

Effectiveness of Business Legality on Brand Awareness of MSME Products

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Abstract. Micro, Small, and Medium Enterprises (MSMEs) are essential to the Indonesian economy. With the most significant employment, making MSMEs the most crucial element in the wheels of the community's economy, where the majority of business actors constitute the most significant percentage in Indonesia, but MSME actors often experience problems, namely the lack of understanding of the importance of business legality for the sustainability of their business or low sensitivity to brands or brand awareness. This study aims to empirically test the effectiveness of the influence of business legality on brand awareness. The research method used is a correlative quantitative research method with a cross-sectional approach. The population consists of MSME members in the MSME gallery of the Central Java Province SME Cooperative Office. The research sample consisted of 100 respondents selected through a purposive sampling technique. Data collection through distributing Google form questionnaires and data analysis using Smart PLS version 4, data analysis using Partial Least Square (PLS). The results of this study indicate that business legality has a positive and significant effect on brand awareness.

Keywords: *Business Legality; Brand Awareness; Micro; Small and Medium Enterprises (MSMEs)*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indonesian economy. The sector's contribution to Gross Domestic Product (GDP) is 60.5% and absorbs 96.9% of the workforce.(Alfiansyah, 2024; Rahmah & Iryanti, 2023). With the largest workforce absorption, making MSMEs the most important element in the economic wheel of society, where the majority of business actors are the largest percentage in Indonesia. MSMEs also contribute significantly to increasing local community income sources, workforce absorption, developing regional economies(Firdausi, Rohmah, & Sofyan, 2023). Despite this potential, MSMEs in Indonesia are still experiencing obstacles in their growth, one of which is the issue of brand awareness.(Putri, Wijayanti, Hardini, & Pradipta, 2023).

Oktavianingrum, Hidayati, & Nawangsari(2023)in his research explained that one of the problems often faced by UMKM actors is the lack of understanding of the importance of brand identity for the sustainability of their business or low sensitivity to the brand. This can be caused by a number of factors such as low promotion, low exposure to the brand or product, and lack of direct involvement with the brand or product.(Lestari, Samihardjo, & Sapanji, 2023). In forming brand awareness in MSMEs, effective branding can build value and competitive advantage in the eyes of consumers. Brand awareness is not created in a short time and requires various ongoing efforts over a fairly long period of time.(Triadi & Darnita, 2021).

Brand awareness is the ability of customers to recognize or recall a brand and associate it with a particular product category. Therefore, a consumer who has brand awareness will be able to easily describe the elements of the brand without having to do a recall process. These elements are brand names, signs, symbols, or a combination of these elements to identify MSME products.(Cahyani & Sutrasnawati, 2016; Pratamasari & Sulaeman, 2022). The first step to build brand awareness is business legality. With the legality of this UMKM business, it aims to realize an identity as a product introduction media that can attract customer attention and interest, so that it will have an impact on increasing income and business progress.(Rizaq & Alisha, 2021). Thus, the purpose of this study is to analyze the effectiveness of business legality on brand awareness of MSME products.

METHOD

The research design is a quantitative correlative with a cross-sectional approach, which examines with the premise that the main purpose of the most basic type of research in a cross-sectional survey is to observe (collect data about) certain events, often at one point in time.(Esitti & Kasap, 2019). This assumption allows the quantitative correlative research methodology to work with the assumption that the primary purpose of the most basic study is to observe (collect data about) a particular event. To answer the research questions, this study adopts descriptive research techniques and survey measures to capture the objective and social reality of sales performance. This allows this study to answer the research questions. The initial step in this method is to study the relevant literature to identify the subjects listed. The research framework is created after evaluating previous studies in the field. Structural equation modeling (SEM) is used in conjunction with the survey to establish and validate the predicted relationships.

The sample of this study consisted of 100 MSME owners in the MSME gallery of the Central Java Provincial Cooperatives and SMEs Service. The research period was from January to August 2024. A total of 300 questionnaires were sent to respondents. However, only responses from respondents indicated that they used at least one variation of the form and provided answers to the questionnaire items for the study. There were 100 valid questionnaires sent. The researcher created a questionnaire and collected data using Google Forms. Data from Google Forms were then stored in Google Drive. The identities of the respondents were kept confidential because each questionnaire and invitation to participate in this study were issued without any identifying information.

The validity of the proposed theoretical model was validated using cross-sectional data. Information was collected using a procedure based on a survey of the target population. Indications were rated on a five-point Likert scale in each area. The anchors on the scale ranged from 1 (Strongly Disagree) to 5, with 1 representing Strongly Disagree and 5 representing Strongly Agree. This study used a 5-point Likert scale because it requires less time and effort and allows respondents to remain neutral by selecting the option “neither agree nor disagree”. On the Likert scale. In addition, a five-point Likert scale was used in this study because previous research has shown the benefits of using this strategy(Chatterjee, Chaudhuri, González, Kumar, & Singh, 2022; Dubey et al., 2019; Gupta, Justy, Kamboj, Kumar, & Kristoffersen, 2021).

In this study, the data has been analyzed with the help of Smart PLS version 4 statistical software for partial least squares structural equation modeling (PLS-SEM)(K. Latif, Malik, Pitafi, Kanwal, & Latif, 2020). PLS-SEM is a statistical tool used by several researchers in their research studies. PLS-SEM uses powerful, superior, flexible, and adequate statistical tools to

produce a fairly competent analysis model.(Aman, Abbas, Mahmood, Nurunnabi, & Bano, 2019; Avotra, Chenyun, Yongmin, Lijuan, & Nawaz, 2021; KF Latif et al., 2020; Lotfi, Yousefi, & Jafari, 2018; Pitafi, Kanwal, & Khan , 2020). The second part of the questionnaire is used for hypothesis testing.(Nejhaddadgar, Ziapour, Abbas, Mardi, & Zare, 2020; Pitafi, Rasheed, Kanwal, & Ren, 2020; Yao, Ziapour, Abbas, Toraji, & Nejhaddadgar, 2022). Data analysis for hypothesis testing is based on two stages. The first is the estimation of the measurement model, and the second is the estimation of the structural model.(Islam, Islam, et al., 2021; Islam, Pitafi, Akhtar, & Xiaobei, 2021; Islam, Pitafi, Arya, et al., 2021; Zhou et al., 2022). In the first stage of measurement model estimation, survey data are screened for valid and reliable items in the discriminant and convergent validity scales of the measured data.(Marchena-Giráldez, Acebes-Sánchez, Román, & Granado-Peinado, 2021). In addition, factor loadings, Cronbach alpha, and average variance extracted (AVE) were used for validity checks. Hypotheses were tested for acceptance or rejection using the values, t-statistics, and p-values obtained for each hypothesis.

RESULTS AND DISCUSSION

Validity and Reliability Test

Table 1 shows the convergent validity, indicator reliability, and construct reliability and validity. The results of the reliability test are shown in Table 1, and were achieved by calculating Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE). The results of the reliability test are presented in Table 1. The researcher found that the numbers ranged > 0.7 , the highest value reported. Cronbach's Alpha was used to analyze the collected data, and this is the conclusion drawn in accordance with the suggestions given by several researchers. (Bjekić, Strugar Jelača, Berber, & Aleksić, 2021; Taber, 2018). The composite dependency values of the constructs varied > 0.7 , the highest value recorded for composite dependency. The researchers argue that an adequate Critical Composite (CR) threshold should be set at not less than 0.7, which should be considered acceptable. As a result of the results shown in Table 1 below, the researchers can conclude that the CR criteria have been met. This allows us to conclude that the CR criteria have been met. Composite reliability can be used as an alternative to Cronbach Alpha because the CR value is slightly higher than the Cronbach Alpha value, but the difference between the two is not very significant.(Malkewitz, Schwall, Meesters, & Hardt, 2023).

The validity convergence was evaluated by testing the average variance obtained (AVE). The AVE values are shown in Table 1. The results are > 0.5 , which is the highest number ever recorded. The absolute minimum value of AVE that can be considered satisfactory is 0.5.(Rouf & Akhtaruddin, 2018). It has been determined that the acceptability threshold has been reached and convergent validity has been met in all four dimensions. The information presented in Table 1 which can be seen below forms the basis of these findings.(Ab Hamid, Sami, & Mohmad Sidek, 2017).

Table 1. Correlation, Reliability Measurement, and Validity

Construct	Item	Loading	Cronbach's Alpha	CR	AVE
Business Legality (LU)	LU1	0.920	0.881	0.927	0.808
	LU2	0.881			
	LU3	0.896			
Brand Awareness (BAA)	KM1	0.881	0.858	0.913	0.777
	KM2	0.903			
	KM3	0.860			

Structural Model Estimation

The next step in the partial least squares structural model equation is to estimate the structural model. The structural model estimates the β values, t-statistics, and results that allow the study to accept or reject the proposed hypothesis. Table 2 and Figure 1 show the structural model algorithm obtained for this study. The structural model obtained shows the relationship of β values. The standardized β value explains the change in the dependent variable with a unit change in the independent variable. This is a measure of each relationship shown in this study. A higher β value indicates a significant effect on the dependent variable. On the other hand, the t-statistic represents and validates the magnitude of the β value. Table 2 presents the results of the β values, t-statistics, and results. This finding validates one hypothesis proposed for the direct effect of this study at $p < 0.05$. Thus, this finding shows a significant t-statistic and a substantial β value. Hypothesis Ha, states that there is a positive relationship between Business Legality and Brand Awareness. The result accepted Ha with a β value = 0.739 and t-statistic = 18.072.

Table 2. Structural Relationships

Hypothesis		Path Coefficient	t-value	Results
Business Legality → Brand Awareness	Ha	0.739	18,072	Support

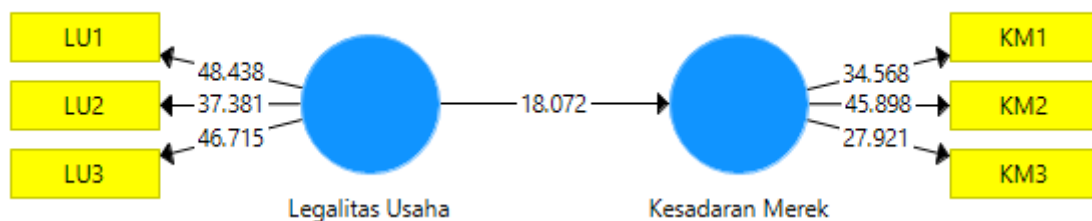


Figure 1. Structural Model

The government has provided facilities to MSMEs for legal aspects in the form of Business Identification Number (NIB), Household Industry Food (PIRT), Food and Drug Supervisory Agency (BPOM), and Halal Certification as well as other legal aspects. This certainly provides motivation for MSMEs to improve their products so that they can move up a class. It is realized that having a product that can move up a class will increase sales and its impact on the welfare of MSMEs. This is what entrepreneurs must realize to be self-aware in building their business so that the business is sustainable with products that move up a class (Handayani, Mahmudah, & Asari, 2022). Empowering MSMEs is crucial for local economies and reducing economic disparities. This empowerment provides access to markets, entrepreneurship education, skills development, and institutional support (Smith, Collins, & Clark, 2018). A valid business license provides legal certainty and protection, allowing MSMEs to access resources, obtain financing, and run their businesses legally and systematically (Jones & Tilley, 2020). Technological transformation, especially digitalization, can improve operational efficiency, expand market reach, and create value for customers (Chen, Chen, & Vanhaverbeke, 2019).

Business legality is a business identity given by the government to every registered business actor (Wulandari & Budiantara, 2022). The legality of this business is important because in addition to being an official business identity. Business legality also acts as a

requirement to access various government services, such as permits and social assistance.(Widya, Prananingtyas, & Ispriyarso, 2019), but there are still many small and medium businesses in Indonesia that do not have business legality. This can happen due to several factors, including lack of information about the importance of business legality, the costs required to obtain business legality that are sometimes unaffordable for small businesses, or lack of access to related service offices.(Yeni & Yanti, 2021). Not having a business legality can be a problem for a business, especially if the business wants to grow and expand its reach. Without business legality, businesses cannot access various government services that can help improve business performance, such as capital assistance or technology assistance. In addition, if a business does not have a business legality, then the business has the potential to operate illegally and is threatened with legal action.(Hartono, Ardiana, Listyono, Purwaningrum, & Cahyono, 2020). In the long run, this can damage the image of the business and make it difficult for the business to grow and develop. Therefore, it is important for small and medium businesses to obtain business legality so that they can operate legally and can access various government services that can help improve business performance.(Irawaty, Anitasari, & Setiawan, 2022).

CONCLUSION

The conclusion of this study is that there is a positive and significant relationship between business legality and brand awareness. With findings like this, it means that it is increasingly strengthening that MSME owners must have aspects of business legality whose convenience has been provided by the government. Easy and free access and ongoing assistance.

Here are the suggestions to the government has provided easy access facilities for whatever entrepreneurs need, of course this must be welcomed with joy. However, what needs to be considered is the ongoing government assistance so that it can provide a sense of security and comfort to the UMKM gallery of the Central Java Provincial Cooperatives and SMEs Service. in running their businesses. It is hoped that this study will be a reference for further research so that it can be developed not just the variables studied.

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