



Contents lists available at: <https://e-journal.unair.ac.id>

AJIM (Airlangga Journal of Innovation Management)

Journal homepage: <https://e-journal.unair.ac.id/AJIM>

The Effect of Profit-Sharing on Productivity of Micro, Small, and Medium Enterprises (MSME) in Indonesia

Dhonna Widya Poernamasari^{1*}

¹Cooperatives, Small Medium Enterprises Department of East Java Provincial Government, Indonesia

ARTICLE INFO

Paper Type:

Research Paper

Keywords:

Productivity; Profit-Sharing, Micro, Small, and Medium Enterprises, Qualitative

Article History

Received: 14 August 2023

Revised: 4 December 2023

Accepted: 6 December 2023

Available online: 8 December 2023

This is an open access article under the CC BY-NC-SA license (<https://creativecommons.org/licenses/by-nc-sa/4.0/>)

ABSTRACT

Research on the effect of profit-sharing on large-scale enterprise productivity has been done in many countries. But previous study found an inconsistent results, that is profit sharing is not significantly influence productivity of MSMEs. This research aims to deepen more about the reason is this profit-sharing in its application have or don't have a significant impact in increasing productivity of Micro and Small Enterprises in Indonesia. The qualitative research method used in this research is through in-depth interview techniques to seven respondents who are MSME entrepreneurs in the manufacturing sector with product types that vary between respondents. The purpose of this interview is to gather information about the system of wages and distribution of bonuses in MSMEs, which have different characteristics from large industries in general. The interview results show that there is profit sharing in Indonesia MSMEs, but it is not considered as financial compensation or work bonus that leads to the next performance target. However, most of them interpreted as "kindness" from MSME owners in form of financial or non-financial benefits. This research brings research implication that profit sharing on MSMEs are unique and can be applied in many forms. Even though in previous quantitative study, profit sharing is stated as not significantly influence the MSMEs productivity and performance, In some cases, profit sharing is proven to increase the motivation and loyalty of employees.

*Corresponding author: dhonna.wp@gmail.com

Cite this article as: Poernamasari, D.W. (2023). The Effect of Profit-Sharing on the Productivity of Small and Micro Enterprises in Indonesia. *Airlangga Journal of Innovation Management*, 4(2), 198-207. <https://doi.org/10.20473/ajim.v4i2.48385>

Introduction

Micro, Small and Medium Enterprises (MSMEs) face the problem of low productivity levels that can affect business competitiveness both locally, regionally and internationally. A study conducted by Mourougane (2012) in Indonesia states that the productivity of MSMEs is 80% lower than large businesses due to low skills, low mastery of technology and methods of increasing production. Although the number of workers in MSMEs are greater than the number of workers in large enterprises, the productivity produced by MSMEs is actually lower (Tambunan, 2006). Studies conducted by Benjamin and Mbaye (2012) in Africa also show that labor productivity in informal companies is on average lower than worker productivity in formal companies. One of the reasons for the lack of productivity is the absence of social insurance for workers (Benjamin and Mbaye, 2012). The ILO (2005) also states the same thing that low productivity in informal enterprises is not only caused by inefficient management, but also the absence of incentives given to workers so that they are able to work more productively. The minimum wage setting policy is used by the government as a way to improve the welfare of the workforce in accordance with a decent standard of living. However, the implementation of these policies is less effective in developing countries that have a dual labor market structure system. Wage determination in the MSMEs is not the same as in a perfectly competitive labor market. In the absence of sanctions for non-compliance with the minimum wage, it causes small businesses to pay wages below the minimum wage and reduce the number of workers (Danziger, 2010). On the other hand, Ciancanelli et.al., (1997) argues that workers in the MSME sector do not have the negotiating power to obtain wages above the market average wage.

With the minimum level of wages in informal businesses and to maintain good working relationships and motivate workers, profit-sharing can be an alternative wage system. Profit-sharing system can also be viewed as a Risk-Sharing mechanism. At the level of Micro Small and Medium Enterprises (MSMES), employers and workers will share profits and losses, or only profits, so that employers will provide a basic wage below the wage level applied to the fixed wage system (Mukhopadhyay and Pendse, 1984). In a fixed-wage system, workers will earn a fixed wage and do not depend on the profits earned by the company. On the other hand, in the profit-sharing system, workers get a fixed salary plus a portion of the company's profits which are volatile. In large companies, profit-sharing is seen as a form of Group Incentives Schemes, in addition to Gain-Sharing and Employee Stock Ownership (Cooke, 1994). Gain Sharing is a form of bonus that is distributed by the company based on the achievement of group performance targets (Cooke, 1994). By implementing profit-sharing, companies can also increase productivity by increasing the effort and skills of the workforce (Kruse, 1992). Several empirical studies related to the relationship between profit-sharing and company productivity have been carried out using a large sample of companies. Kruse (1992) concluded that by adopting a profit-sharing mechanism, the productivity of non-manufacturing public companies increased by 2.5% - 4, 2%. Cahuc and Dormont (1997) who proxies Profit-sharing with the ratio of bonus to wage bill conclude that an increase in the Profit-sharing ratio of 0.5% will result in an increase in productivity of about 2%.

Studies linking profit-sharing to productivity, to the author's knowledge, are still very few conducted in micro, small and medium-sized companies. Dixit and Pal (2010) conducted a study related to profit-sharing in small-scale businesses using a sample of data from small companies in India for the period 1996-2005. The results of this study conclude that the provision of profit-sharing has a positive impact on company performance as measured by Return on Investment (ROI). In large businesses, the amount of wages and profit-sharing shares have been formally agreed in advance through an employment contract agreement. On the other hand, in small companies, the amount of wages is not determined because there is no work contract agreement, as well as profit-sharing distribution. In addition, the profit-sharing provided by MSME entrepreneurs can be financial or non-financial, so the authors suspect that the existence of profit-sharing has an ambiguous impact on increasing employee motivation and productivity.

From studies in large companies that have been carried out previously, there is a tendency that profit-sharing provided in large companies causes workers to be motivated to increase effort to achieve company goals, namely increasing profits. This is different for small companies that have different wage structures with large companies and differ from one MSME to another. Previous empirical study (Poernamasari and Damayanti, 2018), statistically found that profit-sharing does not have a significant impact in increasing productivity of Micro and Small Enterprises in Indonesia. This research aims to deepen more about the reason of why this profit-sharing system does not have a significant impact in increasing productivity of Micro and Small Enterprises in Indonesia.

Literature Review

Profit-sharing research is mostly carried out using annual data at the company level (panel data). This is done to observe changes in productivity caused by profit-sharing and is used as a strategy to overcome the problem of unobserved firm specific effects (Kruse, 1992). In addition, the use of panel data allows researchers to see the impact of Profit-sharing on productivity in subsequent years because Profit-sharing may not have a direct impact on productivity in the same year.

Profit-sharing is thought to interact with other factors to influence firm productivity. This is reflected in research conducted by Kruse (1992) on 2,976 publicly traded companies in the United States, Jones and Kato (1995) and Ohkusa and Ohtake (1997) on manufacturing companies in Japan. They suspect that there is an interaction effect between Profit-sharing and other variables. Kruse (1992) and Jones and Kato (1995) argue that the distribution of bonuses accompanied by the application of an ESOP (Employee Stock Ownership Plan) for workers will accelerate the increase in productivity levels compared to just giving bonuses without ESOP. Meanwhile, Ohkusa and Ohtake (1997) concluded that there is an interaction between profit-sharing and information sharing in increasing productivity, even though the existence of information sharing does not have a direct impact on company productivity.

Productivity is a measure that shows the efficiency level of a company in using input factors to produce output. There are several productivity measurement methods used, including the number of sales per worker (Kruse, 1992) and Value Added which is deflated against the Weighted Price Index (Jones and Kato, 1995; Ohkusa and Ohtake, 1997; Cahuc and Dormont, 1997; Conte and Svejnar, 1988). The difference in measurement methods depends on the availability of data owned by researchers.

Profit-sharing can be a tool to increase productivity through increasing worker effort (Azfar and Danninger, 2001). Profit-sharing is seen as an incentive for workers to contribute in the form of even greater effort. Therefore, if the company experiences a decrease in profits, workers will actually provide greater effort in order to increase productivity and company profits, so that in the end the results of this effort will return to workers in the form of greater profit-sharing (Hannan, 2005). This is based on the theory of the Gift Exchange Model put forward by Akerlof (1982) which states that in addition to having utility for income and disutility for effort, they also have "reciprocity" utility. This means that workers will give "prizes" in the form of effort above their abilities with the hope that later they can get reciprocity in the form of "gifts" in the form of increased wages.

Methodology

This research uses a qualitative approach and content analysis to answer why the profit-sharing system is not succeeded to increase MSMEs' performance. The method was chosen because in previous research conducted using quantitative methods, it was found that Profit-sharing did not have a significant impact on the productivity MSMEs (Poernamasari and Damayanti, 2018). The absence of specific information about the distribution of profit-sharing and the informal wage system in the MSME lead researcher to take another method to sharpen and proven previous research. The qualitative research method used in this research is through in-depth interview techniques to seven respondents who are MSME entrepreneurs in the manufacturing sector with product types that vary between respondents. The purpose

of this interview is to gather information about the system of wages and distribution of bonuses in MSMEs, which have different characteristics from large industries in general. The interview process in qualitative research is generally carried out in an unstructured way with open-ended questions in order to explore the views of the research object more broadly so that further, complete and in-depth information can be obtained (Sutopo, 2006).

The seven MSME entrepreneurs process different types of production goods, so that the information obtained is balanced. Respondents were selected based on information on the amount of turnover or assets per year as one of the MSME classification indicators. According to the Law of the Republic of Indonesia Number 20 of 2008 concerning Micro, Small and Medium Enterprises, Micro Enterprises are businesses that have a net worth of at most Rp. 50,000,000.00 (fifty million rupiah) excluding land and buildings for business premises or having annual sales of a maximum of Rp. 300,000,000.00 (three hundred million rupiah). Meanwhile, Small Business is a business that has a net worth of more than Rp. 50,000,000.00 (fifty million rupiah) up to a maximum of Rp. 500,000,000.00 (five hundred million rupiah) excluding land and buildings for business premises or having annual sales of more than Rp. 300,000,000.00 (three hundred million rupiah) up to a maximum of Rp. 2,500,000,000.00 (two billion five hundred million rupiah).

Results and Discussion

Results

1. Respondent 1

Respondent 1 is a MSME entrepreneur who is engaged in the production of bags for fashion, both bags made of genuine leather, imitation leather, traditional woven and a combination of leather and woven. In 2017, the business has achieved sales of around Rp. 200.000.000,00 (two hundred million) per month so that it can be categorized as a Small Business. Its business location is in Lamongan Regency, East Java and has been initiated since 2004. The number of employees is 15 people, consisting of 2 people in the administration section and 13 people in the production section. Employees who handle the administration of the company get a monthly wage in accordance with the applicable minimum wage, while employees who work in the production section get wages according to the output produced (wage piece). Piece rate wages are also differentiated based on the level of difficulty of the work, an easy job will be valued at Rp. 500.00 (five hundred rupiah) per unit of output, while jobs with a high level of difficulty (eg pattern making, pattern cutting, sewing) will be rewarded up to Rp. 60.000,00 (sixty thousand rupiah) per unit of output. With such a wage pattern, respondent 1 stated that workers in the production sector with a high level of difficulty will be able to earn a minimum income of Rp. 2.000.000,00 (two million rupiah) per month. Meanwhile, to cope with the large increase in orders, respondent 1 will employ additional workers in addition to the 13 wholesale production employees.

For production efficiency and to stimulate worker productivity, respondent 1 lends the capital he has to workers, so that workers can carry out the production process at their respective homes. In addition, workers with weaving skills can also do their work at home. This is done so that workers can carry out the production process comfortably because they have flexible time at work. Likewise, when workers carry out the production process at the production house, respondent 1 will provide compensation in the form of lunch to the workers, even though this is not done every day. If there is a significant increase in the amount of production, respondent 1 gives bonuses equally to all workers, both in the administration and production divisions who have a direct contribution to the production. Profit-sharing is also given to workers in the form of holiday allowances, recreation with workers and their families as well as social assistance if a worker experiences a disaster. Profit sharing given to workers is stated that could increase worker motivation and loyalty.

2. Respondent 2

Respondent 2 is an MSME entrepreneur engaged in the production of fashion and household items made from gunny sacks (among others: wallets, bags, shoes, food covers) whose business is located in the city of Surabaya. The business he founded in 2010 currently has an average sales turnover of IDR 10,000,000.00 (ten million rupiah) per month, so that it can be classified as a Micro Business. Respondent

2 has 1 (one) permanent employee in the administration section and 4 (four) temporary employees in the production section. Permanent employees in the administration section earn wages below the Minimum Wage, which is Rp. 1,300,000.00 (one million three hundred thousand rupiah). Whereas workers in the production section will receive wages according to the agreement between respondent 2 and workers, with a wage range of Rp. 7,000.00 (seven thousand rupiahs) to Rp. 100,000.00 (one hundred thousand rupiahs) per output unit according to the level of difficulty of the job. The concept of cooperation between 4 (four) workers in the production sector who are skilled tailors and entrepreneurs can be said to be a partnership pattern. The tailors will accept the job if respondent 2 needs to stock sales or receive orders from customers. Tailors use their own sewing machines and work at their respective homes to carry out the production stages according to respondent 2's orders. Meanwhile, to deal with special events, for example participating in exhibitions, respondent 2 will recruit additional workers so that they can meet the expected production capacity. Respondent 2 will add 3 (three) to 6 (six) workers with a wage value of Rp. 25,000.00 (twenty five thousand rupiah) to Rp. 30,000.00 (thirty thousand rupiah) per output unit.

Respondent 2 stated that he distributed profits to his workers in the form of Hari Raya Allowances in the form of money and gifts as well as additional bonuses in an unspecified amount (sincerely) if workers were able to achieve output targets. In addition, the benefits obtained by the employer (respondent 2) are also distributed to workers in kind, for example in the form of social assistance, joint recreation and knowledge transfer. Profit sharing given to workers is stated that could increase worker motivation and loyalty.

3. Respondent 3

Respondent 3 is a producer of snacks, namely fruit chips and fruit candies who are domiciled in Malang City. The business he is running has obtained a sales turnover of IDR 1,000,000,000.00 (one billion rupiah) in 2017. Currently, he has 30 employees consisting of 5 people who are paid monthly, 5 people who are paid weekly and 20 people who are paid on a piece rate basis. Employees who are given monthly wages are employees who work in administration, machine maintenance and drivers. They receive regular monthly wages below the Minimum Wage, but receive lunch facilities and accommodation in the company environment. While those who are given weekly wages are employees who work in the stripping and packaging section. Workers in the stripping and packaging division receive regular weekly wages with an amount calculated from the number of working days in one week multiplied by the daily wage of Rp. 30,000.00 (thirty thousand rupiah) up to Rp. 35,000.00 (thirty five thousand rupiah), depending on the difficulty level of stripping. Meanwhile, piece rate wages are given to casual workers who are recruited when there is a fruit harvest and there is a surge in demand. The piece rate paid is Rp. 750.00 (seven hundred fifty rupiah) per kilogram up to Rp.1,250.00 (one thousand two hundred and fifty rupiah) per kilogram depending on the type of fruit processed by the worker.

In addition to the wages that are paid regularly, respondent 3 also gives a bonus share to their workers, especially workers in the sales and frying departments. Respondent 3 thought that the two jobs deserved a bonus because they would be related to efforts to increase sales and control product quality. The sales department will get a bonus if they are able to exceed the sales target per month set by the company, while the frying department will get a bonus if they are able to maintain production quality as indicated by the results of frying according to company standards. Apart from sales achievement bonuses and product quality, the company also provides incentives to workers in the form of overtime pay, religious holiday allowances and social benefits if workers or their families face a disaster. Even if there are excess profits, respondent 3 also provides opportunities for workers and their families to have recreation together. Profit sharing given to workers is stated that could increase worker motivation and loyalty.

4. Respondent 4

Respondent 4 is one of the MSME entrepreneurs with a turnover of IDR 600,000,000.00 (six hundred million rupiahs) in 2017. The business which is engaged in the production of handicraft items in the form of woven agel leaf-based woven products has been in production for 10 years. This business is located in Bangkalan Regency, East Java Province, which was established with a mission to empower communities

around Bangkalan Regency by using locally available raw materials in abundance in the area. Currently, there are 15 employees, including 3 permanent workers and 12 temporary workers. Permanent workers are workers who work in administration, logistics and finance. They receive a fixed monthly wage according to the Bangkalan District Minimum Wage, with additional transport and meal allowances and permission to live in the company. Meanwhile, non-permanent workers receive wages of varying amounts according to the results of the negotiations. The wage is determined from the profit sharing obtained by the entrepreneur which is calculated from the amount of income over the value of the order minus production costs excluding labor wages. In addition, temporary workers can carry out the production process at their respective homes. If Respondent 4 faces a large increase in orders, then Respondent 4 will recruit freelancers. These freelancers receive wages at a rate determined by Respondent 4.

In addition to wages given to workers (craftsmen), respondent 4 provides incentives for workers in the form of bonuses. A bonus will be given if one group of craftsmen is able to exceed the production target. The formation of groups of craftsmen is a strategy made by respondent 4 so that each group can monitor the quantity and quality of their respective production. A production bonus is also given to craftsmen who are specifically in charge of the coloring process of semi-finished goods because they are considered to expend extra energy and fuel in the coloring process. In addition to production bonuses, Respondent 4 also provided bonuses in the form of Holiday Allowances and Holiday Gifts, and was even able to pay BPJS insurance premiums for permanent workers and non-permanent workers. Profit-sharing provided in addition to bonuses and health insurance premium benefits, Respondent 4 also provides transportation and meal allowances for workers who are in charge of assisting training and maintaining exhibition stands, part of the fee if craftsmen help Respondent 4 in guiding training participants and being included in both technical and non-technical training. With the profit sharing given to workers, it can increase worker productivity as their health is guaranteed by MSMEs.

5. Respondent 5

Respondent 5's business is located in Jombang Regency, East Java Province. His business is engaged in the production of calligraphy carvings and wooden frames. With assets of Rp. 100,000,000.00 (one hundred million rupiah), Respondent 5 was able to obtain a turnover of Rp. 200,000,000.00 (two hundred million rupiah) per year. Respondent 5 only gives a fixed monthly wage to the driver with the wage according to the minimum wage plus a meal allowance of Rp. 50,000.00 (fifty thousand rupiah) per day. Workers in the production division receive wages in the amount of Rp. 60,000.00 (sixty thousand rupiah) per day and wages in kind (lunch prepared by Respondent 5). Meanwhile, employees in the sales department receive a meal allowance of Rp. 50,000.00 (fifty thousand rupiah) per day without regular wages.

To motivate their employees, respondent 5 provides incentives in the form of bonuses, overtime pay and holiday allowances. Bonuses will be given to the sales department with a value of Rp. 75,000.00 (seventy five thousand rupiah) per item sold. If the employee in the sales department is able to sell the product at a price above the price set by Respondent 5, then the profit will be divided in half between respondent 5 and the employee concerned. As for the production department, respondent 5 will provide profit-sharing in the form of overtime pay if workers must complete the product according to the specified production target. Besides that, Respondent 5 also set aside some of his profits so that all his employees could have recreation with their families. This SMEs is more concern on financial bonus given to the employees and there is an increase of motivation and productivity comes after respondent 5 provides incentives in the form of bonuses, overtime pay and holiday allowances

6. Respondent 6

Respondent 6 is an entrepreneur engaged in the production of written batik and is located in Pamekasan Regency, East Java Province. In 2017, this business has achieved a turnover of Rp. 75,000,000.00 (seventy five million rupiah) with business assets of Rp. 10,000,000.00 (ten million rupiah). This batik business has 8 temporary workers and 5 casual workers. Temporary workers mean they work every day, but receive variable wages that are paid according to the amount of output they produce.

Meanwhile, casual workers are workers who are only recruited when Respondent 6 is facing an increase in orders that can no longer be handled by temporary workers.

The amount of wages paid was determined by Respondent 6 taking into account the quality of the batik produced and the level of difficulty of each job. High quality written batik has more production process stages than low or medium quality written batik. Workers whose job is to paint with a canting will receive a higher reward than workers in the dyeing (coloring) and stripping (wax removal) sections. This is because painting with a canting requires expertise, skill and focus in order to produce quality batik. In addition, workers in the canting section will receive proportional wages according to the output they produce, namely Rp. 10,000.00 (ten thousand rupiahs) per piece for low and medium quality batik, up to Rp. 100,000.00 (one hundred thousand rupiah) per sheet for high quality batik. Meanwhile, workers in the sagging and coloring section will be given a wage of Rp. 50,000.00 (fifty thousand rupiah) per working day, regardless of how many pieces of batik they process.

For profit sharing, respondent 6 stated that there was no specific bonus distribution system. Other forms of incentives provided besides wages include holiday allowances in the form of cash or gifts, overtime pay if workers are forced to complete order targets. Apart from that, respondent 6 also provided lunch assistance for workers, humanitarian financial assistance if workers experienced a disaster and were included in training.

7. Respondent 7

Respondent 7 is an MSME entrepreneur who owns a business producing fashion goods made from genuine leather, in the form of bags, jackets, wallets, belts and shoes. This business is domiciled in Sidoarjo Regency, East Java Province with a 2017 turnover value of Rp. 1,000,000,000.00 (one billion rupiah). Even though the production site is only in one location, namely in Tanggulangin, Sidoarjo Regency, to expand marketing reach, Respondent 7 has opened several sales outlets in Yogyakarta, Solo and Semarang. There are currently 19 employees consisting of 7 (seven) people in sales, 2 (two) people in administration and 10 (ten) people in production. Specifically for workers in the production section, Respondent 7 involved the 10 people using a partnership pattern. The partnership pattern in question is that workers have capital, either in the form of sewing machines, punching machines and other production equipment. Respondent 6 will increase sales stock or delegate the orders he receives to the 10 workers (partners). The wages given are at the Cost of Production (HPP) determined by the partner. Meanwhile, workers in the sales department (Sales Promotion Girl/SPG) are given wages according to the Minimum Wage set in each sales outlet area. Workers in the administration section actually earn wages below the Minimum Wage standard.

Bonus distribution will be given by Respondent 7 if one outlet is able to achieve or exceed the set sales target of Rp. 75,000,000.00 (seventy-five million rupiah) per month. The bonus will be distributed evenly to all SPGs in the outlet. As for the production section, Respondent 7 will provide additional income if the order increases significantly with an unspecified amount of bonus. Apart from that, incentives will also be given in the form of Holiday Allowances for all workers including partners in the amount of 1 (one) time of salary and joint recreation.

Discussion

From some of the results of above interviews, the authors see that MSME applies a system of wages and profit sharing that varies from one to another. There are several wage mechanisms in some of these MSMEs, including (1) wages according to the standard Minimum Wage, (2) wages below the Minimum Wage, (3) Wages based on production output per person, (4) wages according to the agreement of both parties (between workers and employers) and (5) wages are set only by workers because workers are business partners who know in detail the Cost of Production. From the interviews conducted by the author, most of the fixed wages are given to workers in the administration section, but workers in the production sector will be paid according to the output they produce. This was done on the grounds that production at MSMEs was still unstable in terms of quantity, so that employers did not dare to take the risk of providing a fixed wage to all their workers. In addition, the amount of wages given to workers is also determined based on the level of difficulty of the work performed.

The relationship between workers and employers in MSMEs is mutual and informal, so that workers are willing to accept lower wages than the average wage standard as long as workers feel suitable for the job and work environment (Arrowsmith et.al., 2003). In the results of the interviews, there were several employers who trusted their workers to lend their capital so that workers could work in their respective homes. There are even workers who use their personal assets to complete the work assigned to them. This shows that the relationship between employers and workers is based on the principle of trust and without coercion. Some MSME entrepreneurs choose to cooperate with workers through a partnership system because entrepreneurs do not have enough space for the production process and are considered to be able to reduce the burden of production costs. The existence of informal cooperation between employers and workers in MSME is similar to the business cooperation system in the form of a Joint-Venture. In businesses that are in the form of a Joint-Venture, they are often faced with profit-sharing problems because the collaborating units do not have a hierarchical structure (Stein and Ginevicius, 2010). MSME entrepreneurs think that their workers are partners, so there is a concept of sharing capital, profit and risk. Profit-sharing in the Joint-Venture system is in the form of benefit sharing in the form of financial and technological spillover (Stein and Ginevicius, 2010).

Based on the interview, just a few profit-sharing is considered a Group Incentives Based Pay concept, where the profit-sharing portion provided by the company is based on the level of output achieved in one work group so that this concept raises the problem of free-riders. Meanwhile, in the MSME, Profit-sharing can be seen as a concept of Group Incentives Based Pay or Individual Performance Related Pay. Group Incentives Based Pay can be seen in the provision of incentives by Respondent 7 to employees who work in the sales department. employees reach sales target per month in one sales outlet, then the bonus will be distributed evenly to all SPGs in that sales outlet. Respondent 4 also distributed bonuses evenly to groups that were able to achieve the set production targets. While individual performance pay is carried out by respondent 3 by giving bonuses in the form of additional income for workers in the sales department if they are able to achieve sales targets and bonuses for workers in the production department (especially in the frying section) as an incentive to maintain product quality.

In the practice, most of MSMEs in Indonesia have a profit-sharing system, the nominal amount is often not measurable and can be a form of non-benefit such as additional holidays, personal aid, and etc. So that this profit is not considered as a salary increase factor, this is different from the results of western research where the profit share is an income bonus. So that profit sharing in Indonesia, there is profit sharing, but it is not always considered as guarantee to reach higher next performance target. However, it is interpreted as "kindness" by MSME owners, so this can increase employee motivation and work loyalty. In addition, the benefits generated provide motivation to employees, this is based on employees who work for more than 10 years are considered able to increase employee loyalty. In previous study, quantitatively, the results show that profit sharing does not have a significant impact on increasing MSME productivity. Meanwhile, qualitatively, work motivation and loyalty are the impact of providing profit sharing in MSMEs, compared to productivity and increasing company targets in the future.

Conclusion

From these field facts, the authors conclude that Profit-sharing implemented in MSME is able to provide motivation for workers for increasing productivity, both in increasing sales, increasing the amount of production and improving product quality. Profit-sharing can also be provided in the form of holiday allowances, social benefits, in-kind (food and accommodation provided by employer), knowledge-transfer (opportunity to attend training, opportunity to become a training assistant). This can also indirectly increase productivity through building togetherness, collaboration and increasing insight. In previous study, quantitatively, the results show that profit sharing does not have a significant impact on increasing MSME productivity. Meanwhile, qualitatively, work motivation and loyalty are the impact of providing profit sharing in MSMEs, compared to productivity and increasing company targets in the future. In addition,

qualitative research samples still cannot reach widely, so they have not described the overall condition of MSMEs.

Author's Contribution

All authors have contributed to the final manuscript. The contributions of each author are as follows, Dhonna Widya Poernamasari contributed in collecting data, drafting manuscripts and drafting drawings, drafting key conceptual ideas and Arie Damayanti provided excellent guidance and provided critical revisions of articles. All authors discussed the results and contributed to the final manuscript.

Acknowledgements

I would like to thank to MSME entrepreneurs in East Java who took the time to provide me with so much valuable and relevant information for this research. I would like to give my deepest gratitude to my research supervisor, Mrs. Arie Damayanti, who have been supportive of my research and always actively to provide me with academic time to pursue those goals. As my teacher and mentor, she has taught me how to be a good scientist during this project. Each of the committee of lecturer of Economics Post Graduate Program of Universitas Indonesia has provided me extensive, professional guidance and taught me a great deal about both scientific research and life in general. Nobody has been more important to me in the pursuit of this project than the members of my family. I would like to thank my mother with his never ending praying, my father in heaven (hope my achievement makes you smile up there), and my husband whose love and guidance are with me in whatever I pursue. They are my ultimate life partner.

Declaration of Competing Interest

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Reference

- Akerlof, G.A. (1982). Labor Contracts as Partial Gift Exchange. *The Quarterly Journal of Economics*, 97(4), 543-569.
- Arrowsmith, J., Gilman, M.W., Edwards, P., & Ram, M. (2003). The Impact of Minimal Minimum Wage in Small Firms. *British Journal of Industrial Relations*, 41(3), 435-456.
- Azfar, O & Danninger, S. (2001). Profit Sharing, Employment Stability and Wage Growth. *ILR Review*, 54(3), 619-630.
- Badan Pusat Statistik. (2014). Profil Industri Mikro dan Kecil Tahun 2014. Jakarta : BPS.
- Benjamin, N.C., & Mbaye, A.A. (2012). The Informal Sector, Productivity and Enforcement in West Africa : A Firm Level Analysis. *Review of Development Economics*, 16(4), 664-680.
- Cahuc, P., & Dormont, B. (1997). Profit Sharing : Does It Increase Productivity and Employment? A Theoretical Model and Empirical Evidence on French Micro Data. *Labour Economics*, 4(1997), 293-319.
- Ciancanelli, P., Gallhofer, S., Haslam, J., Watson, R. (1997). Profit Related Pay and Small Firm Labour Market. *Small Business Economics*, 9, 225-238.
- Conte, M.A., & Svejnar, J. (1988). Productivity Effects of worker Participation in Management, Profit Sharing, Worker Ownership of Assets and Unionization in U.S Firms. *International Journal of Industrial Organization*, 6(1988), 139-151.

- Cooke, W.N. (1994). Employee Participation Programs, Group-Based Incentives and Company Performance : A Union-Nonunion Comparison. *Industrial and Labor Relations Review*, 47(4), 594-609.
- Danziger, L. (2010). Endogeneous Monopsony and The Perverse Effect of the Minimum Wage in Small Firms. *Labour Economics*, 17, 224-229.
- Dixit, K., & Pal, R. (2010). The Impact of Group Incentives on Performance of Small Firms: Hausman-Taylor Estimates. *Managerial and Decision Economics*, 31(6), 403-414.
- Gielen, A.C. (2011). Profit Sharing for Increased Training Investments. *British Journal of Industrial Relations*, 49(4), 643-665.
- Hannan, R.L. (2005). The Combined Effect of Wages and Firm Profit on Employee Effort. *The Accounting Review*, 80(1), 167-188.
- Harahap, M.K., Holomoan, A., Siregar, R.P., Siregar, R.S. (2021). The Influence of Compensation to Employee Performance in Food Security and Animal Husbandry Office. *Airlangga Journal of Innovation Management*, 2(2), 177-186.
- Heywood, J.S., & Jirjahn, U. (2009). Profit Sharing and Firm Size: The Role of Team Production. *Journal of Economic and Behavior and Organization*, 71, 246-258.
- ILO. (2005). World Employment Report 2004-2005. Employment, Productivity and Poverty Reduction. Geneva : International Labour Organization
- ITC. (2016). Annual Report 2015: Trade Impact for Good. Geneva : International Trade Center.
- Jones, D.C., & Kato, T. (1995). The Productivity Effects of Employee Stock-Ownership Plans and Bonuses: Evidence from Japanese Panel Data. *The American Economic Review*, 85(3), 391-412.
- Kruse, D.L. (1992). Profit Sharing and Productivity: Microeconomic Evidence from the United States. *The Economic Journal*, 102(410), 24-36.
- Kruse, D.L. (1993). Does Profit Sharing Affect Productivity?. National Bureau of Economic Research Working Paper No.4542.
- Mourougane, A. (2012). Promoting SME Development in Indonesia. OECD Economics Department Working Papers, No. 995. Paris: OECD Publishing.
- Mukhopadhyay, A.K., & Pendhse, S. (1984). *Profit-sharing* in Small Business : An Analysis of Risk and Incentives Effects. *Journal of Small Business Canada*, 1(3), 9-14.
- Ohkusa, Y & Ohtake, F. (1997). The Productivity Effects of Information Sharing, Profit Sharing and ESOPs. *Journal of The Japanese and International Economies*, 11, 385-402.
- Poernamasari, D.W., & Damayanti, A. (2018). Pengaruh Profit Sharing Terhadap Produktivitas Usaha Mikro dan Kecil di Indonesia. Thesis : Universitas Indonesia.
- Setiawan, N., Maisyarah, R., Harahap, R. (2020). Analysis Of Emotional Intelligence And Work Discipline On Employee Performance With Organizational Commitment As An Intervening Variable. *Airlangga Journal of Innovation Management*, 1(2), 184-206.
- Stein, H.D., & Ginevicius, R. (2010). Overview and Comparison of Profit Sharing in Different Business Collaboration Forms. *Journal of Business Economics and Management*, 11(3), 428-443.
- Sugiyono. (2007). Metode Penelitian Kuantitatif Kualitatif dan R&D. Bandung : Alfabeta.
- Sutopo, H.B. (2006). Metodologi Penelitian Kualitatif. Surakarta: Universitas Negeri Sebelas Maret.
- Tambunan, T. (2006). SME Capacity Building in Indonesia. Kadin Indonesia-Jetro.
- Weitzman, M.L., & Kruse, D.L. (1990). Profit Sharing and Productivity, in Paying for Productivity: A Look at The Evidence. Washington D.C: The Brookings Institution.