The Role of Large and Medium Industrial Companies By Group On The Economy (The Implementation of Company Size/Scale Model)

Iskandar Muda[1], Erlina[2], Sambas Ade Kesuma[3], Risanty[4] & Abdillah Arif Nasution[5]

[1,2,3,4,5] Accounting Department, Faculty of Economics and Business, Universitas Sumatera Utara, Medan, Indonesia

[1] Contact Email : iskandar1@usu.ac.id

Abstract.

The purpose of this research is to know the influence of Beverages and Tobacco Export and Raw Meterial Export to The Economic Growth. The Design/methodology/approach of this research using a causal research design in North Sumatera Province. The data used are secondary data sourced from Statistics Agency of North Sumatera Province. The method of analysis used in this research is SEM method using software Smart PLS. The results show that Beverages and Tobacco Export and Raw Material Export influence to The Economic Growth. The limitation of this research lies in the observation of sample only Utata Sumatra region whereas other area is not analyzed and other area has different characteristic with North Sumatera Province. The government should expand the export capacity of Beverages and Tobacco Export products as it has the potential to increase regional economic growth. The Originality/value of this research is The Beverages and Tobacco Export is a variable that has never been studied by others so that it becomes a special topic to be studied.

Key words : Beverages and Tobacco, Raw Meterial, Export, Economic Growth.

1. Introduction

The food, beverage and tobacco industry sectors are one sub-sector of the non-oil and gas processing industry contributing the most large on Gross Domestic Product (GDP) in Indonesia. Based on data from the Indonesian Central Bureau of Statistics 2016, the income of the food, beverage and tobacco industries is the one contributed the second largest revenue after the equipment, machinery, and machinery industries transportation equipment in non-oil and gas processing industry. Positive growth of the food, beverage and tobacco industries makes the beverage industry has the potential to subvert its market. Based on the beverage industry is divided into three categories: hot beverages such as tea or coffee, soft drinks including juice, isotonic drinks, drinks soda and mineral water, as well as alcoholic beverages including beer, wine and other liquor. The main problems of the re-planting industry is not yet the realization of a competitive climate healthy, prices at the consumer level are distorted, the supply of tobacco amounts do not meet the needs and low quality. Each of these problems make appearance (performance) is currently not optimal. Climate competition which is uncontrolled resulting in especially the middle to middle class tobacco industry down requires adequate protection from government to develop (Meckling & Nahm, 2019, Nurlina et al., 2019 and Waheed et al., 2019). Material key standards, especially tobacco and cloves, still do not have standard specifications technical as required by the industry. As a resulting industry must bear the cost of grading to be properly utilized in process industry. The

economy of North Sumatra in Quartil Four in 2016 was relatively stable at 5.3% (yoy). This achievement above the national economic performance slowed to 4.9% (yoy). The performance of the external sector is quite good amidst restraints in the domestic economy, causing the economy of North Sumatra in the fourth quarter of 2016 to grow stable. Overall year, North Sumatera economic performance again wriggled from 5.1% (yoy) to 5.2% (yoy) (Central Bureau of Statistics, 2017). The improvement in the economy is mainly supported by the continued strong consumption of the public, accompanied by continued improvements in the external sector. Entering early 2017, public consumption of goods and services is expected to be strong enough in line with the celebration of the new year. Strong and improving domestic demand and global economic recovery that will be followed by rising prices of plantation commodities are expected to be a driver of further economic improvements.

2. Literature Review

Company Size

The size of the company is the scale of the company which is seen from the total sales, total workforce, total assets of the company each year. The size of the company illustrates the size of the company in terms of the business field being undertaken (Olajire, 2020). Determination of the size of the company can be determined based on total sales, total assets, average level of sales.

Large companies have various advantages compared to small sized companies. These advantages include ease of regulation, ease of taxation, social convenience, ease of determining the level of obtaining funds from the capital market (Huang and Zhu, 2010). The size of the company determines the bargaining power in financial contracts. In addition, the possibility of the influence of scale in costs and returns makes a larger company can get more profit (Mmuller et al., 2020). While the grouping and classification of Industries According to the Ministry of Industry and Trade (Republic of Indonesia, 2016) is based on branches, types, and commodities of industrial goods and their guidance. This classification refers to the International Standard Industrial Classification Off All Economic Activities (ISIC) which have been adapted to the conditions in Indonesia under the name Indonesian Business Field Classification (KLUI).

3. Methods

The purpose of causal-comparative research is to investigate the possibility of causal relationships in a way that is based on observing the consequences and recovering factors that may be the cause through certain data. This is in contrast to the experimental methods that collect data at the present time under controlled conditions. Type of data is Secondary Data from North Sumatera In Figures by Central Bureau of Statistics 1999-2015 (Central Bureau of Statistics, 2017). This research was conducted with the effect test using SmartPLS.

3. Result and Discussion

Result

Evaluation of Structural Model

Inner model evaluation through the bootsraping menu also generates t $_{statistics}$ values that will be used to test the hypothesis. The criteria are t $_{statistic}$> 1.66. If the value of t count <t $_{table}$ then Ho accepted and when the value of t $_{count}$ > t $_{table}$ then Ho is rejected which means that the variable in question there is influence which is significant (Kawasaki et al, 2018). This means that the independent variables tested have an effect significantly to the dependent variable. The result of t-statistics value in the table path coefficients is presented in the following Figure 1:
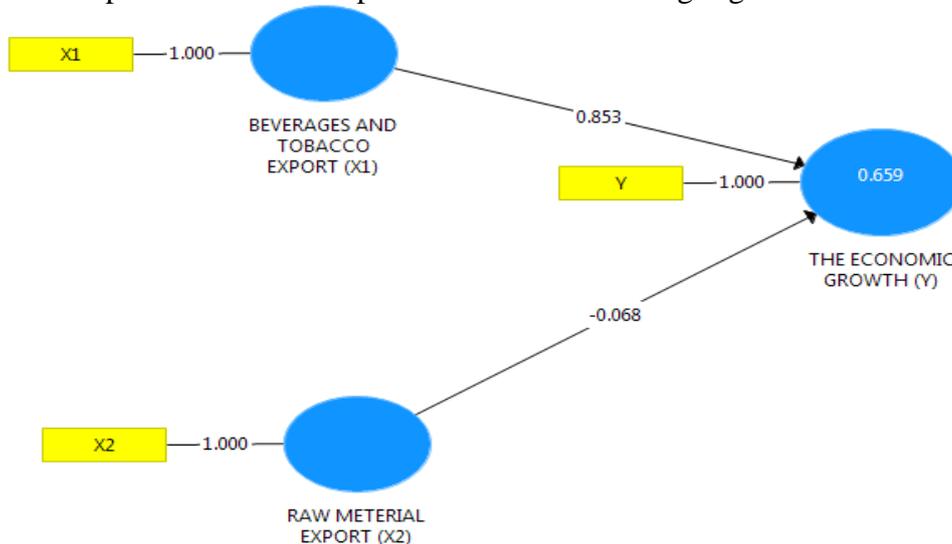
Sources : SmartPLS Result (2018).
**Figure 1.** Overall Model with Coefecient

Based on the Figure 1 shows that the Beverages and Tobacco Export variables have an impact on The Economic Growth. Statistically presented in the following Table 1 as a follows :

Table 1. The result of Bootsraping

	Original Sample	Sample Mean	Standard Deviation	t Statistics	P Values
Beverages and Tobacco Export (X1) -> The Economic Growth (Y)	0,853	0,853	0,180	4,737	0,000
Raw Meterial Export (X2) -> The Economic Growth (Y)	-0,068	-0,060	0,164	0,417	0,677

Sources : SmartPLS Result (2018).

Based on the above Table 1 produces coefficient of 0.005, smaller than α = 5% then the decision of hypothesis testing reject H$_0$ and accept the hypothesis Ha. The results show that Beverages and Tobacco Export are significant variables on The Economic Growth (Y). In addition to hypothesis testing through the bootsrapping menu that produces *t* statistics, inner model evaluation is also done by reviewing the R-Square value. The R-square value generated from the inner model evaluation is presented in the following Table 2 and Figure 2:
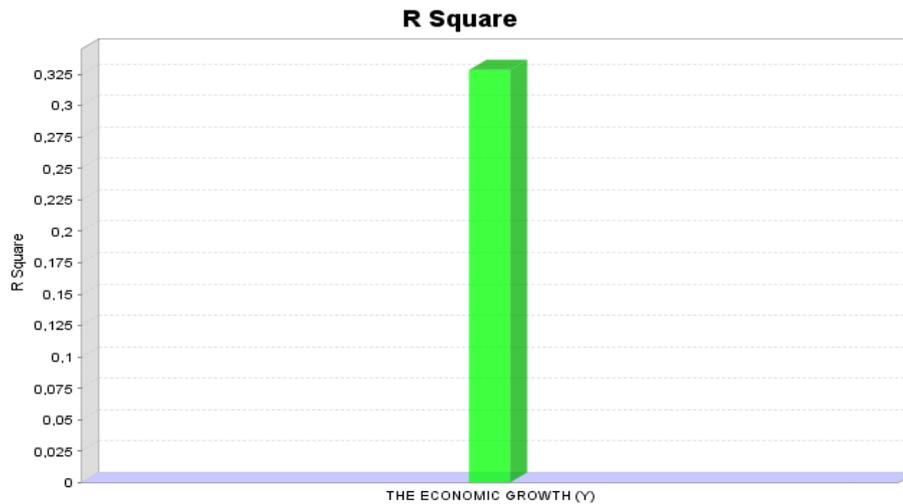
Sources : SmartPLS Result (2018).

Figure 2. R Square

Based on Figure 2 shows that graphically the value of R Square is 65.9%. While statistically R Square is in Table 2 below:

Table 2. R-Square Value

	R Square	R Square Adjusted
The Economic Growth (Y)	0,659	0,607

Sources : SmartPLS Result (2018).

In Table 2 show that the variation of R-Square value of 65.9%. Regional economic development is a process whereby local governments and communities manage existing resources and establish a partnership pattern between local governments and the private sector to create new jobs and stimulate the development of economic activity (economic growth) within the region. The main direction is to develop a strong, global and global competitive economy (Coccia, 2014; Ofori et al., 2017, Mulungu et al., 2017, Aldatmaz and Brown, 2020 and Brondoni, 2020). The gradual transformation of a comparative-based economy into a competitive competitive economy. With the basic principles Managing the improvement of national productivity through innovation and mastery of science and technology. Managing the economic institutions that implement best practices and good governance in a sustainable manner and Managing natural resources in a sustainable manner.

Discussion

Industrial sector as the driving force of the economy. The industrial sector is supported by agriculture, marine, mining, and service delivery. The existence of industry and trade sectors implements best practices and good management to achieve robust economic resilience (Tarmizi et al., 2017, Cheng and Zheng, 2020 and Martin, 2020). The development of science and technology is directed to support national competitiveness. The labor market policy is directed towards the creation of a flexible labor market, harmonious industrial relations, adequate workplace safety, satisfactory industrial settlement. Geared to realize a competitive industry with a healthy and fair industrial structure, namely (Wang, 2020):
- In the case of business control, the industrial structure is nourished by abolishing monopolistic practices and market distortions;

- In terms of business scale, industrial structure will be strengthened by making SMEs as the base of national industry that is integrated in value chain with large scale industry;
- In the case of upstream-downstream, the industrial structure will be deepened by encouraging diversification upstream and downstream to form a healthy and robust industry clump.

The maintaining the sustainability of regional economic development in order to bring beneficial impacts to the local population need to understand that the management of regional development can give a good influence to achieve the expected economic development (Bhandari et al., 2013; Hunter et al., 2016; Idowu and Adeneye, 2017 & Banya et al., 2017). If the development management policy is not on target then it will result in a slowdown in the rate of economic growth. Thus regional development management has the potential to increase economic development and create profitable business opportunities in accelerating the rate of economic growth of the region (Kauano et al., 2020). The principles of pro-business development management (between local government and the private sector) are as follows:

1. Providing Information to the Private Sector
2. Provide Certainty and Policy Clarity
3. Encouraging the Service and Trade Sector
4. Increasing Competitiveness of Regional Entrepreneurs and
5. Shaping the Space that Encourages Economic Activity

Indicator of economic potential of a region measured by the performance of the economic sector, usually divided into 9 (nine) sectors contained in the GDP (Regional Gross Domestic Product) of the area. The nine sectors are agriculture, plantation, forestry and fishery sector, mining and quarrying sector, industry sector, processing, electricity, gas and water sector, building sector, trade, hotel and restaurant sector, transportation and communications sector, financial sector, rental of corporate services and other services sectors.

5. Conclusions

The results show that Beverages and Tobacco Export and Raw Meterial Export influence to The Economic Growth. The limitation of this research lies in the observation of sample only Utata Sumatra region whereas other area is not analyzed and other area has different characteristic with North Sumatera Province. The government should expand the export capacity of Beverages and Tobacco Export products as it has the potential to increase regional economic growth.

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