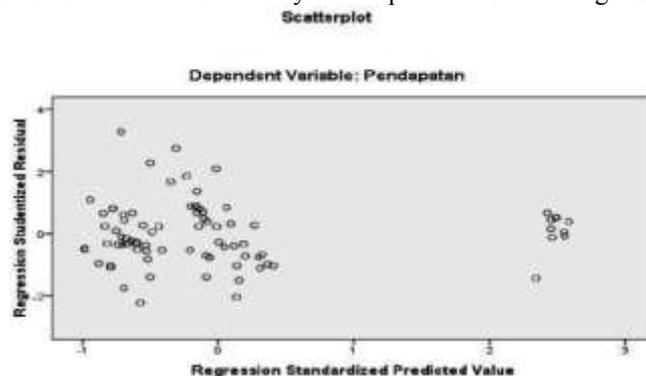
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Modal	.149	6.704
	Jumlah Tenaga Kerja	.111	8.973
	Tempat Usaha	.196	5.110
	Pendidikan Formal	.353	2.833
	Pendidikan Informal	.783	1.277
Legalitas Badan Usaha		.159	6.303

a. Dependent Variabel: Pendapatan

Source: Primary Data Processed, 2016

Based on Table 8, it can be concluded that the independent variable does not occur multicollinearity

so that the model has met the classic assumption requirements in the regression analysis.



**Figure 4. Heteroscedecacity test results of Income MSMEs**

The randomly scattered dots identify no heteroscedasticity and the regression model is suitable to be used to predict MSME income. So it can be concluded overall that the regression model

meets the requirements of the classical assumption test.

**Table 8**  
**Glejser test**

Coefficients <sup>a</sup>		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.141	.091		1.552	.125
	Modal	-.011	.006	-.540	-1.922	.058
	Jumlah tenaga kerja	.008	.007	.367	1.131	.262
	Tempat Usaha	-.006	.008	-.181	-.741	.461
	Pendidikan Fornal	.023	.018	.228	1.249	.216
	Pendidikan Informal	.005	.004	.145	1.183	.240
	Legalitas Badan Usaha	-8.227E-5	.009	-.002	-.009	.993

a. Dependent Variable: abs\_res1

Source: Primary Data Processed, 2016

The results show that there is no significant parameter coefficient for the independent variable, namely capital = 0.058 >  $\alpha = 0.05$ , the number of workers = 0.262 >  $\alpha = 0.05$ , place of business = 0.461 >  $\alpha = 0.05$ , formal education = 0.216 >  $\alpha = 0.05$ ,

informal education = 0.240 >  $\alpha = 0.05$ , and business entity legality = 0.993 >  $\alpha = 0.05$ . So it can be concluded that the regression model does not have heteroscedasticity.

**Table 9**  
**Coefficient of Determination**

Model Summary <sup>b</sup>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.999 <sup>a</sup>	.999	.999	.02802

Source: Primary Data Processed, 2016

The calculation result for the R Square value is 0.999. This means that the independent variables (capital, number of workers, location of the business, formal education, informal education, and legality of

business entities) above will explain 99.9 percent of MSME revenue, while the remaining 0.1 percent is explained by other variables not included in this study.

**Table 10**  
**Simultaneous Test Results (Test F)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.686	6	9.614	12247.487	.000 <sup>a</sup>
	Residual	.059	75	.001		
	Total	57.745	81			

a. Predictors: (Constant), Legalitas Badan Usaha, Pendidikan Informal, Pendidikan Fornal, Modal, Tempat Usaha, Jumlah tenaga kerja

b. Dependent Variable: Pendapatan

Source: Primary Data Processed, 2016

This means that the independent variables (capital, number of workers, place of business, formal education, informal education, and business entity legality) are significant in explaining the income of MSMEs

**Table 11**  
**Statistical test-t**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.446	.151		9.554	.000
	Modal	.906	.010	.909	95.216	.000
	Jumlah tenaga kerja	.089	.012	.085	7.674	.000
	Tempat Usaha	.005	.014	.003	.360	.720
	Pendidikan Formal	.067	.030	.014	2.230	.029
	Pendidikan Informal	.005	.007	.003	.634	.528
	Legalitas Badan Usaha	.006	.016	.004	.402	.689

a. Dependent Variable: Pendapatan

Based on Table 10, the multiple regression equation can be arranged as follows:

$$Y = 1,446 + 0,906X_1 + 0,089X_2 + 0,005X_3 + 0,067X_4 + 0,005X_5 + 0,006X_6$$

The multiple regression equation model means:

1. A constant value of 1.446 means that if the independent variables (capital, number of workers, place of business, formal education, informal education, and legality of business entities) are considered constant, then the income of MSMEs is 1.446.
2. The capital variable has a positive effect on MSME income with a coefficient value of 0.906, meaning that every 1 addition, the capital variable will increase MSME income by 0.906.
3. The variable number of workers has a positive effect on MSME income with a coefficient value of 0.089, meaning that for each additional 1, the variable number of workers will increase MSME income by 0.089.
4. The calculation result for R Square value is 0.999. This means that the independent variables (capital, number of workers, location of business, formal education, informal education, and legality of business entities) above will explain 99.9 percent of MSME revenue, while the remaining 0.1 percent is explained by other variables not included in this study.
5. The formal education variable has a positive impact on MSME income at a coefficient value of 0.067, which means that the formal education variable would increase MSME income by 0.067 for each addition of 1.
6. The variable of informal education has a positive effect on MSME income with a coefficient value of 0.005, meaning that for each additional 1, the informal education variable will increase MSME income by 0.005.

7. The legality variable of the business entity has a positive effect on the income of MSMEs with a coefficient value of 0.006, meaning that every 1 addition, the legality of the business entity variable will increase the income of MSMEs by 0.006.

## 5. DISCUSSION

### a. Capital

The capital used by MSME actors has a positive and significant effect on MSME income in the Medan Johor sub-district, Medan city. This result is by the Cobb-Douglas theory which states that production output is influenced by capital. These results indicate that high capital will increase the amount of production because in the production process costs are needed to purchase materials, equipment, and pay employee salaries.

### b. Workforce

The number of workers in Medan Johor Sub-District, Medan City is having a positive and substantial impact on MSME income. These findings reflect the growing number of jobs, which will raise the income of MSME actors. This is due to the theory of Cobb-Douglas that efficient production is affected by labor. MSME players believe that the number of workers has a very strong impact on the amount of production because in the production process they still use manual machines so they require more labor.

### c. Business location

In Medan Johor Sub-district, Medan City, the location of business used by MSME actors has a positive and insignificant impact on MSME revenue. These findings suggest that business premises with legality would increase MSME actors' income, but could not have dramatically affected MSME revenue.



#### d. Formal education

Formal education has a positive and significant effect on the income of MSMEs in the sub-district Medan Johor, Medan area. In the field of human capital, education is a form of investment that plays a role in accelerating economic growth. This investment is a long-term investment, so only after ten years will the results be realized (Atmanti, 2005).

#### e. Informal education

Informal education has a positive and insignificant effect on the income of MSMEs in the Medan Johor sub-district, Medan city. These results indicate that informal education in the form of training will increase the income of MSME actors, but it has not been able to significantly affect MSME income.

#### f. Legality of Business Entities

The legality of a business entity has a positive and insignificant effect on the income of MSMEs in the Medan Johor sub-district, Medan City. These results indicate that the legality of a licensed business entity will increase the income of MSME actors, but it has not been able to significantly affect MSME income.

### 6. CONCLUSION

The results of the regression analysis, capital factors, number of workers, place of business, formal education, informal education, and legality of business entities simultaneously affect the income of MSMEs in Medan Johor Kota Medan District. Partially the variables of capital, the number of workers, and formal education show a significant influence on the income of MSMEs in Medan Johor Kota Medan District. Meanwhile, the dummy variables for the location of the business, informal education, and legality of business entities do not show a significant effect on the income of MSMEs in the Medan Johor sub-district, Medan city.

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