

Minimum wage and firm specific factors: The case of Indonesia

by Abdul Basyith

Submission date: 18-Jan-2021 08:24AM (UTC+0700)

Submission ID: 1489201613

File name: ISEB_2020.pdf (6.62M)

Word count: 5498

Character count: 29599

UNIVERSITI MALAYSIA KELANTAN

CURRENT ISSUES IN ENTREPRENEURSHIP AND BUSINESS

*A COMPILATION OF PAPER SUBMITTED
AT INTERNATIONAL SEMINAR OF
ENTREPRENEURSHIP AND BUSINESS 2020*



**FACULTY OF
ENTREPRENEURSHIP &
BUSINESS**

CURRENT ISSUES IN ENTREPRENEURSHIP AND BUSINESS

*A COMPILATION OF PAPER SUBMITTED AT INTERNATIONAL SEMINAR OF
ENTREPRENEURSHIP AND BUSINESS 2020*

Editor:

Nadzirah Bt Mohd Said
Siti Fariha Binti Muhamad
Wan Farha Binti Wan Zulkiffli
Mohd Asrul Hery Bin Ibrahim

© Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan 2020

12

All rights reserved. No part of this publication may be reproduced, copied, stored in a retrieval system or transmitted in any form, or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the copyright owner. The views, opinions and technical recommendations expressed by the authors are entirely their own and do not necessarily reflect the views of the Faculty or the University.

eISBN:978-967-2912-23-1

Published by:

Faculty of Entrepreneurship and Business
Universiti Malaysia Kelantan
16100 Kota Bharu, Kelantan

PREFACE

The e-book of The 8th International Seminar of Entrepreneurship and Business (ISEB 2020) is an electronic publication for revised and extended papers presented at the ISEB 2020 on the 22 November 2020. This conference was organized by Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan. All papers in the e-book correspond to communications submitted and accepted for the ISEB 2020 conference. The committee received encouraging submission from various academic fields for this conference. All papers to the conference went through a blind review by the reviewers prior to being accepted to the conference. A total of 48 articles were presented at the conference and included in the eBook.

On the whole, the eBook presents a comprehensive overview of ongoing studies in latest issues and challenges in the field of Entrepreneurship and Business, particularly on Digital Entrepreneurship and beyond. The e-book contains thirteen parts that represent papers presented across 13 sub-themes at the ISEB 2020 conference. The editors and co-editors do not necessarily endorse or share the ideas and views presented in or implied by the papers included in this book.

Access to open e-book can be viewed or downloaded through <https://fkip-portal.umk.edu.my/web/chapterinbook/paper?pur=current-issues-entrepreneurship-business-2020>. We hope these e-book will provide a useful reference for academicians and researchers. With the large number of participants, this conference has achieved its main goal which is to unite educators, researchers and industry players to share results and knowledge in order to stimulate and maintain a research culture in the university.

Representing the editorial committee, I would like to thank all the evaluators of the working papers in their tireless efforts to review and evaluate the papers submitted for this conference. I would also like to thank all the authors for reviewing their papers immediately according to the requirements of the conference. Finally, special thanks are extended to the organizers of the ISEB 2020 committee, for making this conference a success.

Editorial Member

INTERNATIONAL SEMINAR ON ENTREPRENEURSHIP AND BUSINESS (ISEB) 2020

TABLE OF CONTENT

PAPER TITLE	Page
SUB-SESSION: ACCOUNTING	
DOES CORPORATE GOVERNANCE REFORMATIONS MAKE THE DIFFERENCE?	1
THE RELATIONSHIP BETWEEN RESPONSIBILITY ACCOUNTING AND EMPLOYEE'S PERFORMANCE: NEW EVIDENCE FROM UNIVERSITY OF JOS NIGERIA	15
DO EARNINGS MANAGEMENT HAVE ANY RELATIONSHIP WITH FIRM PERFORMANCE? EMPIRICAL EVIDENCE FROM LISTED NIGERIAN DEPOSIT MONEY BANKS	31
EXTERNAL CONNECTEDNESS OF FEMALE DIRECTORS AND EARNINGS QUALITY	42
SOLE PROPRIETORS TAX REPORTING BEHAVIOR: AN ANALYSIS OF THEORY OF PLANNED BEHAVIOR	56
SUB-SESSION: BUSINESS AND MANAGEMENT	
EFFECT OF DIGITAL MANUFACTURING AND CONSUMER BEHAVIOUR ON FIRM SUSTAINABILITY IN MALAYSIA	70
BUSINESS RESILIENCE DURING COVID-19: ANALYSIS ON SMALL BUSINESS FINANCE	97
TAHAP KEPUASAN PELAJAR TERHADAP KEMUDAHAN DAN PERKHIDMATAN DI POLITEKNIK MERLIMAU	107
CONSUMERS PERCEPTION ON HALAL LABELLING AND PURCHASING OF MANUFACTURED FOOD	121
THE MODERATING EFFECTS OF DIRECTOR OWNERSHIP ON CAPITAL ADEQUACY AND RISK TAKING AMONG PRIVATE COMMERCIAL BANKS IN BANGLADESH WITHIN THE BASEL CAPITAL ADEQUACY FRAMEWORK	131
FACTORS THAT INFLUENCE THE USE OF E-WALLET AMONG STUDENTS	144
RAW MATERIAL SUPPLY CHAIN IN BUMIPUTERA FURNITURE INDUSTRY	154
ACCESSIBILITY LEARNING TOOLS AND PORTABILITY TOWARD THE EFFECTIVENESS OF THE USE OF IPAD AMONG UNIVERSITY STUDENTS	165
THE EFFECT OF TALENT ATTRACTION AND TALENT DEVELOPMENT TOWARDS TALENT SHORTAGE IN SUPPLY CHAIN INDUSTRY AMONG YOUNG GENERATION	176
THE EFFECT OF SERVICE QUALITY TOWARD CUSTOMER SATISFACTION AMONG MALAYSIAN AIRLINE PASSENGER	190
SUB-SESSION: ENTREPRENEURSHIP	
MAPPING POTENTIAL SECTORS BASED ON FINANCIAL AND DIGITAL LITERACY OF WOMEN ENTREPRENEURS: A STUDY OF PALEMBANG CITY, INDONESIA	203
ASNAF ENTREPRENEURIAL SCHEME: EVIDENCE FROM LEMBAGA ZAKAT NEGERI KEDAH	213
THE PERSUASIVE DETERMINANTS OF E-COMMERCE ADOPTION AMONG ADOLESCENCE IN KELANTAN	221
ORIENTASI KEUSAHAWANAN DAN PERTUMBUHAN PERNIAGAAN MILIK USAHAWAN IBU TUNGGAL	234
ENTREPRENEURSHIP AND SMES IN MALAYSIA	246

ISSUES AND CHALLENGES OF REFUGEE ENTREPRENEURSHIP IN A SELECTED HOSTING COUNTRY	261
SUB-SESSION: CREATIVITY AND INNOVATION	
SOLID SOAP FROM CRUDE PALM OIL FOR COTTAGE INDUSTRY SMALL BUSINESS	272
SUB-SESSION: ENTREPRENEURSHIP EDUCATION	
DOES PERSONALITY TRAITS AND ENTREPRENEURSHIP EDUCATION KINDLES ENTREPRENEURSHIP INTENTION AMONG UNDERGRADUATE STUDENTS? A LITERATURE REVIEW	277
AN EXAMINATION OF THE STATUS OF ENTREPRENEURSHIP EDUCATION AND ENTREPRENEURSHIP EDUCATION PROGRAMMES IN MALAYSIA	288
MENEROKA TAHAP PEMBELAJARAN KEUSAHAWANAN DIGITAL DALAM KALANGAN PELAJAR INSTITUSI TVET	302
HIGHER INSTITUTION STUDENTS READINESS ON MOBILE LEARNING: A CASE STUDY AT POLITEKNIK UNGKU OMAR (PUO)	318
SUB-SESSION: ECONOMICS AND DEVELOPMENT	
THE IMPACT OF DIGITAL TRANSFORMATION ON ECONOMIC GROWTH IN ASEAN COUNTRIES	329
KANDUNGAN BERITA KE PENGGUNAAN DI AKHBAR BAHASA MALAYSIA KETIKA PERINTAH KAWALAN PERGERAKAN (PKP) FASA 1: ANALISIS KANDUNGAN	344
SUB-SESSION: MARKETING	
MSME BUSINESS PERFORMANCE DURING OUTBREAK OF COVID-19: A PERSPECTIVE OF SOCIAL MEDIA ADOPTION AND E-COMMERCE WITH ENTREPRENEURIAL ORIENTATION AS MEDIATION, EXPERIENCE FROM JAMBI, INDONESIA	350
LOYALTY OF RURAL TOURISM DESTINATION: A PERSPECTIVE OF DESTINATION QUALITY PERCEPTION, SATISFACTION, AND BEHAVIOR INTENTION	365
A STUDY ON SOCIAL MEDIA MARKETING FOR BUSINESS AMONG MAGAZINE PUBLISHING COMPANY DURING COVID-19 PANDEMIC	383
EMPHASIZING ENVIROPRENEURIAL MARKETING STRATEGY IN SMES BUSINESS: A CONCEPTUAL PAPER	399
WHAT DRIVE E-SATISFACTION: A CASE ON UMK STUDENT TOWARDS ONLINE PURCHASING	409
SUB-SESSION: HUMAN RESOURCE	
HUMAN RESOURCE MANAGEMENT CHALLENGES IN COVID 19	429
KEY EMPLOYABILITY SKILLS IN BRUNEI: REVIEWING THE PERCEPTIONS OF EMPLOYERS AND EMPLOYEES IN THE PRIVATE AND GOVERNMENT SECTORS	436
THE ASSESSMENT OF TALENT REMUNERATION EFFECT TOWARDS JOB RETENTION AMONG STATE PUBLIC SERVANT	452
MULTIPLE ROLE CONFLICT AND JOB PERFORMANCE: THE MEDIATING ROLE OF SELF EFFICACY	473
SUB-SESSION: DIGITAL ENTREPRENEURSHIP	
QR CODE AS A MOBILE MARKETING TOOL	484
THE PROCLIVITY FACTORS ON AWARENESS OF E-COMMERCE: A CASE OF SMALL BUSINESS IN KELANTAN	492

SUB-SESSION: ISLAMIC BANKING AND FINANCE	
ISLAMIC FINANCIAL PLANNING: ASSESSING THE ISLAMIC CREDIT CARD USERS' COMPLIANCE ON PAYING ZAKAT	504
CREDIT CARD DEBT MANAGEMENT – A REVIEW IN CREDIT CARD PRACTICE	511
DEGREE OF FINANCIAL AND OPERATING LEVERAGES AND FINANCIAL PERFORMANCE OF LISTED OIL AND GAS COMPANIES IN NIGERIA	523
MINIMUM WAGE AND FIRM SPECIFIC FACTORS: THE CASE OF INDONESIA	535
SUB-SESSION: INFORMATION MANAGEMENT	
DECISION SUPPORT SYSTEM FRAMEWORK FOR PERSONALIZED ADAPTIVE LEARNING BASED ON BEHAVIORAL MODELLING	544
SUB-SESSION: TOURISM AND HOSPITALITY	
A STUDY ON THE ACCEPTANCE OF BETEL LEAF SOAP AMONG STAFF OF THE DEPARTMENT OF TOURISM AND HOSPITALITY OF POLYTECHNIC MERLIMAU	558
AN EMERGENT OF ISLAMIC TOURISM AND HOTEL: A READINESS, OPPORTUNITY AND OBSTACLE TO BE SOLVED; AN ANALYSIS OF HOTELIERS' PERSPECTIVE	568
SUB-SESSION: SOCIAL ENTREPRENEURSHIP	
AN EMPIRICAL STUDY OF FACTORS AFFECTING S-COMMERCE ADOPTION AMONG MICRO AND SMALL- AND MEDIUM SIZED ENTERPRISES IN SUB-	582
17 BAN AND RURAL ECONOMIC AREA: EVIDENCE FROM KELANTAN	
IMPACT OF SOCIAL MEDIA INFLUENCER TOWARDS USER PURCHASE INTENTION IN THE FASHION INDUSTRY	591
AN EMPIRICAL STUDY OF FACTORS AFFECTING S-COMMERCE PURCHASE INTENTION AMONG STUDENTS	604

Minimum wage and firm specific factors: The case of Indonesia

¹Fitriya, ²Abdul Basyith & ³Rabin Ibnu Zainal
^{1,3}Universitas Bina Darma
²Universitas Muhammadiyah Palembang

Abstract: This study aims to examine how the minimum wages raise in Indonesia affecting firm-specific factors such as sales growth, return on assets, return on equity, net profit margin and gross profit margin. This study also elaborates how Thailand and Vietnam determined its minimum wage. The samples used in this study were 135 companies. The research data used is for 12 years, namely data from 2008 to 2019, with a total of 1620 observations. Companies in the trade, service and investment industry were the most research samples of 33 companies or 396 observations or 24 per cent and at least in the agriculture and mining industry, there were 9 companies or 108 observations or 7 per cent. A descriptive statistic is employed. The study results show that Indonesia's economic growth in 2009 fell from 6.01 per cent to 4.63 per cent, while at that time the minimum wage was increased by 10 per cent, so the number of companies that received positive sales growth only reached 53 per cent or 72 companies. In 2008 and 2009, Indonesia experienced an economic crisis and a financial crisis so that overall companies that experienced positive sales growth experienced a decline. In 2011 to 2013, when economic growth continued to decline, the minimum wage continued to increase, which had an impact on company sales. Companies that received positive sales fell from 87 per cent in 2011 to 80.7 per cent in 2013. In 2014 to 2016, when economic growth continued to decline while the minimum wage remained increased above 10 per cent, the number of companies that received positive sales growth experienced a decrease from 76.3 per cent to 68.5 per cent. In 2017 and 2018, where the minimum wage was set to be below 10 per cent, or to be precise 8.25 and 8.71, the number of companies that received positive sales growth relatively increased. However, in 2019 the number of companies that received positive sales growth was only 56.3 per cent and decreased from the previous year. From this condition, it can be seen that when economic conditions decline and the minimum wage increases, the increase in the minimum wage does not spur employees to be more productive, because of the number of companies that get positive sales growth decreases.

Keywords minimum wage, firm specific factors, Indonesia

1. Introduction

4
According to the International Labour Organisation (ILO), a living wage is a wage that allows workers to live with dignity. A living wage must be enough to enable workers to meet basic needs such as food, shelter, clothing, healthcare, savings and minimal recreation for workers and their families. A living wage is based on the calculation of (1) food consumption with enough calories for a family of four based on local dietary habits, and (2) non-food costs, including rent, utilities, children's education, and savings. (www.asia.floorwage.org).

The minimum wage is aimed at raising the standard of living, lowering poverty, narrowing the wage disparity and increasing labor productivity in which it is believed that an equitable pay will generate a good quality of life thus stimulating higher productivity and loyalty in which lowering employee turnover rate. In the other hand, labor productivity may induce a rise in wage as the firm may generate higher profits. However, a previous study on Thailand minimum wage has documented that the minimum wage does not reduce overall wage inequality because of a high non-compliance rate and weak law enforcement, particularly in the informal sector (Leckcivilize, 2015). Further Leckcivilize (2015) found that the

minimum wage seems merely to be effective for the large businesses in which a small and medium firm is unaffected.

For the last few decades, there has been a debate in regards to the effect of increasing minimum wage. Employers consider an increase in the minimum wage leads to higher labor costs, higher product prices, economic growth downturn, and decreased employment. In contrast, the employees consider an increase in the minimum wage brings more earnings, higher consumption, higher demands for goods and services which is in the end leads to a higher economic growth and higher employment opportunities.

2. Literature Review

The literature on minimum wage effects shows a variety of approaches in which some studies the effect on a various group of workers (Brown, 1999; Card & Crueger, 1995; Machin & Manning, 1997; Neumark & Wascher, 2008). The previous studies from the US, UK and Canada documents a significant reduction of wage disparity. However, comparison studies in developing countries show mixed results due to differences in the minimum wage, labor market characteristics and institutions, regulation compliance and law enforcement (Lemos, 2009). At the beginning of minimum wage enactment, law enforcement is relatively weak. Studies from developing countries such as Southeast Asia found mixed evidence, some found a small negative employment effect after a spike in the minimum wage (Rama 2001; Alatas and Cameron 2008; Del Carpio, Nguyen, and Wang 2011), some found a positive effect if spatial clustering is taken into account (Magruder, 2013), and some found no effect in employment (Sekalleriou & Fang, 2014). Though Sekalleriou and Fang (2014) found no effect on employment, yet it reduce wage disparity in Vietnam after the Renovation Reform.

Brassard (2004) investigated the impact of the minimum wage on poverty alleviation in Vietnam and found significant gender differences within regions for daily agricultural wages and significantly lower wages in North Vietnam. Further, the northern wages of industrial are below the legal minimum wage in both state and private sector in particular for the textile industry. Moreover, there is a significant difference in the minimum wage between gender and regions. The poverty in Vietnam is concentrated in the rural areas particularly amongst ethnic minorities' areas and remote areas which are common in most developing countries. Further, Hansen, Rand and Torm (2016) examined the impact of minimum wage changes on wage inequality in Vietnam and found that though the overall effect has been a significant decrease in wage inequality, however, the minimum wages can only reduce wage inequality in the formal sectors but not in the informal sectors.

In Cambodia, the minimum wage policy maker is the Ministry of Manpower and Vocational training in consultation with the Labor Advisory Committee through Prakas (Ministerial Order) The Employment Advisory Committee is a tripartite body consisting of 14 government representatives, 7 trade unions and 7 employers representatives. The board is required to discuss minimum wage rates each year. In accordance with the provisions of the 1997 Labor Code, workers' salaries must be at least the same as the minimum wage, ensuring every worker has a decent standard of living that is compatible with human dignity. Minimum wage levels should be set without distinction by profession or occupation. However, the minimum wage may vary by region, depending on economic conditions and the cost of living. The key factors in determining the minimum wage include the inflation rate, the cost of living, productivity, competition, the status of the labor market and the profitability of a particular industry.

In Indonesia, the minimum wage policy is based on the 2004 Presidential Decree on Wage Councils (representatives of local governments, employers' associations and trade unions) regulating advisory National, Provincial and District Wage Councils. The minimum wage rate is determined annually in accordance with the central government wage policy. The new wage formula set by the government is the provincial minimum wage for the next year = current year's provincial minimum wage + (current year's provincial minimum wage (inflation + economic growth)). The factors that are considered in determining the amount of the minimum wage include: the living needs of workers and their families; cost of living; level of economic development and per capita income; inflation rate; labor market conditions; and company capabilities, development and sustainability.

In Malaysia, minimum wage policies are decided under the National Wage Consultative Council Act 2011 (Law 732). There is a tripartite body called the National Wage Consultative Council which is formed to recommend minimum wage rates to the Government and after it is approved by the Government, the Minister of Human Resources makes a Minimum Wage Order. The criteria for determining the minimum wage are divided into two; basic criteria and adjustments. The basic criteria include Poverty Line Income (PLI) and Median Wages while the adjustment criteria include changes in the Consumer Price Index (CPI), Productivity Growth (P) and Real Unemployment Rate (EU).

In the Philippines, minimum wage levels are set at the local level by the Regional Tripartite Wages and Productivity Council. The regional minimum wages to be set by the Regional Councils must be as economically as possible to maintain the minimum standard of living required for the health, efficiency and general welfare of employees in the context of national economic and social development. In determining the minimum wage, the Regional Management considers, among other things, relevant factors, the needs of workers and their families, the cost of living and changes or increases thereof, the prevailing wage level, distribution of income and wealth along the interests of economic and social development, the effect on field creation, employment, the capacity of employers to pay, adjustment of wages to the consumer price index and the need to encourage industry to invest in rural areas and improve living standards.

In Vietnam, according to Article 90, Labour Code 2012 in Vietnam, wage is defined as a monetary amount which is paid to the employee by the employer to perform the work as agreed by the two parties. Wage includes remuneration which is based on the work or position, as well as wage allowances and other additional payments. An employee's wage must not be lower than the minimum wage provided by the Government (Labour Code, 2012). The minimum wage in Vietnam is determined by tripartite negotiation of the National Wage Council. According to Vietnamese law, wage consists of: (1) basic remuneration which is based on the work or position, (2) wage allowances, and (3) other additional payments. Basic remuneration is paid for the contribution given by the worker in accord with the quality and quantity under the standard working conditions applied. Wage allowances is given as compensation for working conditions, work complexity, living conditions and retention which is not covered by the basic remuneration given. This allowance is considered as an additional for basic remuneration and it is determined by the work complexity. This allowance is stated in the contract as it is agreed by both party. Meanwhile the additional payments in wages is determine in accord with the work performance or title of the worker in the employment contract, and this is excluded from bonuses such as mid-shift meal payment and supportive payments in case that employees'

close relatives die or get married, supportive payment for employees' birthdays, supportive payments for disability resulting from an occupational accident or disease, and other allowances not related to work performance or title of the employees in the employment contract. This regulation in fact makes it difficult for companies to enforce and determine what constitutes an additional payment. Further, Fair Labor Association defines net wage as compensation is equal to basic contracted wage + cash benefits + in-kind benefits – mandatory taxes and legal deductions and taxes. Further, the minimum wage in Vietnam differs by region and sector as to comply with the differences in the natural and social conditions, and living standard. The sectoral minimum wage in Vietnam is set according to the sectoral collective bargaining and should be higher than the regional minimum wage set by the government. Yet, in fact, some of the industries are no avail to adhere to this regulation, for example, the salary of many textile workers is highly dependent on minimum wage (Nguyen, 2018).

9
In Laos, the minimum wage is determined through tripartite social discussions between employers' associations, workers' organizations and government representatives. Laos has not implemented a minimum wage increase since 2018. At that time, the Lao government raised the minimum wage for all businesses and factories from 900,000 kip (US \$ 101) to 1.1 million kip (US \$ 124) a month.

9
Myanmar, the minimum wage is set by the Confederation of Myanmar Trade Unions. The daily minimum wage in Myanmar is revised every two years and discussions on new tariffs will begin in May 2020.

In Thailand, which has the highest minimum wage and occupied the fourth rank of GDP nominal per capita amongst ASEAN countries (Source: <https://nwpc.dole.gov.ph/wp-content/uploads/2020/02/2020-comparative-wages-in-selected-countries.pdf>), three party panel is included to determine the minimum wage which comprises of representatives from government, employees and employers. The formula to determine the minimum wage consists of the average of monthly wage, bonus and in kind benefits such as food, clothing, housing and other in kind benefits in which the overtime pay is excluded from minimum wage formula as it is not consistent with a living wage analysis. The wage committee negotiated an appropriate minimum wage in accordance with economic growth and inflation. The Thailand minimum wage is based on three principles, that is, (1) the minimum wage is a major measure of labor protection; (2) the minimum wage is determined by the tripartite panel and; (3) the fixation of the minimum wage is decentralized to the provincial level. The current wage rate, the consumer price index, inflation rate, standard of living, cost of production, prices of goods and services, employer's capacity to pay, labor productivity, GDP, and the socio-economic situation should be taken into account before determining the forthcoming minimum wage. The dual labor market (formal and informal) and stringent implementation of the minimum wage policy in Thailand makes their labor market unique if compared to other neighbouring countries. However, due to the close geographical location with some other developing countries, the influx migration of employment is relatively high in Thailand in which most of them are low skilled workers and 40 per cent of them are women.

3. Research Method

This study uses primary data and secondary data. Primary data collection was obtained using interview and FGD techniques with related governments, company owners, company management and labor associations. Secondary data is obtained through documentation of both the company's financial statements and reports related to the company to obtain data

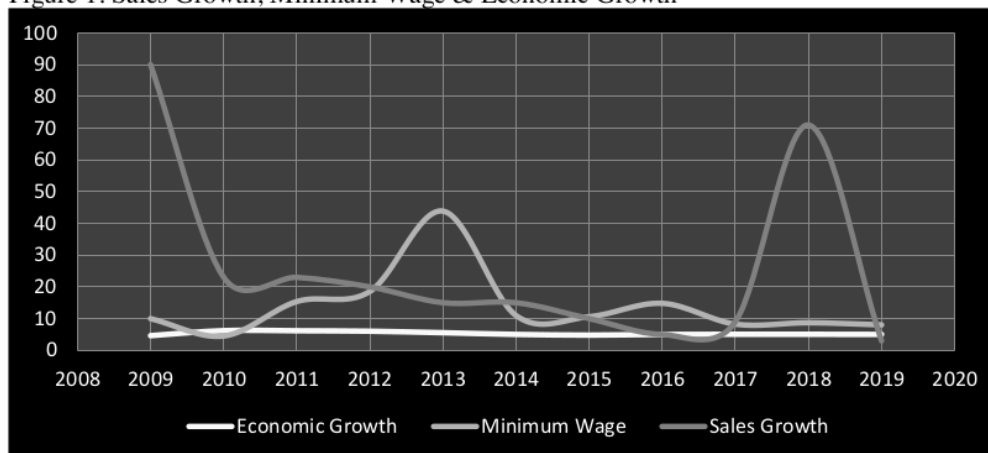
on the company's financial performance. Data analysis was carried out on 135 manufacturing companies from 2008 to 2019 by analyzing (1) sales growth with UMR and economic growth, (2) gross profit margin growth with UMR and economic growth, (3) wage growth with UMR and economic growth, (4) growth in net profit with the UMR and economic growth, (5) growth in profit (Return on Assets) with the UMR and economic growth. FGDs were held on September 14 with business owners and academics.

4. Findings

(1) Sales Growth, Economic Growth dan Minimum Wage Rate

In 2010, when the UMR fell and economic growth increased, sales increased. However, in 2011 to 2013 when the UMR increased and economic growth decreased slightly, sales growth declined. In 2014, the UMR fell and economic growth also fell slightly, sales grew close to 20 percent. In 2015 the UMR increased but sales growth fell, then from 2016 to 2019 when the UMR continued to decline, sales growth increased even reaching the level of 23 percent, but in 2019 sales growth fell. It can be concluded that an increase in the UMR which is not followed by economic growth does not encourage sales growth.

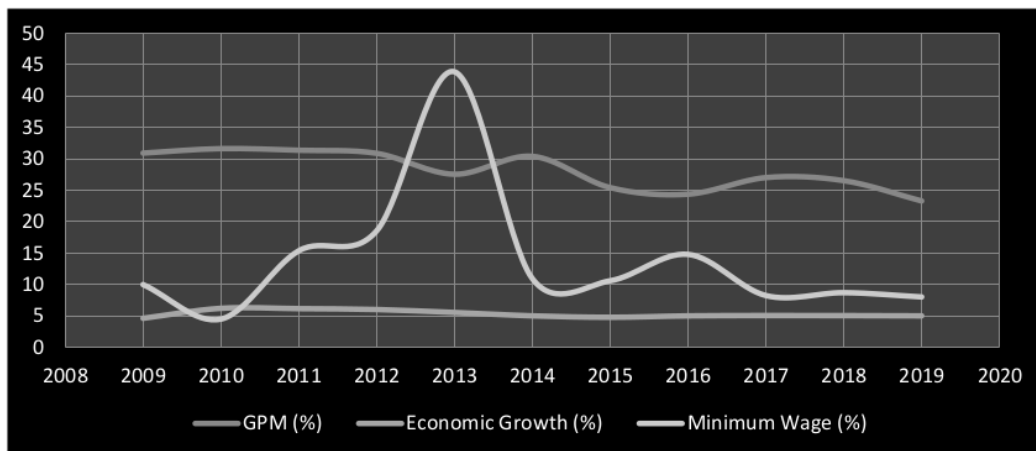
Figure 1. Sales Growth, Minimum Wage & Economic Growth



(2) Gross Profit Margin, Minimum Wage dan Economic Growth

In the chart below, economic growth continues to fall, as well as the gross profit margin which shows a downward trend as well. However, the minimum wage initially tended to increase, but in the last three years it has not been sloping. In 2010, when economic growth increased and the minimum wage showed a decrease, companies were able to increase their gross profit margin. In 2013, when economic growth fell, while the minimum wage increased drastically to 43 percent, the company's gross profit fell below 30 percent. In 2014, when economic growth continued to decline and the minimum wage also fell drastically, the company was able to increase gross profit, as well as what happened in 2016, the UMP went up again, the company graph showed a decline. In 2017, the UMP fell again, so the company's GPM increased. In 2019, when the increase in UMR tended to be stable at 8 percent, the company's GPM showed a decreasing trend.

Figure 2. Gross Profit Margin, Minimum Wage & Economic Growth

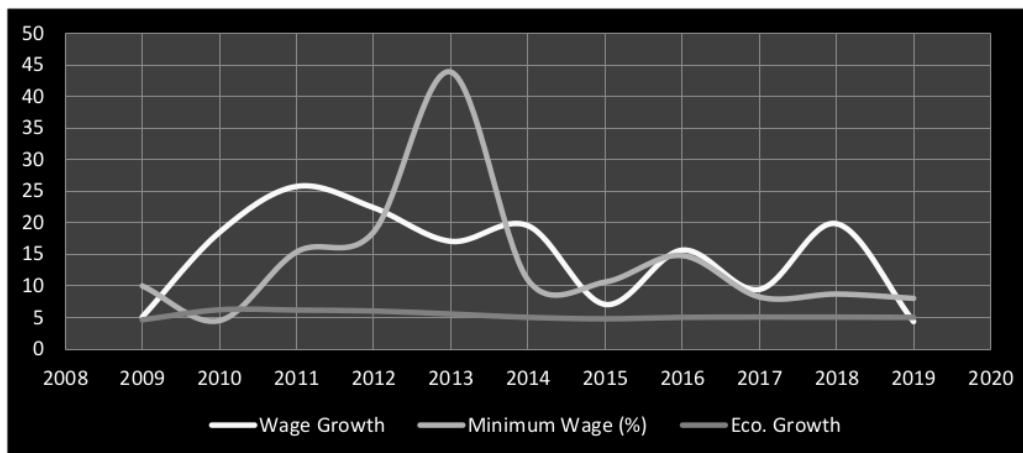


The graph above illustrates the development of the gross profit margin, minimum wages and economic growth. The company's gross profit margin ranges from 30 percent to 25 percent, but it has a tendency to decline from 2009 to 2019. When the UMR rose sharply in 2013, the gross profit of the company seemed to have decreased significantly, as well as when the minimum wage increased from year to year. 2014 - 2016, there is a tendency for the company's gross profit to decline. It can be concluded that the increase in the minimum wage also affects the GPM, because the increase in the UMR will cause a large increase in labor wages while the increase in sales is not supportive.

(3) Wage Growth, Minimum Wage and Economic Growth

The figure below illustrates the growth in wages, minimum wage rates and economic growth over the last 11 years. In 2010 the economic growth reached 6.22 percent, with this high economic growth, in 2011, the minimum wage increased to 15.38 percent. The increase in your minimum wage is followed by an increase in your salary reaching a level of 25.75 percent. From 2009 to 2012, the rate of increase in wages was always higher than that of the minimum wage. From 2011 to 2013, when economic growth continued to decline, the minimum wage continued to rise and the increase in minimum wages reached its highest peak in 2013, where the minimum wage rose to 43.87 percent. The high minimum wage increase was not followed by a high increase in labor wages, labor wages tended to decrease from the increase in labor wages the previous year, but it can also be seen that in 2014, the increase in labor wages was higher than the increase in minimum wages. From 2014 to 2017, economic growth continued to decline, as did the UMR level also fell. In this period, although the increase in labor wages was still higher than the increase in the UMR, the increase in labor wages was relatively similar to the increase in the minimum wage. In 2018, economic growth continued to decline but the UMR was also relatively stable at 8 percent, and labor wages rose higher than the UMR increase. It can be concluded that the relationship between the UMR and the level of company labor wages, that the increase in the UMR will be followed by a higher increase in company labor wages, this will be followed by an increase in the wages of other administrative workers outside of labor.

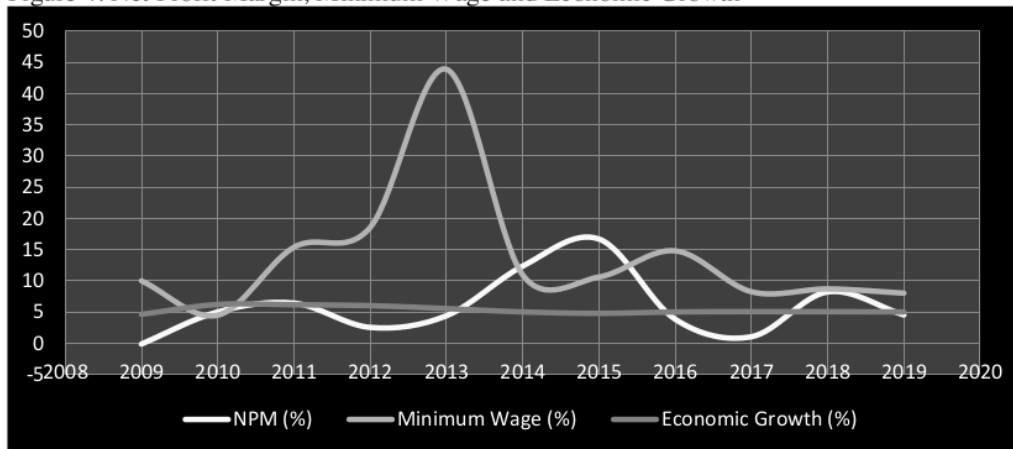
Figure 3. Wage Growth, Minimum Wage and Economic Growth



(4) Net Profit Growth, Minimum Wage, and Economic Growth

The chart below explains the development of net profit margin, minimum wage and economic growth. The highest net profit margin growth occurred in 2015, reaching 16.7 percent. In 2015, the net profit margin obtained by the company was higher than the increase in the UMP in 2015. The low net profit margin was obtained in 2012 and 2017, the net profit margin in both years was lower than economic growth. Overall, the increase in the company's net profit margin is lower than the increase in the minimum wage, it can be explained that a higher increase in labor wages can cause operating expenses to increase so that the company's net profit margin is also low.

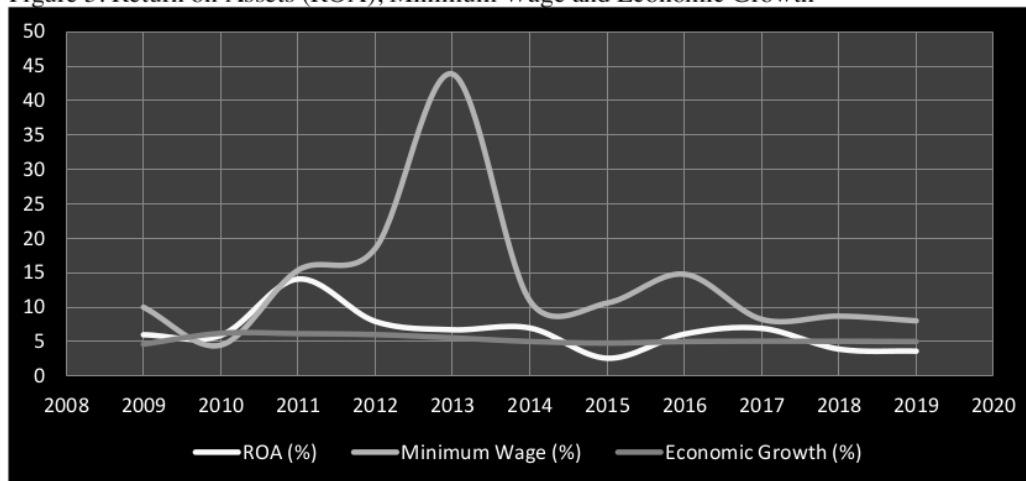
Figure 4. Net Profit Margin, Minimum Wage and Economic Growth



(5) Growth Profit (Return On Assets), Minimum Wage and Economic Growth

The chart below depicts the development of return on assets, minimum wages and economic growth. In the early period (2009 - 2011) the company's ROA level was higher than the UMR, this was because the sales growth rate in that period was relatively higher than the UMR level. However, in the next period, the ROA obtained by the company was lower than the UMR. This is because the increase in the minimum wage causes the company's net profit to fall, so that net profit is a small denominator with relatively stable total assets, so ROA will decrease.

Figure 5. Return on Assets (ROA), Minimum Wage and Economic Growth



5. Conclusion

It can be concluded that (1) an increase in the minimum wage which is not followed by economic growth will not encourage sales growth¹⁸; (2) an increase in the minimum wage also affects the gross profit margin, because the increase in the minimum wage will cause a large increase in labor wages, while on the other hand, the increase in the minimum wage will not increase sales; (3) an increase in the minimum wage will be followed by an increase in the wages of corporate workers that are higher, both for operational workers and for administrative workers¹⁸; (4) Overall, the increase in the company's net profit margin is lower than the increase in the minimum wage, because the increase in labor wages is higher than the seller so that it can cause an increase in operating expenses which results in a low net profit margin of the company. This is because the increase in the minimum wage causes the company's net profit to decrease.

6. References

- ¹¹ Brassard, C. (2004). Wage and labour regulation in Vietnam within the poverty reduction agenda. *Policy and Society*, 23(2), 49-77. DOI: 10.1016/S1449-4035(04)70032-6
- Fair Labor Association. (2019). Toward fair compensation in Vietnam: Insights on reaching a living wage. Fair Labor Association, 1-14.
- Hansen, H., Rand, J., & Torm, N. (2016). The impact of minimum wage adjustments on Vietnamese wage inequality. *International Labour Organization, Country Office for Vietnam*.
- Nguyen, P.H. (2018). Wages policy in the current context of industrial relation in Vietnam. ¹⁶ *Japan Labor Issues*, 2(8), 18-23.
- Alatas, V., & Cameron, L. (2008). The Impact of minimum wages on employment in a low income country: A quasi-natural experiment in Indonesia. *Industrial and Labor Relations Review*, 61(2), 201-223
- ¹⁹ Del Carpio, X.V., & Nguyen, H., & Wang, L.C. (2012). Does the minimum wage affect employment? Evidence from the manufacturing sector in Indonesia. *World Bank Policy Research Working Paper No. 6147*.
- ² DiNardo, J., Fortin, N.M., & Lemieux, T. (1996). Labor market institutions and the distribution of wages, 1973–1992: A semiparametric approach. *Econometrica* 64(5),

1001-44

- Fortin, N.M., Lemieux, T. (2000). Income redistribution in Canada: Minimum wages versus other policy instruments. In: Riddell WC, St-Hilaire F (eds). *Adapting Public Policy to a Labour Market in Transition. Institute for Research on Public Policy (IRPP), Montreal*, 211–247
- Leckcivillize, A. (2015). Does the minimum wage reduce wage inequality? Evidence from Thailand. *IZA Journal of Labor & Development*, 4(21), 1-23, <http://dx.doi.org/10.1186/s40175-015-0041-7>
- Lemos, S. (2009). Minimum wage effects in a developing country. *Labour Econ* 16(2), 224–237
- Magruder, J. R. (2013). Can minimum wages cause a big push? Evidence from Indonesia. *Journal of Development Economics*, 100(1), 48 – 62.
- MAP Foundation. (2017). Dream out of reach: A living wage for women migrant workers in Thailand. *The Asia Pacific Forum on Women, Law and Development*.
- Rama, M. (2001). The consequences of doubling the minimum wage: The case of Indonesia. *Industrial and Labor Relations Review*, 54(4), 864–81



9 789672 912231

**FACULTY OF
ENTREPRENEURSHIP
AND BUSINESS,
UNIVERSITI MALAYSIA
KELANTAN**

Minimum wage and firm specific factors: The case of Indonesia

ORIGINALITY REPORT

21 %

SIMILARITY INDEX

21 %

INTERNET SOURCES

10 %

PUBLICATIONS

0 %

STUDENT PAPERS

PRIMARY SOURCES

1	web.archive.org Internet Source	2%
2	izajold.springeropen.com Internet Source	2%
3	wageindicator.org Internet Source	2%
4	apwld.org Internet Source	2%
5	publicatio.bibl.u-szeged.hu Internet Source	2%
6	ilo.org Internet Source	1%
7	www.thaiscience.info Internet Source	1%
8	umkeprints.umk.edu.my Internet Source	1%
9	www.aseanbriefing.com Internet Source	1%

10	irep.iium.edu.my Internet Source	1%
11	www.econ.usyd.edu.au Internet Source	1%
12	issuu.com Internet Source	1%
13	permanent.access.gpo.gov Internet Source	1%
14	openknowledge.worldbank.org Internet Source	1%
15	ftp.iza.org Internet Source	1%
16	www.econstor.eu Internet Source	1%
17	etadbir.umk.edu.my Internet Source	1%
18	"Minimum Wages in China", Springer Science and Business Media LLC, 2020 Publication	1%
19	academic.oup.com Internet Source	1%
20	www.reformadaclt.com.br Internet Source	1%

Exclude quotes On

Exclude bibliography Off

Exclude matches < 1%