THE IMPLEMENTATION OF SMALL MEDIUM ENTERPRISES FOR ERADICATING UNEMPLOYMENT IN DISTRICT AREA CASE STUDY: LABOR ABSORPTION IN MUNICIPALITIES OF KEDIRI FOR THE PERIOD 2015

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The Implementation of Small Medium Enterprise for Eradicating Unemployment in District Area Case Study: Labor Absorption in Municipalities of Kediri for the Period 2015

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Malang, 23rd June 2016
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ABSTRACT
A high number of job seeker not followed with sufficient number of job vacancies will make an unemployment rate rising in every year. One sector that is recognized for being flexible and helpful in reducing the unemployment rate is Small Medium Enterprises. The role of Small Medium Enterprise on economic growth in Indonesia cannot be doubted anymore since it was proven as the best solution for reducing the unemployment during economic crisis at 1998. After that year, Small Medium Enterprise is becoming the main concern to government seeing the market nowadays is dominated with small enterprises. The researcher takes the sample from Kediri that is known with positive improvement of its small enterprises. Type of data used in this research is secondary data. The dependent variable examined in this research is capital, wage, age of business, and SME’s revenue to see their impact on labor absorption in Kediri. The result findings is wage and SME’s Revenue is simultaneously affecting labor absorption in Kediri, while capital and age of business not significantly affecting the labor absorption in Kediri.

Keywords: SME, wage, labor absorption, capital, age of business, revenue.

INTRODUCTION

Background of Study
The overpopulated condition in Indonesia is able to affect several new problems mostly faced by developing countries. Eventhough, the current annual growth in Indonesia is going up and down but still, in the terms of the normal nominal of GDP Growth is around 2-3% (US Economy, 2016). The ideal GDP Growth Rate means that the economic condition is sustainable in business cycle. In fact, each country has different methods or indicators to represent their change in economic condition, from the rules of political and law sides, it is concluded as the subject to change the economy. The meaning of Economic Growth usually refers to the society welfare, and life continuity. Nowadays, the growth and development of economy are often felt by the society especially the society of the middle lower income population living in rural area. The welfare itself that should be the measurement for the economic growth cannot prove the real condition happened on poor people.
Basically, poor people is dominated by society living in rural area and working in agricultural sector. The East Java Region also shows the increasing amount of poor people in thousand units, the data from the Central Bureau of Statistics also states that East Java is the first rank as the highest amount of poor people in Indonesia. This problems are still as a big task for government in East Java that has a big population to solve the problem to minimize or maximize the amount of poor people that is mostly dominated by rural people worked in agricultural sector.

Most of the poor people is also dominated with uneducated. The region that still lack of education and unskill labor is usually from rural area, that is also as the cause of high portion of poverty rate in East Java. The education is the important part to create the good quality labor in the future in order to decrease the unemployment rate in Indonesia.
The amount of open unemployment rate as the main problem in East Java Province. Government which regulated the new policy to push the unemployment rate & high amount of labor force was ought to be solved by the job opportunities.

**Figure 3**

![Chart showing East Java Growth and National Growth from 2009 to 2013.]

Source: Central Bureau Statistics East Java

East Java itself as the potential province creates many small, micro and also large enterprises. The number of growth increases each year, meanwhile in the 2013 the growth of Gross Domestic Product tended to increase, but the market environment still showed the good condition for business. Each of cities usually was fulfilled with their potential natural resources and tourism sector.

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Industry</th>
<th>Medium Industry</th>
<th>Big Industry</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>700.588</td>
<td>15.109</td>
<td>744</td>
<td>716.441</td>
</tr>
<tr>
<td>2010</td>
<td>726.357</td>
<td>15.556</td>
<td>758</td>
<td>742.671</td>
</tr>
<tr>
<td>2011</td>
<td>766.783</td>
<td>16.182</td>
<td>960</td>
<td>783.925</td>
</tr>
<tr>
<td>2012</td>
<td>779.090</td>
<td>16.387</td>
<td>1.060</td>
<td>796.537</td>
</tr>
<tr>
<td>2013</td>
<td>785.906</td>
<td>16.484</td>
<td>1.064</td>
<td>803.454</td>
</tr>
</tbody>
</table>

Source: Ministry of Industry and Trade 2013

The data provided also becomes the great factor to stimulate the amount of open unemployment rate, by opening the new business means that the level of unemployment decreases and labor demand increases.

Speaking about the Small Medium Enterprise, Kediri is the third biggest city in East Java and it is quite popular for their priority SME product that can penetrate the export-import on regional scale. SME important role is as the potential sectors and the stability guard of the economy. Since the small and medium enterprises have a high level of involvement of the workforce, so we need to do the research related to SMEs.

**Research Question**

Based on the background of the study, the research question is “How can the Capital (X1), Wage (X2), Age of Business (X3) and SME’s Revenue (X4) affect the labor absorption in Kediri?”
LITERATURE REVIEW

Labor

According to Simanjuntak (1998) labor (manpower) are society who have worked and are working, looking for work, and are carrying out other activities such as going to school and taking care of the household. The individual can be said to be in the labor force except those who do not doing the job activity.

Labor in Kediri

According to Central Bureau Statistics East Java the amount of labor force in Kediri in 2011 is 763,882 then the highest is in 2012 with the amount 801,966 in 2013 with the amount 791,101, and in 2012 is 785,650. Sectors that have high demand in Kediri is manufacturing sector. Moreover, the industry is located in the Kediri cigarette company PT. Gudang Garam Tbk, where the revenue to give the greatest asset in economic activities in Kediri.

Labor Demanded

Figure 4

\[ \text{W} \]
\[ \text{E} \]
\[ \text{D} \]
\[ \text{D} \]
\[ \text{L} \]
\[ \text{demand} \]

Source: Mankiw (2011)

From this figure explains that the relation between wage level with labor demanded, by the increasing of wage level required, the company will decrease the amount of labor. Besides, the decreasing level of wage will increase the labor demand.

Relation Between Output and Labor

Figure 5

Output per week Total output

Small Medium Enterprise in Indonesia

SMEs have historically been the important sector that play a main role in the Indonesian economy, especially as the large provider of employment who seek new jobs that will lead to the decreasing level of the unemployment and the poverty rate in Indonesia, and hence the generator of the primary or secondary sources of income for many households(Tambunan, 2006).

<table>
<thead>
<tr>
<th>Business Category</th>
<th>Number of Companies</th>
<th>Employee</th>
<th>PDB Contributions (%)</th>
<th>Investments (Billions Rp)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprise</td>
<td>55.856.176</td>
<td>99.859.517</td>
<td>35.8</td>
<td>175,529.1</td>
</tr>
<tr>
<td>Small Enterprise</td>
<td>629.418</td>
<td>4.535.970</td>
<td>9.6</td>
<td>452.790</td>
</tr>
<tr>
<td>Medium Enterprise</td>
<td>48.997</td>
<td>3.262.023</td>
<td>13.5</td>
<td>622.482</td>
</tr>
<tr>
<td>Big Business</td>
<td>4.968</td>
<td>3.150.645</td>
<td>40.9</td>
<td>1,033,071.9</td>
</tr>
</tbody>
</table>

Source : Ministry of Cooperatives and Small Medium Enterprises, 2014 (processed by Setyawan et al., 2015)

Role and problem that facing by SME in Indonesia

Small and Medium Enterprises (SME) in Indonesia give significant roles to the country economic development. Tambunan (2009) identifies five characteristics of SME in Indonesia which make this business important for the country economic development. First, SME in Indonesia is mainly owned by local people and it absorbs millions of workforce in the country. Second, SME is very common in rural areas, and their business is based on agriculture, thus they become important for rural economic development. Third, SME is the labor intensive, with many less-educated and youngsters involved in the business. Fourth, SME in Indonesia obtains their financial operations from personal savings. Fifth, this businesses produce simple consumer goods.

Age of Establishment SME’s
Long age establishment can affect the level of income, the length of a principal business or business to pursue its business affecting the productivity (ability / expertise), thus increasing efficiency and able to reduce the cost of production is less than the levels of sale. The longer experience on the field in trade market will further increase the knowledge about the taste or consumer behavior. Skills trade is growing more and also more business associates and customers who successful to be reached (Wicaksono, 2011 in Firdausa 2012).
Small Medium Enterprise in Kediri

Kediri was crowned as the first rank Indonesia namely as Most Recommended City for Investment from the survey in SWA Magazine. (Source wikipedia, Kediri). Nowadays the popularity of Kediri increases through the role of tourism sector, and also from potential superior product. Kediri is not only known as “Kota Tahu” but also from the other SME products dominating the export level in East Java.

RESEARCH METHOD

Research Object

Since Kediri is positioned as the city that has already developed well, in Kediri there are many units of business industries by many scale such as a big, medium and small industries. The Big Industry are mostly in sugar and tabacco, then for small and medium industries produce food and processing of agricultural products. With the variance and small medium enterprises that keep moving forward in Kediri the writers choose to do some researches in small and medium industries, the data is the secondary data from Mapping Questionnaire in 2015 by 2889 in total amount.

The Type and Source of the Data

The type data in this research uses quantitative data, the data is obtained from the Mapping Questionnaire for Small Medium Enterprise in Kediri about the amount of labor in Kediri, Capital in Kediri, Wage Level, the Age of Business in Kediri, and also how much the SME’s Revenue from Kediri. (and also the other sourced that are still related with research title such as Central Bureau of Statistics of Indonesia, and also from the official website from Department of Cooperatives and SMEs in Kediri)

Definition Operational Variable

Dependent Variable
- Labor

Independent Variable
- Capital (X1)
- Wage (X2)
- Age of Business (X3)
- SME’s Revenue (X4)

Methods of Collecting data

The data used in this reasearch is obtained from several methods of collecting data such as documentation through adding some notes, archieves data collection from several source like online article or from newspaper, and the literature review with the purpose for accumulating the secondary data from related source.

Methods of Analysis Data

Classical Assumptions Test

3.5.2.1 Normality Test

The normality test involved in this research is to measure whether the independent and dependent variables have a normal distribution in the regression model or not. In this
research, the normality test adopts a statistical analysis, which is the Kolmogorov-Smirnov test.

The criteria of normality test are:
1. If the probability ($α$) is lower than 5% or 0.05, the hypothesis is rejected and it also means the data are not distributed normally.
2. All else being equal, if the probability ($α$) is higher than 5% or 0.05, the hypothesis is accepted meaning the data are distributed normally.

**Heteroscedasticity Test**

Heteroscedasticity test is applied to figure out whether there is a disparity in variance from the residual within the observation or not. A good regression model has homocedasticity, which means that the variance from residual is constantly remained or there is no heterocedasticity found from observation to other following observations. (Ghozali, 2006:105) In Eviews, heteroskedasticity test can be done simply by using White Heteroskedasticity test.

**Autocorrelation Test**

The autocorrelation is tested to know whether there is a correlation between residual error in t period and residual error in t-1 period. A proper regression model is the one that is free from autocorrelation Ghozali (2006:91).

**Multicollinearity Test**

According to Ghozali (2006:91), multicollinearity test is used to test whether there are correlations among independent variables in the regression model or not. To detect multicollinearity can be done by looking at the tolerance value or variance inflation factor (VIF) using the following criteria below:

1. If the tolerance value is bigger than 10% or the VIF value is smaller than 10, thus it can be concluded that there is no multicollinearity among independent variables in the regression model.
2. If the tolerance value is smaller than 10% or the VIF value is bigger than 10, thus it can be concluded that there is found multicollinearity among independent variables in the regression model.

**Hypothesis Test**

**F-Test**

According to Sugiyono (2014:190) F-test is a test conducted to determine whether all the independent variables are able to explain their influences on the dependent variable.

**T-Test**

According to Sugiyono (2014:184), t-test is functioned for determining an analysis of the effect from each independent variable towards dependent variable.
RESULT AND DISCUSSION

Analysis Data Result
Normality Test
Figure 6

![Normality Test Chart](chart.png)

The normality test as represented in the table above shows the amount of probability is 0.000 which is above the significance level 0.05, that means rejecting the requirement of normality test that should be more than 5% or 0.05, but based on the empirical experience some statisticians, data have sample of more than 30 sample (n>30), then it can be assumed normal distribution. Could be said as a large sample. This condition is also supported with the statement from Jeffrey M. Wooldridge in his book Introductory to Econometrics “Even though the Y are not from a normal distribution, we can use the central limit theorem conclusion that OLS estimators satisfy asymptotic, which means that they are approximately normally distributed in large enough sample size.”

Heterokedasticity Test Result
Table 3
Heteroskedasticity Test: White

<table>
<thead>
<tr>
<th></th>
<th>F-statistic</th>
<th>Prob. F(12,283)</th>
<th>Prob. Chi-Square(12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scaled explained SS</td>
<td>7.006819</td>
<td>0.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>67.8002</td>
<td><strong>Prob. Chi-Square(12)</strong></td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The requirement of heterokedasticity test is the amount of probability should be more than alpha (α) 5% or 0.05 but the probability is lower than the alpha (α) and not suitable with the Heterokedasticity test requirement. This fact is not directly stated that the model is not free from homocedasticity problems. The result is lead into some explanations to solve the problem in heterokedasticity test.

Fixed Heterokedasticity Problems

Table 4
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.826381</td>
<td>0.164326</td>
<td>11.11436</td>
<td>0.0000</td>
</tr>
<tr>
<td>CAPITAL</td>
<td>0.02152</td>
<td>0.134813</td>
<td>0.15963</td>
<td>0.8733</td>
</tr>
<tr>
<td>WAGE</td>
<td>-0.806173</td>
<td>0.105566</td>
<td>-7.63666</td>
<td>0.0000</td>
</tr>
<tr>
<td>AGE_OF_BUSINESS</td>
<td>0.002611</td>
<td>0.002712</td>
<td>0.962919</td>
<td>0.3364</td>
</tr>
<tr>
<td>SME_REVENUE</td>
<td>1.147755</td>
<td>0.295075</td>
<td>3.889704</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

The weakness of heterokedasticity problems is the variance of standard error which is not appropriate to make the conclusion of the research. According to White Method the standard error now is appropriated as the model, error terms do not have any relationships or there are no serial of correlations and can be concluded free from heterokedasticity problem.

Autocorrelation Test
Table 5

<table>
<thead>
<tr>
<th>F-statistic</th>
<th>Probability F(2,289)</th>
<th>0.016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obs*R-squared</td>
<td>Probability Chi-Square(2)</td>
<td>0.0153</td>
</tr>
</tbody>
</table>

The data showed the amount of probability is less than alpha (α) 0.0153 is less than 0.05 conclude the data free from autocorrelation problem.

Multicolinearity Test
Table 6

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient Variance</th>
<th>Uncentered VIF</th>
<th>Centered VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.030738</td>
<td>24.62975</td>
<td>NA</td>
</tr>
<tr>
<td>CAPITAL</td>
<td>0.030698</td>
<td>14.75653</td>
<td>1.408512</td>
</tr>
<tr>
<td>WAGE</td>
<td>0.007924</td>
<td>4.182743</td>
<td>1.42722</td>
</tr>
<tr>
<td>AGE_OF_BUSINESS</td>
<td>1.17E-05</td>
<td>2.499701</td>
<td>1.074348</td>
</tr>
<tr>
<td>SME_REVENUE</td>
<td>0.025227</td>
<td>1.092629</td>
<td>1.033568</td>
</tr>
</tbody>
</table>

The result of multicolinearity test that represent all the Centered VIF value is less than 10 through the table above means that the multiple linear regression model is free from multicolinearity problem.

Regression Analysis Result
Table 7

<table>
<thead>
<tr>
<th>Variable</th>
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<td>1.147755</td>
<td>0.295075</td>
<td>3.889704</td>
<td>0.0001</td>
</tr>
</tbody>
</table>
Therefore, the regression that is already denoted with the mathematical models having the interpretation of each variable. The explanations are clearly explained below:

1. The coefficient value of Capital is shown 0.02 in amount, the result of equation the variable have positive sign. Explained that Capital has the positive relationship with Labor Absorption in Kediri which means in every increasing 1% proportion in Capital will make an impact increasing in amount 0.02 the level of Labor Absorption in Kediri in average with the ceteris paribus assumption, that the rest of independent variable are constant.

2. The coefficient value of Wage is shown 0.80 in amount, the result of equation the variable has the negative sign. Explained that Wage has the negative relationship with Labor Absorption in Kediri which means in every increasing 1 Rupiahs in Wage for Labor in Kediri will make an impact in decreasing amount 0.80 portion of Labor Absorption in SME’s Kediri in average with ceteris paribus assumption, that the rest of independent variable are constant.

3. The coefficient value of Age of Business is shown 0.002 in amount. The result of equation with the variable has the positive sign. Explained that the Age of Business have positive relationship with the Labor Absorption in Kediri which means in every increasing 1 year of established SME’s Kediri will make an impact increasing amount 0.002 of labor absorption in Kediri in average with ceteris paribus assumption, that the rest of independent variable are constant.

4. The coefficient of SME’s Revenue is shown 1.14 in amount. The result of equation with variable has the positive sign. Regarding through the SME’S Revenue or omzet it has positive relationship with the Labor Absorption in Kediri which means in every increasing 1 Rupiahs will make an impact in increasing amount 1.14 portion of labor absorption Kediri in average with ceteris paribus assumption, that the rest of independent variable are constant.

**F Test**

Table 8

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.341915</td>
<td>Mean dependent variable</td>
<td>1.405405</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.33287</td>
<td>S.D. dependent variable</td>
<td>0.744133</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.607793</td>
<td>Akaike info criterion</td>
<td>1.858783</td>
</tr>
<tr>
<td>Sum squared residual</td>
<td>107.499</td>
<td>Schwarz criterion</td>
<td>1.92112</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-270.0999</td>
<td>Hannan-Quinn criteria</td>
<td>1.883742</td>
</tr>
<tr>
<td>F-statistic</td>
<td>37.79809</td>
<td>Durbin-Watson statistics</td>
<td>2.24697</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.0000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Speaking about the F-test result that already shown table 4.2 in lower part of multiple linear regression is provide the information in the value of Probability F statistics that have an amount in 0.000 is under the alpha (α) 0.05 can be concluded that the independent variable Capital (X1), Wage (X2), Age of Business (X3) and SME’s Revenue (X4) are perfectly influencing the dependent variable Labor Absorption (Y).

**T Test**

Table 9

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Statistic</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.826381</td>
<td>0.175323</td>
<td>10.41721</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
The requirement that is already applied for each T-test should be less than the alpha ($\alpha$) 0.05. For each independent variable that has already passed the level of significant is Wage and SME’s revenue that have the probability less than alpha ($\alpha$) 0.05 both of them show the great amount 0.0000 which means that the Wage and SME’s revenue are perfectly significant to influence the amount of Labor Absorption in Kediri.

Rest of the variable that have the probability below the alpha ($\alpha$) are the Capital and Age of Business. The result is capital and age of business is not statistically influencing the value of Labor Absorption in Kediri.

**R Squared**

Table 10

<table>
<thead>
<tr>
<th></th>
<th>R-squared</th>
<th>Mean dependent variable</th>
<th>1.405405</th>
</tr>
</thead>
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<tr>
<td>Adjusted R-squared</td>
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<td>2.24697</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Value of R squared is represent as how much ability independent variable to explain about the value of dependent variable. The result is showing 0.34 or 34% means that only 34% ability of Capital, Wage, Age of Business, and SME’s Revenue, while the rest 66% is explained by the other variable which is not include in this research, named as exogeneous variables. The amount of R squared is quite low, it means that less than a half power of independent variable to represent the value of dependent variable. Meanwhile the result of R squared is low but fine if its happens in Cross Section Data. According to Roll and Ross (1994) explain that this phenomenon is happened because of the choice a “wrong” index.

**The Effect of Capital on Labor Absorption**

The amount of Capital is 0.02152 in positive sign means that in every increasing the amount of Capital in 1 Rupiahs will make the increased 0.02152 level of labor absorption in average with ceteris paribus assumption. Eventhough from the probability is shows 0.8733 or 87%. The high ratio of the probability in Capital make the indepent variable is not significantly influence the amount of Labor Absorption Kediri.

Result of this research is conclude that capital is not significant influence because most of the Small Medium Enterprise in Kediri is still hard to get the Capital, meanwhile Government already provide facilities. The reason why it could be happen? Its because most of the Small Medium Enterprise in Kediri is doesnt have license of legality business.

Take a look with the location of research Mojoroto and Pesantren District is labor intensive region, with the low amount of capital the business still running well and also from characteristics for small medium enterprise that more flexible makes the industry develop with little amount of capital. This finding also in line with the result from Purnomo (2013) in
analysis labor absorption in handicraft Banyuwangi district also have same result in not significantly capital in terms of labor absorption in district area.

**The Effect of Wage on Labor Absorption**

Coefficient Wage is -0.8061 has the meaning that in every increasing 1 Rupiah amount of Wage will directly make an effect in decreasing amounted 0.8061 level of Labor Absorption in Kediri with negative relationship. The probability is 0.0000 below than the alpha (α) means that the amount of wage is perfectly significant influence the level of labor absorption.

The negative relationship that happens is in accordance with what is stated in Labor Demanded, that when the level of wages / salaries of the workforce will decrease the amount of labor required, and vice versa with the increase in demand for manpower due to the decrease in the level of wage / salary. So in case of an increase in the level of wages / salary, the company will reduce employment.

**The Effect Age of Business on Labor Absorption**

Linear equation result shows the coefficient in positive sign amount for age of business of 1.1477 with probability 0.4455 this coefficient is clearly explained that in every increasing age of business in 1 year, will make an impact in increasing the level of labor absorption in Kediri among 1.1477 in average with ceteris paribus assumption. Meanwhile the probability shows the high amount 0.3364 that is upper than the alpha (α) 0.05 or 5% defines that the Age of Business Small Medium Enterprise does not have significant effect to influence the labor absorption in Kediri.

Small industry is usually dominated with the age of business in less than 10 years of establishment which classifies the market condition as domination with the new business. Take a look into the fact in field, there are many appereances of creative industry that own by young generation.

**The Effect of SME’s Revenue on Labor Absorption**

According to the linear equation shows that the coefficient of SME’s Revenue shows the positive sign with the amount of 1.1477 the result of coefficient has the meaning that is in every increasing 1 Rupiahs SME’s Revenue will make an impact in increasing amount 1.1477 amount of Labor Absorption in average with ceteris paribus assumption. The positive sign means that in every increasing amount SME’s Revenue will lead the increasing value of labor absorption, probability shows 0.0001 it means that the SME’s Revenue significantly influences the level of labor absorption in Kediri because the value of probability is below the alpha (α) 0.05

This finding is also harmonious with the theory in chapter 2 the relation output and labor input according to Walter Nicholson (2011) labor and output (revenue) have a positive relationship, the increasing of revenue should following with the increasing of labor absorption.

**CONCLUSION AND SUGGESTION**

**Conclusion**

The level of labor absorption in Mojoroto and Pesantren District in Kediri is only affected by the amount of wage and amount of SME’s revenue. By the increasing of regional minimum wage also following with the increasing of purchasing power parity, with the
increased of purchasing power parity will trigger demand for goods and services is increasing, and this makes the company adds more labor simultaneously with the increasing in profitability revenue. Wage and revenue is dynamic variable, in every change of wage and revenue will affecting on work performance and firm cash flow. In this case, wage and revenue significantly affecting how much labor absorption in Kediri.

In terms of location of research in Mojoroto an Pesantren district with the level of the lowest population density is in the Pesantren District, then a little more dense in the Mojoroto District, both of them are labor intensive region that can be develop well eventhough with low amount of capital, this finding also harmonious with the characteristics of flexibility Small Medium Enterprise. Capital does not have any influences in terms of absorbing labor in Kediri How small or big the amount of capital for industry does not give the impact in absorbing labor in Kediri.

Age of business doesn’t have any influences in terms of absorbing labor in Kediri. Even the older or youngest business in Kediri does not make any sense in terms of labor absorption in Kediri. Because most of small medium enterprise in Kediri is dominate with young age generation below than 10 years old establishment of business, so the age of business can’t proof as the level of maturity of business in order to absorbing more labor.

**Suggestion**

Government should pay more attention in terms of determine the regional minimum wage scale in Kediri with the purpose for society welfare in Kediri. Because the regional minimum wage scale will affecting the labor demanded in Small Medium Enterprise.

Government should make counseling for used of the revenue, high purcashing power parity will leads in to increasing level of inflation. Then, government play a significant role in order to increasing interest rate so the revenue can set aside as saving in the future with the goals for develop in to large scope of business.

Government should do the revolving loan socialization, eventhough the small medium enterprise in Mojoroto and Pesantren district can running well the business with low amount of capital, but the role of capital is still important in terms of business growth, governement should explain about the benefit using capital loan, and does not burden with high interest rate for long-term credit.

People should aware with the offering loan by governement, then used as efficient as they need. Each of business also need to registered themself as legal entity of business then become a good tax payer for constinuously business.

Government should make some place to share the ideas and training for free for all small medium enterprise actors. Small Medium Enterprise usually comes up with creative industry that has high potential to explore but lack of talents placing and also dominate with young age generation. The government should make the organization or group to share the experience of their business following with the institutional to support their background such as the Ministry of Cooperation and Small Medium Enterprise to become a great entrepreneur in the future with a good management background.

People should pretend about how importance have business knowledge as the background to open a business, that will lead in to long-term business ahead.
Suggestion for the next researcher, this research is only focus in Mojoroto and Pesantren District, it could be more specific if there are large scopes of research.

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