

# Analysis of Factors That Affect the Level of Income of Micro, Small and Medium Enterprises (MSMEs) in Langkat Regency Through E-Commerce

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## ABSTRACT

This study aims to analyze the factors that influence the income level of small and medium enterprises (SMEs) in Langkat Regency through e-commerce as a moderating variable. The population of this study were SME actors in Langkat Regency. The sampling technique in this study was a random sample, obtaining a sample of 92 observation data. The data analysis method in this study was Structural Equation Modeling (SEM). The results of this study found that business capital, labor, business location, and working hours had an effect on income. This study aims to determine the factors that influence the level of income of micro, small and medium enterprises (MSMEs) in Langkat Regency through e-commerce. In addition, this study aims specifically to analyze the influence of business capital, labor, business location, working hours, and e-commerce and income of micro, small and medium enterprises (MSMEs) in Langkat Regency. This study uses a Structural Equation Model (SEM) approach based on Partial Least Square (PLS). PLS is a structural equation model (SEM) based on components or variants. The results of this study indicate that the existence of e-commerce mediates the

influence of capital on income, e-commerce mediates the influence of labor on income, e-commerce mediates the influence of location on income, and e-commerce mediates the influence of working hours on income.

**Keywords:** *Income, E-commerce, Capital, Labor, Location, and Working Hours*

## INTRODUCTION

Entrepreneurial spirit is needed in the development of Micro, Small and medium enterprises (MSMEs). MSMEs have become an important part of the national economic system. This is because MSMEs have an advantage in providing labor through efforts at work. This will accelerate the equitable distribution of economic growth, increase people's income, and play a role in increasing foreign exchange earnings. When Indonesia was hit by the storm of the financial crisis in 1997/1998, MSMEs had the ability to survive during the crisis. This is because the spirit and entrepreneurial spirit are so firmly entrenched that even though they were shaken by the impact, they are slowly able to rise from adversity. This is what distinguishes between MSME-class businesses with large businesses, although

the income obtained is greater, but the risks faced are also greater. Existing MSMEs have an important role in absorbing labor, increasing the number of business units, and supporting household income.

Developments that occur in the industrial sector at this time both large, small, medium, and household industrial sectors began to make the industrial sector a sector that is in great demand and can grow rapidly especially supported by the application of technology that also continues to develop such as using equipment and machinery for the production of goods and services. (Obioma and Anyanwu, 2015). Economic and industrial development is able to provide new progress in developing countries (Ofuri, 2006). Basically, the development of large, small, medium, and household industrial sectors is developed with the aim of creating jobs that absorb labor, as well as growing the people's economy, and can also support the

completion of poverty alleviation. The processing industry sector in the process has contributed to the Gross Regional Domestic Product (GRDP) (Cahya Ningsih and Indrajaya, 2015).

Micro, Small and Medium Enterprises (MSMEs) is one of the businesses which can expand and provide great opportunities for the community to increase income. And MSMEs are one of the keys to the national economy that should get the right to be supported, and protected as one form of firm support to a group of Community Economic businesses. The role of local governments through the Department of Cooperatives and SMEs in this empowerment is expected to expand employment, in order to increase community income and can open up more labor. And it is expected that MSMEs will reduce unemployment in Indonesia, especially in Langkat regency. Based on MSME data obtained in Langkat regency are as follows:

**Table 1 Data of MSMEs in Langkat Regency**

| Business Data      | Year 2019 | Year 2020 | Year 2021 | Year 2022 |
|--------------------|-----------|-----------|-----------|-----------|
| Micro Business     | 47.192    | 53.382    | 65.085    | 76.354    |
| Small Business     | 957       | 1.536     | 4.345     | 9.469     |
| Medium Enterprises | 239       | 106       | 198       | 2.981     |

Source: Department of Cooperatives and SMEs Langkat regency

From the MSME data, it has been spread in 23 sub-districts, 40 villages and 225 villages. And these MSMEs are proven to be able to create huge job opportunities in Langkat regency, so it really helps reduce unemployment by absorbing labor. And one of the forms of empowerment of the cooperative and SME Office of Langkat regency is to provide capital, entrepreneurship development, and conduct entrepreneurship training for MSMEs, as well as provide guidance to Micro, Small and medium enterprises. (Source, Department of Cooperatives and SMEs Langkat regency. (Data taken on February 10, 2022).

Langkat regency, especially Tanjung Pura district, is very famous for the typical souvenirs that tourists can bring when visiting Langkat regency, especially Lund

pulut Langkat. Lungu pulut typical of Langkat is produced by MSMEs scattered in Pematang Tengah Village, Serapuh Asli Village and Perupuk Village. Most residents in the area are proficient in making pulut dodol and open small and medium businesses that focus on making dodol. This is clearly illustrated when crossing the Medan-Aceh Cross Road which is dominated by MSMEs who sell lungut Langkat dodol.

In addition to the typical lungwood pulut Langkat, MSMEs in Tanjung Pura Sub-District also produce other food products such as sweet potato chips, opaque, cassava chips, tempe chips, banana chips and woven products from the use of nipah waste such as serving plates, bowls and fruit baskets. The majority of MSMEs that produce lungwood pulut Langkat still market their

products in a traditional way, namely by relying on visits from people who cross the Medan-Aceh road. This resulted in the marketing of products that are highly dependent on the number of community visits that cross the area.

To be able to play a role in economic development in the digital era, Micro, Small and medium enterprises need strategies in developing and improving the competitiveness of MSMEs, for example by utilizing e-commerce. E-commerce can help micro, small and medium enterprises in improving the quality of information better, and put a wider market position in the community so as to open up business opportunities that have the potential to increase revenue and profit. Through e-commerce, MSMEs can expand their business reach with a website presence that allows businesses to reach customers further beyond their nearest location. In addition, e-commerce makes people understand the abundance of local products so it can be said that e-commerce offers a new way for entrepreneurs to run product and service promotions. E-commerce is believed to be able to provide more responsive services that increase customer loyalty. E-commerce can also increase the awareness of MSME players about competition in the market and market changes that can lead to product or service innovation so as to improve quality (Hanny et al., 2020). Agree with research (Helmalia & Afrinawati, 2018), (Nguyen & Dang, 2017) and (Setyorini et al., 2019) who concluded that E - commerce has been shown to increase their revenue higher than ever before.

The problem also occurs in MSME businesses in Tanjung Pura district, Langkat regency. MSME business actors in Tanjung Pura Sub-District, Langkat Sub-District, are still minimal in using digital media as a means of marketing their products. This is due to the low level of information technology literacy by MSME business actors.

Employment in the formal sector is a priority for the workforce. in the informal

sector through small businesses, it seems that the informal sector is not able to accommodate the workforce as expected, in fact the informal sector through small businesses can be a savior for labor problems faced (Sudrajat, 2014).

In increasing its income, the informal sector will have difficulty in realizing it without the support and assistance of related parties, however they face limitations that sometimes they cannot solve on their own. The lack of support given to these informal sector traders by the government is an obstacle for their efforts to progress and develop.

Income is the main objective of the establishment of a Micro, Small and Medium Enterprises (SMEs). As a profit-oriented organization, revenue has a very big role. Revenue is an important factor in the operation of a Micro, Small and Medium Enterprise (MSME), because revenue will affect the level of profit that is expected to ensure the survival of Micro, Small and Medium Enterprises (MSMEs). The definition of income according to Kartikahadi, et al (2012) is income (income) is an increase in economic benefits during one accounting period in the form of income or additional assets a decrease in liabilities resulting in an increase in equity that does not come from investment contributions.

Small business is a stand-alone productive economic business, carried out by individuals or business entities that are subsidiaries or non-subsidiaries owned, controlled or part, either directly or indirectly, of medium-sized businesses or large businesses that meet the criteria of small businesses referred to as follows:

Have a net worth of at most IDR 50,000,000 (fifty million rupiah) excluding land and buildings of the place of business,

Have annual sales of at most Rp 300,000,000 (three hundred million rupiah).

Micro business is a stand-alone productive economic business conducted by an individual or business entity that is not a subsidiary or not a branch of a company owned, controlled, or part, directly or

indirectly, of a micro business, small business or large business that meets the criteria of micro business. In accordance with Government Regulation Number 7 of 2021 for MSMEs, to find out whether an MSME is included in the category of micro, small or medium enterprises.

Medium enterprises are stand-alone productive economic enterprises, carried out

by individuals or business entities that are not subsidiaries or branches of companies owned, controlled or part either directly or indirectly with small businesses or large businesses. MSMEs are grouped into several criteria based on Business Capital or annual sales results as follows:

**Table 2 Criteria for MSME Business Capital**

| Categories         | Business Capital  | Annual Sales Results                                      |
|--------------------|---|---|
| Micro Business     | s.d. Rp1.000.000.000,00.                                  | s.d. Rp2.000.000.000,00.                                  |
| Small Business     | More than Rp1.000.000.000,00<br>s.d. Rp5.000.000.000,00.  | More than Rp2.000.000.000,00<br>s.d. Rp15.000.000.000,00. |
| Medium Enterprises | More than Rp5.000.000.000,00 s.d.<br>Rp10.000.000.000,00. | More than Rp15.000.000.000,00<br>s.d. Rp50.000.000.000,00 |

Source: Ministry Of Finance (2023)

Problems that often arise in SMEs are usually related to limited capital. Capital constraints can inhibit the growth and development of business in achieving a success. In running a business, sufficient funds are needed so that the business runs smoothly and can grow. According to Anggraini and Agus (2018) & Soleh, A., & Daniel, P. A. (2019), capital is a factor that has a very important role in the production process, because capital is needed when entrepreneurs want to set up a new company or to expand an existing business, without enough capital it will greatly affect the smooth running of the business so that it will affect the income to be obtained.

In opening a capital business is an important factor to expand existing businesses, without sufficient capital it is very influential on the smooth running of the business, so it will affect the income earned by MSMEs. Own capital is basically capital that comes from the company itself (reserves, profits) or comes from partakers, participants or owners (share capital, Participant Capital and others), Riyanto, (2010). According to Haposan Hutahaean, (2020) capital has a significant influence on the income of SMEs (micro and small enterprises).

The use of labor can also increase the amount of business income. According to

Wibowo (2008) in his book entitled Instructions for setting up a small company, the position of small businesses in the midst of business climate life has found a steady place. Small businesses absorb a lot of Labor and help improve the country's economy. With the addition of Labor will allow for better service to consumers, both in terms of quality and quantity of service, through this way it can attract a greater number of customers and more likely to maintain customer loyalty.

According to the Central Statistics Agency (BPS) SMEs based on the quantity of Labor is a business entity that has a workforce of 5 to 19 people, while for medium enterprises is a business entity that has a workforce of 20 to 99 people.

In planning a business, it is necessary to choose a strategic business location, because the location of the business location will be related to the ease of consumers in reaching producers because it will affect sales and business success. Location is one of the determinants of the success of SMEs in marketing their products (Putri, 2015). Agglomeration theory is interrelated with location. The process of economic development and growth can be found in the agglomeration of economic activities so that the agglomeration is expected to have a significant impact on the economy

(Aritenang, 2019). Agglomeration is a term for the concentration of economic activity in a region. According to Firmansyah and Muhammad Nasir (2017) agglomeration is a tendency of distribution that is clustered in a relatively narrow area and is the most profitable. Because agglomeration contains elements of the process carried out together in carrying out spatial mobility and the formation of a locational in economic activity (Head and Mayer, 2004).

Another problem is working hours. Working hours are the most common part that must be in a business. The higher the working hours spent to open a business, the probability of net income received by entrepreneurs will be higher. Likewise, the shorter the working hours used, the lower the net income obtained. The variable unit of working hours is hours per day. When viewed from the opening and closing time, the long working hours of traders are around 12 hours to 24 hours per day.

## LITERATURE REVIEW

### Income

Revenue as an addition to the company's assets that have an impact on increasing the wealth of company owners, which aims to improve company performance and employee welfare (Munandar, 2006). The increase in revenue has a major effect on the survival of the company, because the revenue is used in the company's activities (Olaitan, 2006). According to Kasmir (2006) in determining the income of traders or entrepreneurs, several factors are needed, including the interest of entrepreneurs, capital, definite time, profit, trading experience, labor, environment, and education.

### Small and medium enterprises

Small and medium enterprises have a variety of perspectives or understanding either in the general public or in the educational environment, below is an understanding of SMEs according to experts and existing legislation. Many terms have appeared in relation to small and medium-

sized enterprises. Some call it the term weak economic wave (GEL) or weak economic entrepreneur (pegel) and so forth, but this time the term to be used is SMEs (Pratomo and Soejodono, 2004). According to the Ministry of Cooperatives and small and Medium Enterprises is a community activity that refers to the type of community business that has a net worth of at most Rp 200,000,000 which does not include land and buildings where the establishment of business and business ownership owned by private or own.

### E-commerce

E-commerce is a dynamic technological device, including applications and business processes that connect companies, consumers and a community through electronic transactions, which organizes the electronic exchange of goods. E-commerce as one type of electronic business mechanism focuses on individual-based business transactions using the internet as a medium of exchange of goods or services. The rise of the use of smartphones with internet facilities led to an increasing number of people who make purchases via the internet. Thus e-commerce companies have a great opportunity to grow rapidly in Indonesia. According to Harmayani et al (2020) E-commerce is the dissemination, purchase, sale, marketing of goods and services through electronic means such as the internet or television, WWW, or other computer networks. E-commerce can involve electronic funds transfers, electronic data exchange, automated inventory management systems, and automated data collection systems.

### Business Capital

Every business needs for business operations that aim to get maximum profit. In sales activities more and more products are sold resulting in increased profits. To increase the product sold a business must buy jumlah merchandise in large quantities. For this reason, additional capital is needed to buy merchandise or pay operating costs

so that the goal of entrepreneurship to increase profits can be achieved so that income can increase. Capital is the main thing in running a business, including trading. The capital used can be sourced from their own capital, but if it turns out that their own capital is not sufficient, it can be supplemented with borrowed capital. So, in general, the types of capital that can be obtained to meet capital needs consist of own capital and borrowed capital (Prawirosentono, 2001).

### **Labor**

According to law No. 13 of 2003 on Labor, the definition of Labor is any person who is able to do work in order to produce goods and or services both to meet their own needs and for the community. According to Widjajanta and Widyaningsih (2007) labor is all people who are willing and able to work, labor includes those who work for wages or salaries as well as those who work for their own interests.

### **Business Location**

Location is a place that is the center of business activities, both technical, administrative, or managerial. Location largely determines the success of the business. Because, with a strategic location, business actors can increase opportunities to get consumers. Location is also a long-term investment for entrepreneurs. The location theory of Losch and Weber, from Losch who saw the problem from the demand side (market), and Weber who saw the problem from the supply side (production). Losch said that the location of the seller is very influential on the number of consumers that can be worked on. The farther from the seller, the more reluctant consumers to buy

because the cost of transportation to come to the seller more expensive. Losch tends to suggest that the production site be in the market or near the market. Location is such a significant cost driver, it has the power to make or break a business strategy. When the business owner decides on the location of his business and operates in one particular location, many costs will become fixed and difficult to reduce

### **Working Hours**

Allocation of business time or working hours is the total business time or business hours used by a trader in trading. The higher the working hours or allocation of time we give to open a business, the probability of turnover received by traders will be higher, the welfare of traders will be more preserved and can meet the needs of the merchant's family. According to the Central Bureau of Statistics (BPS) the number of working hours is the length of time in hours used to work from all jobs, excluding official break working hours and working hours used for things outside of work during the week. For itinerant traders or traders in the informal sector such as street vendors, the number of working hours is calculated from leaving for work or opening stalls/shops until arriving back at home or closing the stalls/shops. According to Mantra (2003) it is also argued that working hours are a period of time expressed in hours used for work. It can thus be assumed that the more working hours used means that the work carried out is increasingly productive. According to Herlambang (2002) states that trading businesses generate more income if their workers work longer.

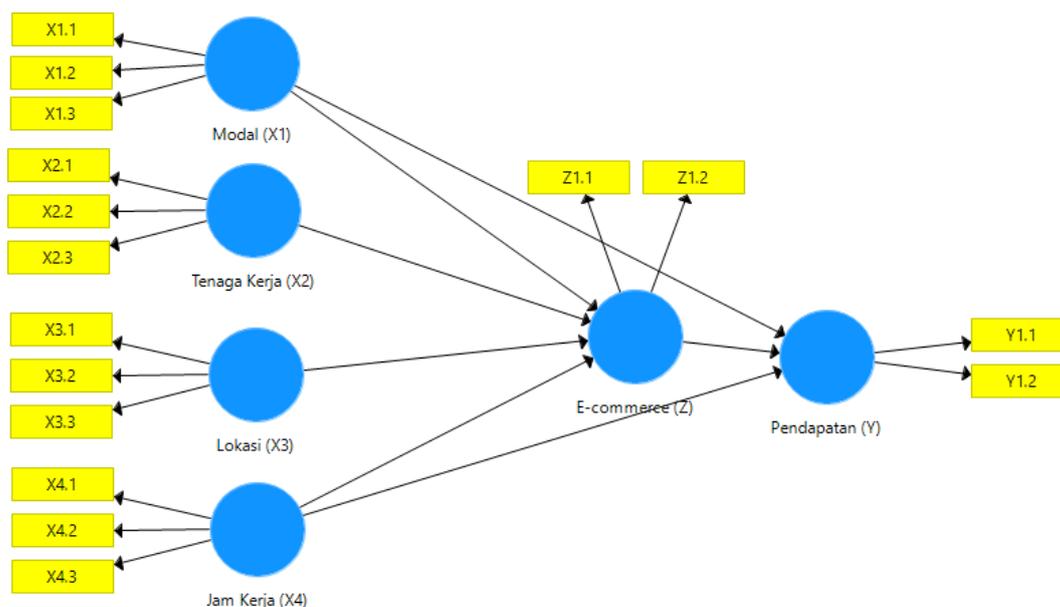


Figure 1 Conceptual Framework

### Hypothesis

Based on the background of research and the relationship between variables, the research hypothesis:

1. E-commerce mediates the influence of capital on the income of MSMEs in Langkat regency
2. E-commerce mediates the influence of Labor on the income of MSMEs in Langkat regency.
3. E-commerce mediates the effect of business location on MSME revenue in Langkat regency.
4. E-commerce mediates the effect of working hours on the income of MSMEs in Langkat regency.

### MATERIAL AND METHODS

This study uses quantitative methods to test and prove hypotheses that have been made through various tests and data processing. It is mentioned (Schiffman & Kanuk, 2000), quantitative research methods related to methods for collecting data, sample design, and construction of data collection instruments. In addition, (Malhotra, 2006) reveals that the quantitative approach is a research methodology that seeks to quantify data and usually applies a specific statistical analysis. Based on the dominant type of data processed in the form of numbers, this study

is a category of quantitative research (Sekaran, 2007). The tool used in this study is a questionnaire that is distributed to a sample of a predetermined population.

Types and sources of Data used in this study, namely: primary data and secondary data, Primary Data, which is the source of data obtained in this study directly from the respondents and in the form of individual or group opinion of the subject, the results of observation of an object, activity, or event. Secondary Data, namely the source of data obtained in this study from several literatures, such as books, journals, magazines, social media, websites and other sources of information that are still relevant to this study.

The population and sample in this study covers the entire Micro, Small and Medium Enterprises in Langkat regency, North Sumatra. The sample is the part of the population that represents it. Samples used in the study SEM (Structural Equation Modeling) is a minimum of 100 samples (Ferdinand, 2005 :80). According to Ghazzali (2005: 64) in the SEM method the sample size is between 100-200. Indicators in this study as many as 16 indicators. Referring to the third point, the sample size is at least 5 x 16 or 92 samples, so that the research sample is 92 MSME actors as

respondents. Sampling technique used simple random sampling technique. This is done to facilitate data processing and to provide better test results. Samples taken based on probability sampling techniques; simple random sampling, where researchers provide equal opportunities for every MSME to be selected into a sample that is done randomly without regard to strata in the population itself is taken from (Sugiyono, 2011) which said incidental Sampling is the determination of the sample based on chance, that is, anyone who by chance/incidental meet with researchers, it can be used as a sample, if it is seen that the person who happened to meet is suitable as a source of data).

Data collection procedures in this study will be carried out by several means of literature studies and field studies. Literature study is done by collecting information from books, journals and other literature relevant to the research problem which is then used as a theoretical basis. This literature study was conducted at the stage of preparation of literature review and preparation of research stimulus. Field study is the main study conducted by distributing questionnaires to 92 respondents who meet the criteria as research respondents. The distribution of questionnaires was carried out through online questionnaires. In the process of distributing research questionnaires, purposive sampling method is used as needed based on certain criteria or considerations (judgment).

The analysis technique in this research is done by structural Equation Model (SEM) based on Partial Least Square (PLS) approach. PLS is a structural equation modeling (SEM) based on components or variants. Structural Equation modeling (SEM) is a field of statistical study that can test a series of relationships that are relatively difficult to measure simultaneously. According to (Santoso, 2014) SEM is a multivariate analysis technique which is a combination of factor analysis and regression analysis (correlation), which aims to examine the

relationship between variables that exist in a model, be it between indicators and constructs, or relationships between constructs. According to (Latan & Ghazali, 2012), PLS is an alternative approach that shifts from a covariance-based SEM approach to a variant-based one. SEM based on covariance generally tests causality or theory while PLS is more predictive model. However, there is a difference between covariance-based SEM and component-based PLS is in the use of structural equation models to test theories or theory development for predictive purposes.

## RESULTS AND DISCUSSION

### RESEARCH RESULTS

#### Evaluation Of the Measurement Model (Outer Model)

Testing of measurement models will be carried out to show the results of validity and reliability tests. In this study, the validity test is conducted to determine whether the construct is qualified to continue as research or not. In this validity test, there are two kinds of evaluation that will be done, namely

#### Reliability Indicators

Indicadori Reliability indicates the amount of variance of each indicator described through latent variables obtained from the value of the loading factor as follows:

**Table 3 External Loading**

|      | X1    | X2    | X3    | X4    | Z     | Y     |
|------|-------|-------|-------|-------|-------|-------|
| X1.1 | 0.883 |       |       |       |       |       |
| X1.2 | 0.902 |       |       |       |       |       |
| X1.3 | 0.875 |       |       |       |       |       |
| X2.1 |       | 0.882 |       |       |       |       |
| X2.2 |       | 0.840 |       |       |       |       |
| X2.3 |       | 0.867 |       |       |       |       |
| X3.1 |       |       | 0.934 |       |       |       |
| X3.2 |       |       | 0.849 |       |       |       |
| X3.3 |       |       | 0.944 |       |       |       |
| X4.1 |       |       |       | 0.850 |       |       |
| X4.2 |       |       |       | 0.852 |       |       |
| X4.3 |       |       |       | 0.842 |       |       |
| Z1.1 |       |       |       |       | 0.964 |       |
| Z1.2 |       |       |       |       | 0.961 |       |
| Y1.1 |       |       |       |       |       | 0.962 |
| Y1.2 |       |       |       |       |       | 0.962 |

Based on Table 3 above it can be seen that the loading value of each latent variable is greater than 0.4 which means that no indicator variable should be eliminated from the model.

### Convergent Validity

Convergent Validity a model of measuring items that have a value based on the

correlation between the item score and the value of the construct. The Convergent Validity index is measured by the factors AVE, composite reliability, and Cronbach's Alpha. The following are the results of the Ave, composite reliability and Cronbach alpha indices, which can be seen in Table 4 below:

**Table 4 Convergent Validity**

|    | <i>Cronbach's Alpha</i> | <i>rho A</i> | <i>Composite Reliability</i> | <i>Avarage Variance Extracted (AVE)</i> |
|----|-------------------------|--------------|------------------------------|---|
| X1 | 0.865                   | 0.87         | 0.917                        | 0.786                                   |
| X2 | 0.831                   | 0.853        | 0.897                        | 0.745                                   |
| X3 | 0.896                   | 0.903        | 0.935                        | 0.828                                   |
| X4 | 0.827                   | 0.933        | 0.884                        | 0.718                                   |
| Z  | 0.920                   | 0.921        | 0.962                        | 0.926                                   |
| Y  | 0.920                   | 0.920        | 0.962                        | 0.926                                   |

Validity and reliability criteria can also be seen from the value of the reliability of a variable and the value of the average Variance Extracted (AVE) of each variable. The variable is said to have high reliability if the value of composite reliability is above 0.7 and AVE is above 0.5. Based on Table 4 above, it can be stated that all variables meet the composite reliability because the value obtained is above the recommended number, which is above 0.7 which meets the criteria.

### Discriminant Validity

Discriminant Validity of the measurement model with indicator reflection can be seen from the cross loading value of the measurement with the construct. If the correlation of measurement constructs is greater than that of other constructs, it can be concluded that latent constructs have sizes in their blocks better than sizes in other blocks (Ghozali, 2014). The following is the output test results Discriminant Validity using SmartPLS 4.0:

**Table 5 Discriminant Validity (Cross Loading)**

|      | X1    | X2    | X3    | X4    | Z     | Y     |
|------|-------|-------|-------|-------|-------|-------|
| X1.1 | 0.883 | 0.892 | 0.944 | 0.969 | 0.662 | 0.661 |
| X1.2 | 0.902 | 0.813 | 0.78  | 0.806 | 0.745 | 0.745 |
| X1.3 | 0.875 | 0.876 | 0.849 | 0.504 | 0.802 | 0.801 |
| X2.1 | 0.857 | 0.882 | 0.934 | 0.662 | 0.638 | 0.638 |
| X2.2 | 0.753 | 0.84  | 0.721 | 0.716 | 0.568 | 0.596 |
| X2.3 | 0.875 | 0.867 | 0.849 | 0.772 | 0.802 | 0.801 |
| X3.1 | 0.857 | 0.882 | 0.934 | 0.828 | 0.638 | 0.638 |
| X3.2 | 0.883 | 0.867 | 0.849 | 0.504 | 0.802 | 0.801 |
| X3.3 | 0.452 | 0.944 | 0.944 | 0.696 | 0.662 | 0.661 |
| X4.1 | 0.827 | 0.419 | 0.375 | 0.85  | 0.344 | 0.344 |
| X4.2 | 0.452 | 0.872 | 0.792 | 0.852 | 0.636 | 0.636 |
| X4.3 | 0.827 | 0.401 | 0.357 | 0.841 | 0.327 | 0.326 |
| Z1.1 | 0.841 | 0.793 | 0.796 | 0.504 | 0.964 | 0.962 |
| Z1.2 | 0.766 | 0.729 | 0.709 | 0.553 | 0.961 | 0.962 |
| Y1.1 | 0.841 | 0.793 | 0.796 | 0.54  | 0.964 | 0.962 |
| Y1.2 | 0.766 | 0.729 | 0.709 | 0.553 | 0.961 | 0.962 |

Based on the table.5 above it can be seen that the loading factor for each indicator of each latent variable has a relatively larger value when compared with the value of indicators of other latent variables. The following are the test results of the outer model that shows the value of the outer loading by using the Analysis tool SmartPLS v4.

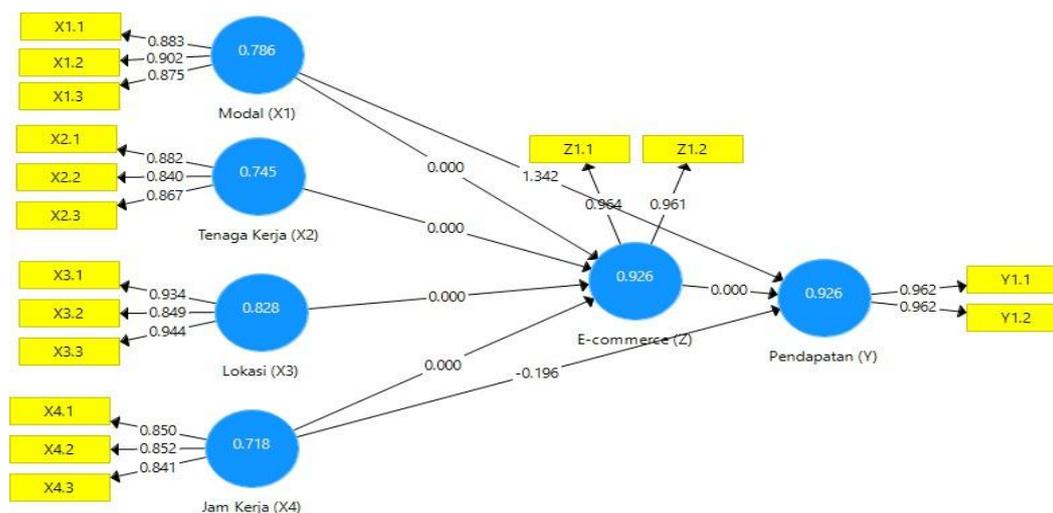


Figure 2 Outer Model Test Results

Based on the results of the analysis shown by Figure 2 shows that as many as 16 variables as a whole, there are 16 variables have a value greater than 0.7 it can also be seen from the value of the loading factor of each construct data in this study shown in Table 6 below:

Table 6 Loading Factor Values of Construct Data

|      | X1    | X2    | X3    | X4    | Z     | Y     |
|------|-------|-------|-------|-------|-------|-------|
| X1.1 | 0.883 |       |       |       |       |       |
| X1.2 | 0.902 |       |       |       |       |       |
| X1.3 | 0.875 |       |       |       |       |       |
| X2.1 |       | 0.882 |       |       |       |       |
| X2.2 |       | 0.839 |       |       |       |       |
| X2.3 |       | 0.867 |       |       |       |       |
| X3.1 |       |       | 0.934 |       |       |       |
| X3.2 |       |       | 0.849 |       |       |       |
| X3.3 |       |       | 0.944 |       |       |       |
| X4.1 |       |       |       | 0.850 |       |       |
| X4.2 |       |       |       | 0.851 |       |       |
| X4.3 |       |       |       | 0.841 |       |       |
| Z1.1 |       |       |       |       | 0.966 |       |
| Z1.2 |       |       |       |       | 0.958 |       |
| Y1.1 |       |       |       |       |       | 0.966 |
| Y1.2 |       |       |       |       |       | 0.958 |

From the results of the analysis as shown in Table 6 above shows that the value of the loading factor of each construct has been above 0.7.

### Evaluation Of the Structural Model (Inner Model)

Evaluation of the structural model in this study using 3 tests, namely: (1) R-Square,

(2) F-Square and (3) Mediation Effect: (a) Direct effect and (b) Indirect Effect.

### R-Square

R-Square is a measurement of the proportion of the variation in the value of the influenced variable (endogenous) that can be explained by the influencing variable (exogenous). This test is useful to predict whether the model in this study is good or bad (Juliandi, 2018). Here are the results of the R-Square test shown in Table 7 below:

Table 7 R-Square

|   | R Square | R Square Adjusted |
|---|----------|-------------------|
| Z | 0.720    | 0.706             |
| Y | 0.854    | 0.805             |

Based on Table 7 above, it can be concluded that the R-Square test results obtained values of 0.720 at Z and 0.854 at Y. This indicates that the ability of variables X1 (capital) and X2 (Labor) in explaining Z (E-commerce) is 28% and likewise the ability of variables X3 (business location) and X4 (working hours) in explaining Y (income) is 14.6%.

### F-Square

F-Square measurement or  $f^2$  effect size is a measure used to assess the relative impact of a variable that affects (exogenous) to the variable that is affected (endogenous). The measurement of  $f^2$  (f-square) is also called the effect of change.  $R^2$  that is, the change

in the value of R2 when a particular exogenous variable is removed from the model, will be used to evaluate whether the removed variable has a substantive impact on the endogenous construct (Juliandi, 2018).

The F-Square criteria according to (Juliandi, 2018) are as follows: (1) if the value of  $f^2 = 0.02 \rightarrow$  small effect of exogenous variables on endogenous; (2) if the value of  $f^2 = 0.15 \rightarrow$  moderate effect of exogenous variables on endogenous; and (3) if the value of  $f^2 = 0.35 \rightarrow$  large effect of exogenous variables on endogenous.

**Table 8 F-Square**

|    | X1 | X2 | X3 | X4 | Z     | Y     |
|----|----|----|----|----|-------|-------|
| X1 |    |    |    |    | 0.016 |       |
| X2 |    |    |    |    | 0.034 |       |
| X3 |    |    |    |    |       | 0.107 |
| X4 |    |    |    |    |       | 0.066 |
| Z  |    |    |    |    |       | 0.008 |
| Y  |    |    |    |    |       |       |

Based on the data in Table 8 above, it can be seen that the variables X1 (capital), X2 (Labor), X3 (length of business) and X4 (working hours) to Y (income) has a value

of  $f^2 = 0.066$ , hence the small effect of exogenous variables on endogenous variables.

### Mediation Effect

#### Direct Effect

Direct effect analysis is carried out in order to test the hypothesis of the direct influence of a variable that affects (exogenous) to a variable that is influenced (endogenous) (Julianato, 2018). The criteria in testing the hypothesis of direct influence (direct effect) are as follows:

First, the path coefficient : (a) if the value of the path coefficient is positive, then the influence of a variable on other variables is unidirectional, meaning that if the value of a variable that affects increases, the value of the variable that is affected will also increase; and (b) if the value of the path coefficient is negative, then the influence of a variable on other variables in the opposite direction, which means that if the value of a variable increases, the value of other variables will decrease. The conclusion or hypothesis is accepted when the P-Values  $> 0.05$ .

**Table 9 Direct Effects**

|       | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ( O/STDEV ) | P Values |
|-------|---------------------|-----------------|----------------------------|--------------------------|----------|
| X1->Z | 1.341               | 1.329           | 0.259                      | 5.180                    | 0.000    |
| X2->Z | 0.133               | 0.132           | 0.097                      | 1.372                    | 0.000    |
| X3->Z | 0.535               | 0.513           | 0.257                      | 2.082                    | 0.000    |
| X4->Z | 0.195               | 0.196           | 0.117                      | 1.678                    | 0.000    |
| X1->Y | 0.936               | 0.943           | 0.079                      | 11.852                   | 0.000    |
| X2->Y | 0.163               | 0.161           | 0.280                      | 0.583                    | 0.000    |
| X3->Y | 0.187               | 0.185           | 0.232                      | 1.876                    | 0.000    |
| X4->Y | 0.549               | 0.548           | 0.267                      | 2.063                    | 0.000    |
| Z->Y  | 1.014               | 1.029           | 0.047                      | 21.467                   | 0.000    |

The path coefficient in Table 4.7 shows that all path coefficients are positive and less than 0.05. This indicates that variable X1 (capital ) has a direct influence on Z (E-commerce) with P-Values smaller than 0.05 ( $0.000 < 0.05$ ), variable X2 (Labor ) has a direct influence on Z (E-commerce) with P-Values smaller than 0.05 ( $0.000 < 0.05$ ), variable X3 (location ) has a direct influence on Z (E-commerce) with P-Values smaller than 0.05 ( $0.000 < 0.05$ ), variable-

commerce) with P-Values smaller than 0.05 ( $0.000 < 0.05$ ), variable X4 (working hours) has a direct influence on Z (E-commerce) with P-Values smaller than 0.05 ( $0.000 < 0.05$ ), variable X1 (capital ) has a direct influence on Y (income) with P- Values less than 0.05 ( $0.000 < 0.05$ ), X2 (Labor ) has a direct influence on Y (income) with P-Values less than 0.05 ( $0.000 < 0.05$ ), X3 (location ) has a direct influence on Y (revenue) with P-Values less than 0.05

( $0.000 < 0.05$ ) as well as variable X4 (working hours) has a direct influence on Y (revenue) with P-Values less than 0.05 ( $0.000 < 0.05$ ) and so does variable Z (e-commerce) has a direct influence on Y (revenue) with P-Values less than 0.05 ( $0.000 < 0.05$ ) based on these results, all hypotheses in this study are accepted.

### Indirect Effect

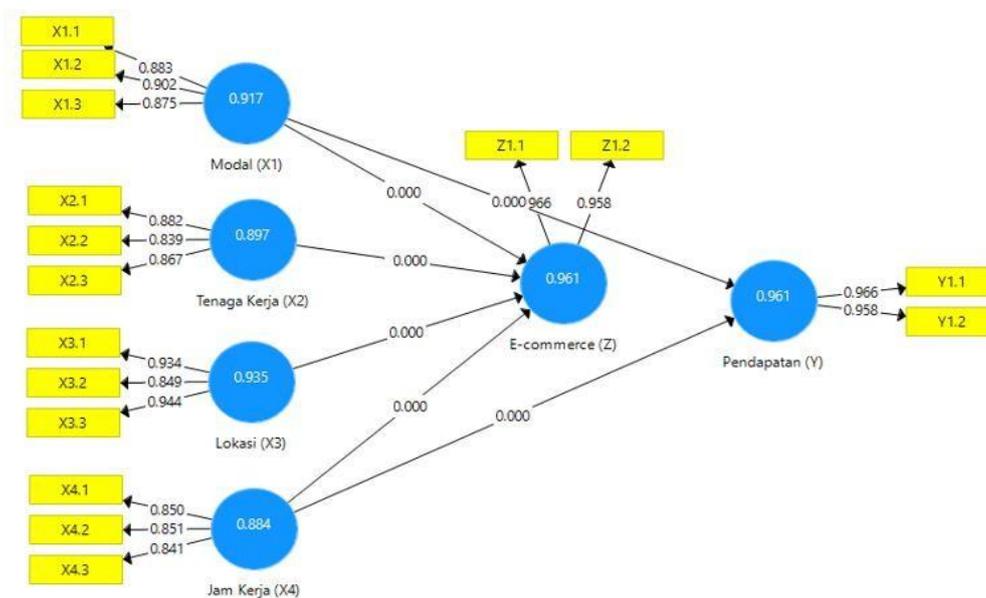
Indirect effect analysis was conducted to test the hypothesis of indirect influence of an influencing variable (exogenous) to an influencing variable (endogenous) mediated or mediated by an intervening variable (mediator variable) (Juliandi, 2018). The criteria to determine the indirect effect are: (1) if the value of p-Values  $< 0.05$  then the mediating variable affects indirectly between exogenous variables to endogenous variables and (2) if the value of P-Values  $> 0.05$  then the mediator variable does not mediate the influence of an exogenous variable to the endogenous variable.

**Table 10 Indirect Effects**

|          | Original Sample (O) | P Value |
|----------|---------------------|---------|
| X1->Z->Y | 1.342               | 0.000   |
| X2->Z->Y | 0.675               | 0.000   |
| X3->Z->Y | 0.540               | 0.000   |
| X4->Z->Y | 0.450               | 0.000   |

Based on Table 10 above, it can be concluded that variable X1 (capital) indirectly has no effect on Z (E-commerce) through mediation variable Y (revenue) with P-Values  $< 0.05$  ( $0.000 < 0.05$ ), variable X2 (labor) indirectly has no effect on Z (E-commerce) through mediation variable Y (revenue) with P-Values  $< 0.05$  ( $0.000 < 0.05$ ), variable X3 (location) indirectly has no effect on e-commerce) through mediation variable y (revenue) with p-values  $< 0.05$  ( $0.000 < 0.05$ ), variable X4 (working hours) indirectly has no influence on Z (E-commerce) through mediation variable Y (revenue) with P-Values  $< 0.05$  ( $0.000 < 0.05$ ). Therefore, all hypotheses in this study are accepted.

The following are the test results of the inner model that shows the value of the outer loading by using the Analysis tool SmartPLS v4.



**Figure 3 Inner Model Test Results**

## DISCUSSION

**E-Commerce Mediates the Influence of Business Capital on The Income of Small**

**Micro and Medium Enterprises (Msmes) In Langkat Regency.**

The results of the first hypothesis test showed that e-commerce mediates the effect of business capital on the income of small micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.050$ ). based on these results, it can be concluded that the higher or greater the capital spent by MSME actors will have an impact on the income obtained. This indicates that the greater the Capital owned by an MSME, the greater the level.

For a company to survive and not go bankrupt, it is essential to have a good management of working capital. because the capital that must be spent to buy or make merchandise is called working capital. This working capital can be provided monthly or whenever there is an order. Without working capital, orders cannot be fulfilled or goods cannot be traded. The product will be sold after it is created and the business owner will get revenue from the sale (Novitasari, 2017).

The amount of capital stock that is large or small can affect the efficiency of inventory and working capital during the production process, thus affecting the income of MSMEs. However, the presence of inventory that is too large compared to the need will increase maintenance costs, increase the likelihood of breakdowns, and degrade quality, thereby reducing revenue.

According to (Bahri, 2017), Business Capital is all assets that can be used to increase output in the production process, either directly or indirectly. In the economic explanation, capital is a good along with a factor of production, and Labor will produce new goods and services. When a company carries out its operations, its working capital must be taken into account. Working capital is needed to ensure operations run optimally and prevent financial crises. Working capital has a role in determining an increase in income because the presence of working capital will affect the smooth running and development of the business, so that working capital can affect income levels (Fitriyani and Suwondo, 2021).

### **E-Commerce Mediates the Influence of Labor on the Income of Small Micro and Medium Enterprises (Msmes) In Langkat Regency**

The results of the second hypothesis test showed that e-commerce mediates the influence of Labor on the income of small micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.05$ ). Based on these results, it can be concluded that the higher or greater the number of workers or the quality of labor provided by MSME actors will have an impact on the income to be obtained. It also proves that with labor, it will be able to increase the production of a business and is closely related to the amount of production that will be sold to meet consumer demand so that, business opinions will increase.

In addition to the number of businesses, the food and beverage industry also has the highest employment, which means that this industry can help reduce the unemployment rate. MSMEs in Langkat regency, along with helping tourism, can help reduce the unemployment rate as they have a high employment rate compared to other industries. The food and beverage industry can be a leading sector due to its high production value compared to other sectors. Factors of supply and demand for labor are influenced by the level of wages, while the amount of Labor placement or employment rate is influenced by wage factors. The more capable workforce will produce more products, which in turn will generate more income for employers and workers. In addition, if production output increases with the aim of increasing income, then the labor required will become more (Polandos et al, 2019).

Labor is the driving factor and other input factors; labor is very important in production. Without Labor, other factors of production would be meaningless. Increased labor productivity will encourage production, which in turn will increase income. If many products are sold, entrepreneurs will be able to increase their production, which in turn will generate

more of the required labor, which in turn will increase revenue (Sumarsono, 2013).

### **E-Commerce Mediates the Influence of Business Location on The Income of Small Micro and Medium Enterprises (Msmes) In Langkat Regency.**

The results of the fourth hypothesis test showed that e-commerce mediates the effect of business location on the income of small micro and medium enterprises (MSMEs) in Langkat regency with P-Values  $< 0.05$  ( $0.000 < 0.05$ ). That is, the more strategic the business location, the more likely the income received by traders will be higher. This is supported by the results of research Vera (2012) and Sudha (2006) said that location selection is an important part of trading, because Strategic and easily accessible locations tend to have more customers so as to increase the income of traders.

The statement is clarified by Pardiwana (2012) that in the selection of business locations should pay attention to several factors, namely the location is easily visible, access roads are available, adequate room area and the arrangement of a comfortable lay out and friendly service. In addition, today in determining the location of trade must pay attention to the availability of parking facilities, because adequate parking is a dream for traders and consumers (Tiasta, 2012).

### **E-Commerce Mediates the Effect of Working Hours on The Income of Small Micro and Medium Enterprises (Msmes) In Langkat Regency.**

The results of the fourth hypothesis test showed that e-commerce mediates the effect of working hours on the income of small micro and medium enterprises (MSMEs) in Langkat regency with P-Values  $< 0.05$  ( $0.000 < 0.05$ ). This means that even if working hours are increased from normal time, it will not have a positive effect on increasing income. This study is in line with Asmie (2008) and Hentiani (2012) who said that the number of working hours is

determined by the decisions of individual traders, the contribution of high working hours in one day is not necessarily able to increase the income of informal traders. This research is reinforced by Sukirno (2006) that the willingness of the workforce to work with the number of long or short working hours is an individual decision.

### **The Impact of E-Commerce on MSME Revenue**

The results of the fourth hypothesis test showed that there is a direct effect of E-commerce on revenue with P-Values  $< 0.05$  ( $0.000 < 0.05$ ). This indicates that the better the digital marketing process of an MSME runs, the more income obtained. This result is in line with research conducted by (Setiawan et al,2021) which revealed that e-commerce has a positive and significant effect on increasing the profits of Micro, Small and medium enterprises (MSMEs). The statement was also supported by (Nasution and Silalahi,2022), who in their research stated that E-commerce applied by MSMEs in the culinary field has a great influence on their income and really helps them in marketing their products.

Digital marketing shows the ease of global business by making it easy for MSME actors to share their products. Marketing is a primary thing according to a series of business activities that act on aspects of services and products. Marketing is also very chosen whether the business is run form a profit or not. Marketing which is thought to be the use of internet media becomes a marketing medium where MSME actors can market and sell their products using digital vehicles. On the progress of marketing and product sales where it will bring up the event of the progress of income obtained by business actors (Ramida et al, 2022)

## **CONCLUSIONS AND RECOMMENDATIONS**

### **CONCLUSIONS**

Based on the results of the study it can be concluded as follows:

1. The results of the first hypothesis test showed that e-commerce mediates the effect of business capital on the income of small micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.05$ ).
2. The results of the second hypothesis test showed that e-commerce mediates the influence of Labor on the income of small micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.05$ ).
3. The results of the third hypothesis test showed that e-commerce mediates the influence of business location on the income of Small Micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.05$ ).
4. The results of the fourth hypothesis test showed that e-commerce mediates the effect of working hours on the income of Small Micro and medium enterprises (MSMEs) in Langkat regency with a p-Value of  $< 0.05$  ( $0.000 < 0.05$ ).

## RECOMMENDATIONS

Suggestions researchers from research that has been done are as follows:

1. In order for MSMEs to run well and not go bankrupt, capital management must also be good, it will also certainly facilitate production and can increase revenue, trying to develop capital directly to increase business production activities that can increase revenue at the same time.
2. We recommend that MSME actors increase labor productivity to encourage production activities increasing production will certainly increase MSME income and actors should conduct training for workers to have expertise in the field of business that is run in order to improve the quality of goods produced/produced.
3. The authors suggest that MSME business actors to pay attention to the strategic location of Langkat regency from various directions of travel traffic,

plus various locations that have been designated as tourist destinations, it is a good idea for the Langkat regency local government at a certain point to plan and build outlets or rest areas so that this condition can provide drongan and opportunities for MSMEs in marketing products and developing their businesses.

4. The author suggests that MSMEs can increase the number of working hours for workers to rest and increase the number of workers so that a worker turnover system can be implemented, not targeting production to workers with a specified time. Always provide motivation for workers to come in accordance with a predetermined time.
5. The author suggested that the government to pay attention to the SMEs so that SMEs are given training in the use of technology, considering that the current sale and purchase transactions already use information and Communication Technology.

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