Financial factors contribution to SMEs' profitability

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A B S T R A C T

Micro, small, and medium enterprises play a very important role in driving the economy both nationally and internationally. The level of profitability is one indicator of the performance of SMEs. One of the factors that affect profitability is the financial factor. Therefore, this study attempts to analyze the contribution of financial factors (Own Capital, Loan Capital, Assets, Trade Credit, Production Costs, Sales, Average Wages, Taxes, and Lagged Profitability) to the profitability of SMEs. The population consists of all SMEs in the city of Malang. The sampling technique used an iteration formula and obtained a sample of 116 SMEs in Malang that received financing from Islamic financial institutions, banks, and non-banks. Questionnaires and observational interviews collected data. The data analysis technique used Multiple Linear Regression. The result of the determination test on this research model is 0.839 (84%). And based on the results of the partial test, of the nine independent variables in the study, only three variables have a significant positive effect on the profitability of SMEs, namely Own Capital, Loan Capital, and Lagged Profitability. And of the three variables that provide the largest contribution or influence on profitability is Own Capital.

A B S T R A K

Usaha mikro, kecil, dan menengah memegang peranan yang sangat penting dalam menggerakkan perekonomian baik nasional maupun internasional. Tingkat profitabilitas merupakan salah satu indikator kinerja UKM. Salah satu faktor yang mempengaruhi profitabilitas adalah faktor keuangan. Oleh karena itu, penelitian ini mencoba untuk menganalisis kontribusi faktor keuangan (Modal Sendiri, Modal Pinjaman, Aset, Kredit Dagang, Biaya Produksi, Penjualan, Upah Rata-Rata, Pajak, dan Lagged Profitabilitas) terhadap profitabilitas UKM. Populasi terdiri dari seluruh UKM yang ada di kota Malang. Teknik pengambilan sampel menggunakan rumus iterasi dan diperoleh sampel sebanyak 116 UKM di Kota Malang yang mendapatkan pembiayaan dari lembaga keuangan syariah, bank, dan non bank. Kuesioner dan wawancara observasi mengumpulkan data. Teknik analisis data menggunakan Regresi Linier Berganda. Hasil uji determinasi pada model penelitian ini adalah 0,839 (84%). Dan berdasarkan hasil uji parsial, dari sembilan variabel independen dalam penelitian, hanya tiga variabel yang berpengaruh positif signifikan terhadap profitabilitas UKM, yaitu Modal Sendiri, Modal Pinjaman, dan Profitabilitas Lagged. Dan dari ketiga variabel yang memberikan kontribusi atau pengaruh terbesar terhadap profitabilitas adalah Modal Sendiri.

Keyword:
Financing, Sharia Microfinance Institutions, Small Medium Enterprises.

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1. INTRODUCTION

Although there are lots of contribution of the Small and Medium Enterprises (SMEs) to the economic development, problems still come up. In connection with the contribution, SMEs have greatly contributed to the economic development (Scarborough & Cornwall, 2019). Their contribution is measured in job creation, income generation, and poverty reduction (Suci et al., 2017). As in Indonesia, the contribution of SMEs to GDP has increased in the last five years (Ministry of Cooperatives and Small and Medium Enterprises, 2020). However, regardless of its significance, many factors hinder the survival of SMEs in each country, as indicated by the lack of financial support, so this can influence SMEs performance. Business performance is important for every company. Business performance results from a company's efforts to manage its internal resources. The contemporary business landscape encourages companies to become more and more active in improving their business performance (Triantafillidou, 2020). Business performance is related to business goals, resource management, and the ability to compete with external factors to achieve competitive advantage (Si, 2019; Rosida & Aisyah, 2021). Thus, business performance is an important indicator that reflects a company's financial and non-financial conditions.

In the journal of Bank International Settlement Working Papers (2014), this study found that financial constraints are a big problem as experienced by SMEs. In fact, it also affects their profitability. The above phenomenon is supported by the research conducted by Popa & Ciobanu (2014)the development of this sector has direct effects on the development of the country mainly because SMEs represent about 99% of all firms in Romania, providing approximately 50% of GDP and also providing approximately 65% of the jobs. Introduction Economic and social transformations caused changes in the way of doing business. At international level there are more lively and frequent public debates on the factors which influences the activities of the companies. The factors that influence the activity of a company can be divided into two main groups: micro or internal (company-specific factors, which proves that financial decisions influence the profitability of SMEs. Therefore, Abdissa & Fitwi, (2016) also confirmed that financial factors are an important element in improving the performance of SMEs.

Although many studies have been conducted to analyze the factors that influence company performance, there is a lack of focus on financial evaluation in the SME sector (Wolmarans & Meintjes, 2015). In addition, the factors of corporate financial governance for this relationship are also still under investigation process (Muneer et al., 2017). In this study, the researchers focus on one aspect of corporate governance, namely the financial factors of SMEs, and try to find out how these financial factors affect the SMEs' performance.

Malang is a creative city with an economy supported by 17 sub-sectors of the creative economy. The great potential of Malang City is the basic capital for developing the creative economy by planning, developing, and coaching SMEs actors. Furthermore, Malang City's creative economy includes creative industries in various areas and people believed it to have contributed significantly to the regional economy.

Based on the aevidence above, the study tries to determine, firstly, the effect of financial factors consisting of own capital (X1), business capital loans (X2), assets (X3), trade credit (X4), production costs (X5), sales (X6), the average wage (X7), taxes (X8), and Lagged profitability (X9) affect the profitability (Y) of SMEs receiving financing at Islamic Financial Institutions in Malang. Secondly, this study strives to find out and analyze which variables have the dominant influence on the profitability of SMEs that receive financing from Sharia Financial Institutions in the city of Malang.

2. THEORETICAL FRAMEWORK AND HYPOTESIS

Financial Factors and Profitability

Financial performance concerns financial ratios, which are the company performance for analysis instruments. These instruments can be used to explain various financial relationships and indicators in past conditions and help describe the trend of these changing patterns and then show the risks and opportunities inherent in the company concerned (Aisyah, 2015). One of the financial ratios used is the profitability ratio with the ROA proxy. ROA is the proxy that gives the largest contribution to financial performance (Aisyah & Pratikto, 2022).

Industry internal factors have an important influence on profitability. They found a significant effect of financial factors on company performance (Silva & Santos, 2012; Popa & Ciobanu, 2014the development of this sector has direct effects on the development of the country mainly because SMEs represent about 99% of all firms in Romania, providing approximately 50% of GDP and also providing approximately 65% of the jobs. Introduction Economic and social transformations caused changes in the way of doing business. At international level there are more lively and frequent public debates on the factors which influences the activities of the companies. The factors that influence the activity of a company can be divided into two main groups: micro or internal (company-specific factors; Linawati & Halim, 2017). Financial factors includes such as own capital, loan capital, assets, trade credit, production costs, sales, average wages, taxes, and lagged profitability (previous period profitability). Profitability is a ratio to measure the effectiveness of the company as a whole to determine the size of the level of profit earned in sales and investment (Aisyah, 2015a).

In the capital structure, capital consists of two types, namely internal capital and external capital. Internal capital consists of own capital and retained earnings. According to Riyanto (2010) owned capital is capital that comes from the owner of the company and is embedded in the company for an indefinite length of time. Furthermore, Riyanto (2010) also defines external capital, namely capital obtained from outside the company or funds received from creditors. In general, external capital is the capital that they can obtain from bank loans, cooperatives, or other sources.

Based on the procedure of financial accounting system (PSAK) No. 16 revision of 2011, assets are anythings owned by a person or company, both tangible and intangible, of value or value that will bring benefits to the person or company. Trade Credit or trade credit has ts deifinition as a loan bound in both time and matter to exchange goods. They can do it by allerting the trading partners to the timing of money flows; credit allows a reduction in precautionary money holdings. I can also be done by having more effective management of net money accumulation (Ferris, 1981). Production costs are all costs incurred by producers in producing an item, so these costs become an important aspect in determining the selling price (Fauziyyah et al., 2021).

Sales are the activity or business of selling products or services. In the sales process, the seller or provider of goods and services gives ownership of a commodity to the buyer for a certain price and profit (Kotler & Armstrong, 2012). The average wage is the price of labor paid by capacity workers to workers after completing their work, and the amount is far below its value (Zainal et al., 2015). Mardiasmo (2018) defines taxes, namely mandatory contributions or levies paid by the people to the state, and they use them to benefit the government and the public. Salman & Yazdanfar (2012) study defines Lagged Profitability as the company's ability to generate profits in previous years, which affects profitability in the current year.

Hypothesis

A study by Dewi & Utari (2014) proved that capital has a positive and significant effect on the SMEs' income in the Imam Bonjol area of Denpasar Bali. Furthermore, Dewi & Dawoto (2015) also proved that the company's own capital has a positive relationship with profitability.

H1 = Own Capital (X1) has a significant effect on SMEs Profitability (Y)

Nisak (2013) conducted research on the effect of capital loans on SMEs income in Mojokerto, which showed that the cpital loan has signifantly affected SMsE income. Nugrahini et al. (2016) researched the effect of working capital credit on SMEs income in the Kartasura sub-district. The results show that working capital loans affect income significantly.

H2 = Loan Capital (X2) has a significant effect on SMEs Profitability (Y)

Pitoyo (2014) conducted a study on the effect of assets on the income of small traders, which showed that assets had a positive impact on the income of small traders at BMT Taruna Sejahtera, Semarang Regency. Meilinda & Mahmud (2020) proved that assets affect the MSMEs' income based on the creative economy in the city of Semarang.

H3 = Asset (X3) has a significant effect on SMEs profitability (Y)

Tang (2014) argues that the previous literature discusses why SMEs offer and accept trade credit. However, it lacks empirical evidence to confirm the relationship between trade credit and profitability. Therefore, T ang (2014) aims his study to find out how trade credit, both from the supply side and the demand side, affects the profitability of SMEs. Tang (2014) investigated 71 SMEs in the Netherlands from 2009 to 2013. The findings suggest that SMEs can establish a long-term relationship with their suppliers to obtain credit because trade payables have positively relationship with profitability.

H4 = Trade credit (X4) has a significant effect on SMEs profitability (Y).

There are some factors affecting company's profit. For example, Mulyana (2018) examined the effect of production, promotion, and distribution costs on CV.Citra Sari Makassar. The results show that production, promotion, and distribution costs partially positively and significantly affect company profits. Harahap (2019) also tested the variables of the influence of sales, operating costs, long-term debt, and short-term debt on Operating Profit at PT. Astra Agro Lestari Tbk Period 2011-2018. The results show that all research variables significantly affect increasing profits.

H5= Production Cost (X5) has a significant effect on SMEs profitability (Y)

There are some factors affecting the company's profit. For example, Silpiya (2019) conducted a study on sales on profit at PT Novell

Pharmaceutical, which showed that the company's profit was positively and significantly affected by sales. The greater the sales, the greater the profit obtained by the company. A significant relationship between sales and profit is also proven by Harahap (2019) at PT. Astra Agro Lestari Tbk.

H6 = Sales (X6) has a significant effect on SMEs profitability (Y)

Firmansyah & Darsawati (2016) proved the effect of direct labor costs on PD company profits of Mochi Lantern Kaswari significantly, Gunardi et al. (2019) tested the impact of operating expenses on the net profit of PT. Sari Indah Teguh Purwakarta period 2013–2017. One of the operational costs is the average wage of employees. The result show that the the company's high and low operating cost have an effect on the company's net profit.

H7 = Average Wage (X7) has a significant effect on SMEs profitability (Y)

Suardana (2014) proved that deferred tax has a significant positive effect on the profitability of manufacturing companies. For that reaon, good deferred tax planning can help to induce the company's performance. And Urlita (2016) also proves that the MSME income tax has a significant positive effect on the profits of micro, small and medium enterprises in the city of Malang.

H8 = Taxes (X8) has a significant effect on SMEs profitability (Y)

The company can use the profit of the previous period as a source of reserve funds, development capital, helping debt repayments, and being continued investment capital. Therefore, many studies have proven that lagged profitability affects profitability (Sudana, 2015). Therefore, many studies have proven that lagged profitability affects profitability (Vijayakumar, 2011; Yazdanfar, 2013; Margaretha & Supartika, 2016).

H9= Lagged Profitability (X9) has a significant effect on SMEs profitability (Y).

3. RESEARCH METHOD

The population consists of all SMEs receiving financing from Islamic financial institutions operating in the Malang City area. The population in this study is not known with certainty, so to determine the number of samples in this study using the iteration formula (Somantri & Muhidin, 2006). The estimated coefficient between the variables X and Y came from the smallest coefficient; if it is not known, it is recommended to be 0.30. Based on these considerations, a correlation value of 0.30 is used at a significant rate (α) set at 5% with a test power (1-β) at 5%. The operation of the formula is iterative (operated repeatedly until a stable *n* is obtained). Based on this formula, the samples in this study are as follows:
ρ is set at 0.30
The level of significance (α) is set at 5%
Test power (1-β) is set at 5%
Then and $Z_{1-\alpha}$ = 1,645 and $Z_{1-\beta}$ = 1,645
This number is entered into the iteration formula to obtain the values as in table 1.

Table 1
Literacy Value in Sampling

Literasi 1	Literasi 2
$U^1\ \rho = 1/2\ Ln\ ((1+\rho)/(1-\rho))$	$U^1\ \rho = 1/2 Ln\ ((1+\rho)/(1-\rho)) + \rho/(2(n-1))$
$U^1\ \rho = 1/2\ Ln((1+0,30)/(1-0,30))$	$U^1 \rho = 1/2 Ln((1+0,30)/(1-0,30)) + \rho/(2(116-1))$
$U^1\ \rho = 0,30952$	$U^1\ \rho = 0,30987$
$n = (z_{1-a} + z_{1-\beta})^2/(U^1\ \rho)^2 + 3$	$n = (z_{1-a} + z_{1-\beta})^2/(U^1\ \rho)^2 + 3$
$n = (1,645+1,645)^2/(0,30952)^2$	$n = (1,645+1,645)^2/(0,30987)^2$
n= 115,98	n=115,75
n= 116	n= 116

Source: Data Processed

Table 2
Definition of Operational Variables

Variable	Variable Type	Variable Indicators and Measurement
Own Capital	Independent	The total amount of own capital issued starting from the establishment of the business
Loan Capital	Independent	The amount of money used to finance a business as measured by the value of SMEs loans
Asset	Independent	Some assets are owned by the owner for business activities in capital, goods, or services.
Trade Credit	Independent	Amount of credit for goods taken from suppliers
Production Cost	Independent	Some costs incurred to carry out the production process
Sales	Independent	Sales amount
Average Wage	Independent	Depends on the number of employees
Taxes	Independent	The amount of tax paid by the business owner
Lagged profitability	Independent	Total profitability from previous years
Profitability	Dependent	

Source: Data Processed

The analytical tool used to answer the research objectives is Multiple Regression analysis. Regression analysis is a data analysis technique in statistics that are often used to examine the relationship between several variables and predict a variable (Esy Nur Aisyah, 2015b). Aisyah (2015) explains that if the parameter of a functional relationship between one dependent variable and more than one variable is estimated, then the regression analysis carried out relates to Multiple Regression Analysis. Multiple linear regression equation as follows:

$$Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + b_5x_5 + b_6x_6 + b_7x_7 + b_8x_8 + b_9x_9 + e$$

Description

Y = Profitability (predicted value)
X_1 = Own Capital
X_2 = Loan Capital
X_3 = Asset
X_4 = Trade credit
X_5 = Production cost
X_6 = Sales
X_7 = Average wage
X_8 = Taxes
X_9 = Lagged Profitability
a = Constants (Y′ value if X1, X2, X3, X4, X5, X6, X7, X8, X9 = 0)
b = Regression coefficient (increase or decrease value)
e = Standard Error

4. DATA ANALYSIS AND DISCUSSION

Classic Assumption Test

a) Normality test. Based on the SPSS results above, the significance value of the Kolmogorov-Smirnov test Z is 0.961 with a significance value above 0.05 (5%), which is 0.314. It shows that the data distribution is normal so that factor analysis can be carried out, followed by multiple regression analysis. b) Multicollinearity test, the value of the Coefficient VIF of all independent variables does not exceed the number 10. The value of the Coefficient Tolerance of all variables in each is close to 1 or not less than 0.10. Thus, it can be concluded that there is no multicollinearity problem in the regression model. c) Heteroscedasticity Test, all variables have a significance value greater than 0.05 (5%), which means that this study contains heteroscedasticity in the production cost variable. There is a correlation problem in which if the data is enlarged, it causes residual (error) is getting bigger too. d) Autocorrelation Test can be concluded that there is no autocorrelation problem with the information $dU < dw < 4\text{-}dL$ ($1.8872 < 1.983 < 2.4852$).

Multiple Linear Regression Test

The regression test results are as follows:
The regression equations based on table 3 are as follows:

$$Y = -0{,}313 + 0{,}511X1 + 0{,}175X2 - 0{,}094X3 + 0{,}006X4 + 0{,}065X5 - 0.029X6 + 0{,}080X7 - 0{,}066X8 + 0{,}317X9 + 0{,}757$$

Based on the significance value, the variables that have a significant effect on Profitability (Y) are Own Capital (X1), Business Capital Loans (X2), and Lagged Profitability (X9). In contrast, the other variables have no significant effect.

The determination test is in table 3 above; the number R is 0.916, close to the number 1. The degree of relationship to 9 variables has a positive or unidirectional relationship. The value of determination R2 = 0.839 means that the above variables can explain 83.9% of the Profitability variable. At the same time, the remaining 16.1% is explained by other variables outside of this study.

Table 3
Regression Analysis Results

Variables	Standardized Coefficient B	T	Significance
Own Capital (X_1)	0,511	6,616	0,000
Loan Capital (X_2)	0,175	2,930	0,004
Asset (X_3)	-0,094	-1,283	0,071
Trade Credit (X_4)	0,006	0,141	0,888
Production Cost (X_5)	0,065	0,918	0,360
Sales (X_6)	-0,029	-0,589	0,557
Average Wage (X_7)	0,080	1,611	0,110
Taxes (X_8)	-0,066	-1,456	0,148
Lagged Profitability (X_9)	0,317	4,727	0,000
Dependent = Profitabilitas Constant value = -0,313	R = 0,916 R^2 = 0,839		S_e = 0,757

Source: Data Processed

Table 4
Variable Contribution Value Variables

	Standardized Coefficient B	Correlation of Dependent and Independent Variables	Contribution Value
Own Capital (X_1)	0,511	0,864	0.442
Loan Capital (X_2)	0,175	0,742	0,130
Asset (X_3)	-0,094	0,500	-0,047
Trade Credit (X_4)	0,006	0,282	0,002
Production Cost (X_5)	0,065	0,749	0,049
Sales (X_6)	-0,029	0,481	-0,015
Average Wage (X_7)	0,080	0,544	0,044
Taxes (X_8)	-0,066	0,338	-0,022
Lagged Profitability (X_9)	0,317	0,813	0,258
Total			0,839

Source: Data Processed

The acquisition of the top three scores for contributions from significant variables are in Figure 1.

Based on Table 3, six variables do not affect profitability, namely Assets (X_3), Trade Credit (X_4), Production Costs (X_5), Sales (X_6), Average Wage (X_7), and Taxes (X_8). An asset can be considered something that, in the future, can generate cash flow, reduce expenses, or increase sales, regardless of whether it is a tangible or intangible asset. Therefore, when the asset is always growing, it is likely to provide a great opportunity to generate profit.

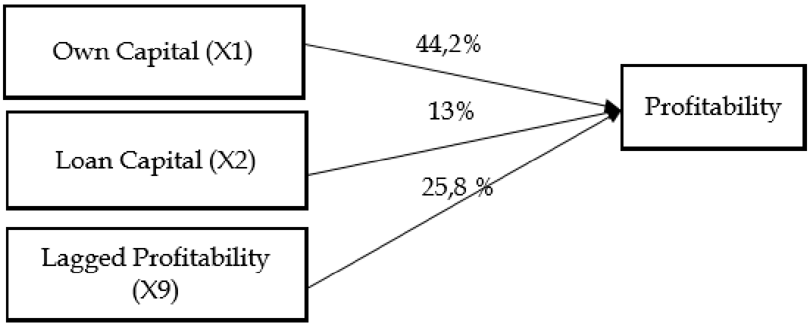

Figure 1
Percentage of Contribution of Significant Variables

Source: Data Processed

In PSAK No. 16 revision of 2011, assets are assets owned by a person, both tangible and intangible, of value or value that will be useful for a person or company. In this case, SME assets are shophouses, stalls, carts, storefronts, and buildings built by the business owners themselves. For SMEs in the market area, most shop houses where they do business have been purchased since the start. So, the assets of SMEs are included in the initial capital budget. Meaning that the number of assets does not affect the level of profitability. However, assets provide economic benefits now and in the future. It is also efficient because of the use of assets that or less supports the continuity of SMEs' production of goods or services.

Managers can improve firm profitability by increasing their investment in receivables and that the effect is greater for financially unconstrained firms (larger and more liquid firms), for firms with volatile demand, and for firms with bigger market shares (Martínez-Sola et al., 2014). Trade credit in this study is not receivables, but payables to suppliers, so this variable has no impact on profitability. In this case, most of the trade credit carried out by MSME actors indirectly becomes routine (daily/monthly) capital for their business. For that reason, trade credit carried out by SME actors is not a financial aspect but the initial capital, they paid for after the goods taken from the supplier are sold. Meanwhile, SMEs that carry out trade credit are SMEs whose payments are in a short period. The period is once a day with a daily income calculation period, and the longest is one month.

In the production of a finished product, the company must measure the costs that they have incurred as a basis for determining the cost of the product; otherwise, control delays will result in increased costs and decreased profitability. In addition, the company in carrying out a production activity requires costs to process raw materials for finished products. The costs incurred that they would accumulate in production costs. In addition, more than half of the SMEs who were respondents in this study did not carry out a production that changed raw materials into ready-to-sell materials. Rather, SMEs actors took finished or ready-to-sell goods, which the business actor then resold. The set selling price must meet the costs incurred during the production process and add to the received profits. So, no matter how many sales are made but cannot meet the expenses incurred during the production process, there will be no profit, with the worst impact being losses.

Noone in Indonesia can create jobs for themselves. Most of the Indonesian people are workers. Wages, according to the Manpower Law No. 13 of 2000 Chapter I, article 1 paragraph 1, it is stated as the rights of workers/laborers who are received and expressed in the form of money. This money is a form of compensation from the employer to workers, which are determined and paid according to an employment agreement, agreements or laws and regulations including allowances for workers and their families for work that they have carried out. In this case, SMEs are independent businesses owned by individuals.

SMEs who were the respondents of this study were mostly and almost entirely micro and small businesses, most of which were still carrying out their business activities which were the owners themselves. According to a survey conducted by the owner carrying out his business activities, he sometimes takes a daily wage from the sale with an indefinite nominal. Not infrequently also use their own money for needs during business activities such as consumption. So the amount of wages taken is uncertain every day. However, there are also employees whose wages are paid daily, weekly, or monthly.

Tax is a mandatory contribution of the people to the state based on the law (which can be enforced) without receiving reciprocal services (contra-achievements) that can be directly shown and used for public expenditures. The tax does not affect profitability because many SMEs still have not registered as taxpayers, even though the taxes that SMEs must pay are relatively small from the total income received. The taxes paid in yesterday’s survey data are not taxes given to the government but taxes paid to the area or environment where the business operates. For example, in the traditional market, every business actor operating in the market is charged a daily fee. Even then, the cost is very cheap and much smaller than the total income received. However, not all SMEs have not registered as taxpayers; besides that, some have complied with tax regulations by registering as taxpayers. However, the tax paid by registered taxpayers does not use business operational money but funds from individuals who register the taxpayer. It will not affect profitability because the money that business actors pay for taxes is not business operational funds but individual funds. According to survey data, SMEs that carry out business outside the market does not pay taxes.

Based on Figure 1 above, the dominant variable n its correlation with the profitability variable is the variable of own capital. The variable of capital itself has a positive effect on profitability. It can be said that the higher the initial/own capital, the higher the profitability of MSMEs. According to PSAK No. 21 paragraph 2, capital or equity, the definition of capital is part of the ownership interest in the company that is the difference between existing assets and liabilities. It thus is not a measure of the selling value of the company. According to this explanation, capital is an important part of property rights owned by entrepreneurs, which they used for operating costs when the business is run. Capital is an important aspect of a business. Running a business requires capital for operations to generate profits. Own capital can be in the form of money and goods to support a business. The amount of profit to be received influenced the amount of own capital from the start of the business establishment.

The business capital loan variable has a positive effect on profitability, meaning that the higher the business capital loan, the higher the level of SMEs profitability. This is in the sense that SMEs businesses used business capital loans from Islamic microfinance institutions for business purposes. Therefore, the business develops and affects the profits of the company. SMEs that experience business difficulties or constraints, especially capital constraints, are very important for entrepreneurs to obtain business capital loans to develop their businesses and increase business profitability.

The Lagged Profitability variable has a positive effect on profitability, meaning that the higher the Lagged Profitability, the higher the level of SMEs profitability. Lagged profitability is some profitability values in the previous period. The calculation of MSME profitability varies, including daily, weekly, and monthly. The amount of last profitability depends on the calculation method carried out by the SMEs actors. Profitability obtained in the previous period they can use as capital in the next period. Research conducted by Vijayakumar (2011) and Yazdanfar (2013) states that the income of the previous period has a major influence on the profitability of the future period.

If profitability in the last period is high, it will be profitable in the next period. The profitability of the previous period can also measure the success of the business by looking at the level of profitability, whether it is decreasing or increasing. The results of this study are supported by research conducted by Margaretha & Supartika (2016), which states that lagged profitability has a significant effect on profitability.

The company's financial structure is a composition of funding decisions that include short-term debt, long-term debt, and equity. The sources of funding are obtained from internal (retained and appreciated earnings) and external (creditors) (Sudana, 2015). Trade-off theory explains that the use of debt will increase the company's value but only to a certain point. However, this theory cannot precisely determine optimal funding decisions (Sugeng, 2017). Therefor, theory makes an important contribution to determining other choices. Namely, companies that have high assets should use less debt, and companies that pay high taxes should use more debt than companies that pay low taxes.

The result of this study imples that the SMEs' profitability is influenced by their capital, loan capital, and lagging profitability. So that it can be used as a guide for SMEs and Islamic financial institutions, efforts to continue the relationship through access to productivity-based financing to increase profitability and develop SMEs. To conform to the trade-off theory, SMEs need to balance external costs with incremental costs. Based on prices, the results of this study prove that the cheapest costs for sources of funds in sequence are own capital, lagging profitability, and loan capital. This study also confirms that Islamic financial institutions have an important role in empowering SMEs. The results of the theoretical model of this study explain that own capital, venture capital loans, and lagged profitability have a positive effect on the profitability of SMEs. This study confirms that an increase in these three variables can increase the profitability of SMEs.

5. CONCLUSION, IMPLICATION, SUGGESTIONS, AND LIMITATIONS

This sudy have probided some gerenalizations. The variables that have a significant effect on the profitability of smes are own capital, venture capital loans, and lagged profitability with positive coefficients. It means that the greater the amount of own capital, business capital loans, and lagged profitability will increase the profitability of smes. then of the three variables that provides the largest contribution or dominant influence on profitability is own capital. The research results concern investors, managers, and practitioners who initiate initiatives to increase profitability, prioritize steps, and make decisions to build a business. It is important to pay attention to the capital structure to increase profitability. This research only studied financial factors to improve writing for further study. Future studies can be done again by using other factors that can affect the profitability of smes, such as marketing factors, production factors, technological factors, and others.

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