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The Role of Compensation Systems in Enhancing Employee Performance in a Traditional Culinary MSME in Yogyakarta

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Abstract

This study investigates the role of compensation in enhancing employee performance at MSME X, a traditional culinary business in Sleman, Yogyakarta. Although Indonesian MSMEs contribute significantly to employment and regional growth, many face human resource management challenges, particularly ineffective compensation systems. The study aims to analyze how compensation is perceived and implemented to improve performance. Using a qualitative descriptive approach, data were collected through in-depth interviews with five purposively selected informants, consisting of the owner or manager, the human resources department, the production supervisor, the operations supervisor, and frontliner staff, analyzed using the Miles and Huberman method, and validated through triangulation. Findings show that compensation is viewed as a direct consequence of performance, aligned with Vroom's Expectancy Theory, implemented through monthly KPIs. KPI-based incentives and overtime bonuses are considered most effective, complemented by base salary, attendance allowances, and accommodation facilities functioning as Herzberg hygiene factors, although overtime practices remain not fully compliant. The study validates Vroom and Herzberg's theories in the Indonesian culinary MSMEs context and suggests structured KPIs, hourly overtime schemes, phased BPJS implementation, and sales training to enhance retention and competitiveness.

Keywords

Compensation, Employee Performance, Human Resource Management, Motivation.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in supporting job creation and regional economic growth in Indonesia. As of 31 October 2025, the number of MSMEs in Indonesia reached approximately 30.19 million units, reflecting their substantial contribution to the national economy and employment opportunities (Ministry of MSMEs of the Republic of Indonesia, 2025). Despite this significant role, many MSMEs still face challenges in managing human resources, particularly in designing compensation systems that adequately reflect employee workloads. In many cases, compensation remains suboptimal, which can negatively affect employee motivation and productivity. For instance, MSME X in Yogyakarta has experienced a situation where compensation was perceived as not commensurate with the workload, leading to decreased employee motivation, reduced productivity, and potential risks to long-term business sustainability.

Compensation and motivation significantly influence MSME employee performance. Arissa and Indiyati (2023) showed that appropriate compensation improves performance despite limited resources. Transparent performance-based compensation increases satisfaction, productivity, and retention (Chalil & Subarjo, 2024; Ridhovan & Nugroho, 2025). Kirana (2024) defined holistic compensation as encompassing salary, bonuses, benefits, and career development for overall motivation.

Vroom's Expectancy Theory explains that motivation depends on the belief that effort will result in appropriate rewards. Herzberg's Two-Factor Theory emphasizes motivational factors such as recognition and responsibility to enhance satisfaction. Performance-based compensation is effective in increasing morale and loyalty. Intrinsic motivation (satisfaction, recognition, challenge) and extrinsic motivation (wages, benefits, incentives) are equally important in MSMEs, especially temporary jobs. Kirana (2024) states that a combination of both improves performance, necessitating a fair compensation system to retain human resources and productivity. Many MSMEs face high employee turnover and low productivity due to substandard compensation (Dewi et al., 2023).

The limited study of the integration of intrinsic and extrinsic compensation in traditional culinary MSMEs hinders effective strategies. Labor regulations regarding wage structures are often suboptimal in MSMEs. Alfonso (2025) shows that a balanced financial-non-financial policy improves performance by up to 23%. Widyandito (2025) emphasizes the combination of financial compensation with skills development and non-financial rewards for loyalty. The literature gap in this research, focusing on MSME X Yogyakarta, provides an empirical overview of integrated compensation solutions in traditional culinary businesses, updating regional literature and providing practical insights for global competition. The majority of quantitative studies on large companies lack exploration of the dynamics of intrinsic-extrinsic compensation in culinary MSMEs, neglecting adjustments to the characteristics of small to medium enterprises that are different from large companies.

This study addresses two main research questions concerning how owners and managers perceive the role of compensation in improving employee performance and what types of compensation are considered effective by MSME owners and managers in enhancing employee performance. Thus, this study aims to examine the role of compensation on employee performance and analyze the type of compensation to enhance performance. This study contributes to the literature by providing empirical insights into how compensation systems are perceived and implemented within a traditional culinary MSME context. By exploring both financial and non-financial forms of compensation through a qualitative approach, the study highlights the integration of intrinsic and extrinsic motivational factors that influence employee

performance in small-scale businesses. The findings also offer practical implications for MSME owners and managers in designing fair and effective compensation strategies to improve employee motivation, retention, and organizational sustainability.

2. Literature Review

2.1. Compensation

Compensation refers to financial and non-financial rewards provided to motivate employee performance and strengthen loyalty (Dwiyani et al., 2025). In MSMEs with limited resources, compensation systems must be proportional to the company's financial capacity while meeting workforce needs in order to maintain a conducive work environment and retain skilled employees (Utomo et al., 2025). However, when compensation is not balanced with workload, it can reduce employee motivation and productivity, as observed in MSME X in Yogyakarta. Previous studies confirm that compensation inequity often leads to dissatisfaction and employee turnover, whereas fair rewards aligned with responsibilities increase job satisfaction and retention (Ningrum & Ayu, 2025; Nisa & Jumadi, 2025). Compensation typically consists of financial components, such as wages, performance incentives, and allowances, as well as non-financial elements, including work facilities, recognition, training opportunities, and a supportive work environment. Non-financial rewards, particularly career development and recognition, are also important for sustaining long-term employee motivation (Sugiono, 2025). Therefore, flexible compensation strategies that consider organizational capacity and employee needs are essential for fairness, loyalty, and innovation in MSMEs, while compensation imbalances remain a major factor contributing to high turnover and organizational instability (Ayu & Isyanto, 2025; Zulkarnaini, 2025; Hulu, 2025).

In MSMEs, compensation is influenced by factors such as labor market conditions, company financial capacity, employee productivity, cost of living, and government regulations, including regional minimum wage policies (Ahmat et al., 2019). Compensation also serves strategic functions, including attracting qualified employees, retaining high performers, and increasing motivation and productivity (Prambodo et al., 2024). Fair compensation that matches employee contributions can improve job satisfaction and performance (Pratama & Ahmadi, 2024). Moreover, an effective compensation system strengthens employee loyalty, supports well-being, and creates a productive work environment that enhances organizational performance (Dhita et al., 2023).

2.2. Employee Performance

Employee performance is the achievement of individual work results according to organizational standards, including quality, quantity, timeliness, and effectiveness. In MSMEs, as the backbone of the national economy, optimal efficiency is crucial for business continuity despite limited resources (Riza & Mutiarni, 2022). Performance is influenced by the compensation system; an imbalance with workload reduces motivation, productivity, and work output. Fair compensation increases motivation, satisfaction, loyalty, and performance. Productivity, innovation, and HR competency are essential for business adaptation and MSME sustainability. HR management is crucial for MSME success through appropriate compensation and motivation (Rusilowati et al., 2025). Effective management and a conducive environment increase employee morale and dedication.

An imbalance between compensation and workload creates a sense of underappreciation, reducing motivation, enthusiasm, and productivity. A fair compensation system, a compatible workload, a healthy environment, and professional management are necessary to improve MSME performance and

sustainability (Kusumawati & Nurcahyo, 2025). MSME employee performance integrates individual capabilities, compensation, motivation, job satisfaction, and HR management that creates a supportive environment, determining competitiveness and sustainable development.

Key indicators of MSME performance include work quality (accuracy and compliance with standards or SOPs), work quantity (output volume within a given timeframe without sacrificing quality), punctuality (timely task completion affecting operations and customer service), responsibility (initiative and reliability without close supervision), collaboration (effective teamwork and communication within simple organizational structures), and creativity and initiative (ability to generate innovative ideas and adaptive solutions). MSME performance is further influenced by several critical factors, such as work motivation driven by rewards, recognition, and goal alignment, a conducive work environment that is safe and supportive, employee competence developed through training, strong cooperation among team members, and a positive work climate characterized by respect, openness, and innovation, all of which enhance commitment and organizational effectiveness (Dhita et al., 2023).

3. Methods

The study used a qualitative descriptive method with in-depth interview techniques and thematic analysis to describe and understand phenomena in depth in a natural context, emphasizing meaning rather than generalization (Yuliani, 2018). In-depth interviews explore detailed data about respondents' experiences; thematic analysis identifies systematic patterns and themes (Heriyanto, 2018). This method is suitable for a holistic understanding of behavior and motivation in MSME X Yogyakarta, providing in-depth insights into compensation and performance.

The informants in this study were selected as key information providers with an in-depth understanding of compensation practices and employee performance at MSME X Yogyakarta. A total of five individuals were chosen using purposive sampling based on their mastery of the research issues and willingness to provide accurate and relevant information (Suriani et al., 2023). The selection emphasized the strategic relevance of positions rather than the number of participants. The informants consisted of one owner/manager, one HRD officer, one production supervisor, one operational supervisor, and one frontliner crew member, representing key managerial and operational roles within the organization, with a total of five informants.

The research instrument consisted of semi-structured interview guidelines developed from financial compensation indicators (salary, wages, incentives) and non-financial compensation indicators (allowances, facilities, intrinsic rewards), as well as employee performance indicators, including work quality, work quantity, punctuality, cost effectiveness, ability to work independently, initiative, and creativity. The guidelines were structured yet flexible to enable in-depth exploration. Instrument validity was ensured through triangulation, member checking, and prolonged observation to enhance credibility, while reliability was strengthened through method audits, triangulation, and consistency checks. Data were collected through observation, semi-structured interviews, and documentation to capture natural contexts and comprehensive interpretations. Observation involved systematic direct examination of relevant objects, interviews were conducted flexibly to explore perspectives on compensation and performance, and documentation included archives, financial reports, production records, and operational photographs to support data validity.

Data analysis followed an interactive and iterative process from planning to reporting, involving data organization, coding, reduction, classification, and interpretation to achieve an in-depth understanding. This process included identifying research focus, developing instruments, collecting data, reducing and

categorizing information, and interpreting findings related to compensation and performance at MSME X Yogyakarta. Data reduction was conducted by summarizing and selecting key themes and patterns (Sugiyono, 2023), followed by data display through tables or visual representations to clarify relationships, and conclusion drawing with continuous verification to ensure validity and reliability.

4. Results

4.1. The Role of Compensation in Improving Employee Performance

The study conducted semi-structured interviews with five key informants. Data analysis used the Miles and Huberman model, namely data reduction, data display, and conclusion drawing/verification. The following is a summary of the findings, which can be seen in Table 1. The table presents the key themes and insights derived from the interviews with the informants. These findings provide a clearer understanding of the main issues discussed in this study.

Table 1. Interview Analysis Results

Informant	Position	Forms of Financial Compensation	Forms of Non-Financial Compensation
Informant 1	Company Leader	1. Base Salary 2. Performance Allowance 3. Attendance Allowance 4. Overtime Incentives (Referring to Sleman Regional Minimum Wage)	1. Free Employee Dormitory (internet, stove, water) 2. Free MBG (Nutritious Meal Program) 2x per week 3. Sales and work behavior training
Informant 2	Business Support Manager (HR, GA & Finance)	KPI-based performance incentives (4–5 targets = 100% performance)	–
Informant 3	Production Supervisor	Base salary considered fair for the MSME scale	Fully equipped dormitory with free electricity and WiFi (“just bring a suitcase”)
Informant 4	Operational Supervisor	Revenue bonus when the company achieves targets; individual target incentives	Transparent communication from HR regarding the company’s financial position before payday
Informant 5	Sales Marketing (Frontliner)	Salary increase; outlet performance bonus (once every two years)	Verbal appreciation from supervisors is very rare

Various informants in MSME X provided differing assessments of the compensation system implemented within the organization. The company owner emphasized that compensation is a direct consequence of employee performance. According to this perspective, employees who demonstrate better performance receive higher compensation than those with lower performance levels. Performance is evaluated using measurable operational indicators such as daily production targets, the number of rejected products, delivery punctuality, and customer complaints. This perspective aligns with the principles of expectancy-based motivation, which suggest that employees are more motivated when they clearly perceive a relationship between effort, performance outcomes, and the rewards they receive (Velghe et al., 2024).

This viewpoint is supported by the business support manager, who explained that the company implements monthly Key Performance Indicators (KPIs) consisting of

four to five main targets. Achieving all targets is considered equivalent to 100 percent performance. The KPI system is believed to create a continuous cycle of motivation, innovation, and teamwork within the organization (Ahmat et al., 2019). However, management also acknowledged that the current compensation system is not yet fully optimal and still requires monthly evaluation. In addition, there are plans to incorporate employee discipline as an additional performance component and to introduce an employee insurance program in the coming year.

From the operational perspective, the production supervisor considered the salary level relatively appropriate for a growing MSME. The company also provides non-financial benefits, such as employee housing facilities (messes) equipped with free electricity and Wi-Fi, which help improve employee retention. Previous studies by Chi et al. (2023) indicated that the combination of financial and non-financial incentives can positively influence employee performance and loyalty in small culinary enterprises. Nevertheless, several weaknesses remain, including the absence of national health and employment insurance coverage and the need for improved overtime management within the production team.

Meanwhile, frontline employees expressed several concerns regarding the fairness of compensation practices. Frontliner staff reported that salary deductions for rejected *bakpia* products are perceived as unfair, particularly when rejections occur due to machine malfunctions. Hulu et al. (2025) also highlighted that workloads frequently exceed eight working hours without proportional compensation and that employment contract communication lacks sufficient detail. In contrast, the operational supervisor did not report significant weaknesses and observed that turnover-based bonuses effectively increase work motivation and operational efficiency, particularly in maintaining delivery accuracy and product quality. These findings suggest that while the compensation system in MSME X contributes to employee motivation, improvements are still needed in terms of labor protection, workload management, and perceived fairness of compensation policies.

4.2. Types of Compensation Considered Effective

The company owner explained that the compensation system in the enterprise is structured through a combination of financial and non-financial components. Financial compensation is designed in reference to the Sleman Regency Minimum Wage (*Upah Minimum Kota/UMK*) and follows a wage structure aligned with the standards set by the local manpower office. According to the owner, the compensation structure consists of several elements, including base salary, performance allowances, attendance allowances, and additional incentives such as overtime pay. Within this structure, incentives, particularly bonuses, were considered to play the most significant role in motivating employees (Utomo et al., 2025). The owner indicated that overtime bonuses tend to be especially motivating because the base salary among employees is relatively similar, making additional incentives a key factor that differentiates total earnings and encourages higher work performance.

In addition to financial rewards, the company also provides several forms of non-financial compensation intended to support employee welfare and retention. One of the main facilities offered is employee housing (mess), which is equipped with basic living amenities such as cooking facilities, internet access, and water (Dwiyani et al., 2025). These facilities allow employees, particularly those coming from outside the region, to live and work with minimal living expenses. The company also provides free nutritious meals twice a week to support employees' well-being. Furthermore, prior to the pandemic, the business organized training programs focusing on sales techniques and workplace behavior. The owner explained that these training activities were designed not only to improve employees' performance within the

company but also to provide practical skills that could benefit them in future employment opportunities.

Table 2. Theme Frequency Matrix (Data Display – Miles & Huberman)

Theme	Frequency	Informants Mentioning	Representative Quotations
Incentives/KPIs/Performance Target Bonuses	25 times	All informants	“Overtime bonuses are the most motivating,” according to Informant 1; “Chase 4–5 KPIs,” according to Informant 2
Dormitory Facilities + Free Utilities	11 times	Informants 1 and 2	“Just bring a suitcase,” according to Informant 3
BPJS Health & Overtime Regulation	12 times	Informants 3 and 5	“BPJS is very useful for the family,” according to Informant 3
Policy Communication	8 times	Informants 2, 4, and 5	“HR shares bonus information before payday,” according to Informant 4
Unfair Salary Deductions	7 times	Informant 5	“Rejects are calculated per bakpia, not per tray,” according to Informant 5

Table 2 presents the theme frequency matrix derived from the qualitative data analysis following the Miles and Huberman data display approach, highlighting the types of compensation considered effective by the informants. The most frequently mentioned theme relates to performance-based incentives, including KPI achievements, performance targets, and overtime bonuses, which appeared 25 times and were mentioned by all informants. These incentives were widely perceived as strong motivators because they directly link employee effort and performance outcomes with financial rewards. The second prominent theme involves non-financial compensation in the form of dormitory facilities accompanied by free utilities, mentioned 11 times by the owner and the Business Support Manager, indicating that accommodation support significantly reduces employees’ living expenses and improves retention. In addition, the need for BPJS Health coverage and clearer overtime regulation appeared 12 times, mainly raised by operational-level employees who viewed social protection as an important component of effective compensation. Communication of compensation policies was also identified as a relevant factor, appearing eight times across several informants, suggesting that transparent information from HR regarding bonuses and incentives strengthens employee trust in the system. Lastly, issues related to unfair salary deductions were mentioned seven times by the frontliner, indicating that perceived inequity in certain compensation practices may reduce the overall effectiveness of the compensation system.

5. Discussion

The findings of this study indicate that compensation plays a significant role in shaping employee motivation and performance within MSME X. The interview results reveal that both financial and non-financial compensation contribute to employees’ willingness to achieve performance targets. Performance-based incentives, particularly KPI rewards and overtime bonuses, emerged as the most influential factors in motivating employees. The causal relationship between performance and compensation is clear; in accordance with Muslim et al. (2024), transparent performance-based compensation increases satisfaction, productivity,

and retention. Arissa and Indiyati (2023) stated that appropriate compensation improves performance despite limited resources. Consistent perceptions demonstrate that performance-based compensation encourages sustainable work in Yogyakarta's culinary MSMEs, requiring monthly evaluation. Strengthening the relevance of Vroom's Expectancy Theory and Herzberg's Two-Factor Theory, where performance-based financial compensation effectively drives achievement.

The dominance of incentive-based compensation in the findings is consistent with the concept that financial rewards remain a primary driver of employee performance in small enterprises. The theme frequency analysis shows that incentives, KPI achievements, and performance bonuses were the most frequently mentioned forms of effective compensation. These findings are consistent with Herzberg's Two-Factor Theory, where KPI incentives and overtime bonuses serve as primary motivators, while a well-equipped mess acts as a hygiene factor that prevents job dissatisfaction. Compared to Arissa and Indiyati (2023), this study found that messes have higher retention effectiveness in Yogyakarta culinary MSMEs due to their practical relevance for local employees.

In addition to financial incentives, non-financial compensation also plays an important role in supporting employee performance. Facilities such as employee dormitories, free utilities, and occasional nutritious meals reduce employees' living expenses and improve their overall well-being. These findings support the argument that non-financial rewards, including work facilities and recognition, contribute to long-term motivation and employee retention (Chi et al., 2023; Tang, 2023). Moreover, supportive work conditions and recognition from management can strengthen loyalty and encourage innovation among employees (Zulkarnaini, 2025). In small business settings, these forms of non-financial support can compensate for relatively limited salary structures by providing practical benefits that improve employees' quality of life.

However, the findings also reveal several weaknesses in the existing compensation system, particularly related to fairness and employee protection. Some employees reported dissatisfaction with salary deductions for rejected products and the lack of BPJS health and employment coverage. Such conditions reflect compensation imbalances that may negatively affect employee motivation and job satisfaction. Previous studies have highlighted that perceived inequity in compensation is one of the main causes of dissatisfaction and employee turnover in organizations (Ningrum & Ayu, 2025). Likewise, Kusumawati and Nurcahyo (2025) emphasized that mismatches between workload and compensation can reduce employee motivation and productivity.

This study confirms that compensation systems in MSMEs must integrate both financial and non-financial elements to support sustainable employee performance. Financial incentives linked to measurable targets can effectively motivate employees, while non-financial benefits such as accommodation, training, and supportive work environments contribute to long-term commitment and organizational stability. These results reinforce earlier findings that effective compensation management, combined with a positive work environment, is essential for improving employee productivity and ensuring the sustainability of MSME operations (Dhita et al., 2023; Rusilowati et al., 2025).

6. Conclusion

This study finds that owners and managers perceive compensation as a direct consequence of employee performance, measured through monthly KPIs such as production targets, reject rates, delivery accuracy, and customer complaints. This performance-based system creates a motivational cycle in which better performance leads to higher rewards, consistent with Vroom's Expectancy Theory. The most effective compensation practices include KPI-based incentives, proportional

overtime bonuses, and structured base salary aligned with the Sleman minimum wage and attendance allowances. Non-financial benefits, particularly well-equipped dormitory facilities, function as retention factors, which incentives act as motivators, and facilities as hygiene factors. However, improvements are needed in overtime regulation and BPJS implementation.

This research strengthens Vroom's Expectancy Theory in the context of culinary MSMEs, finding that performance determines compensation. An analysis of owner and manager perceptions revealed a hybrid compensation model for culinary MSMEs, consisting of measurable financial KPIs combined with low-cost non-financial incentives. Practical implications include the implementation of structured KPIs with a target rejection rate below 5% and turnover per branch, hourly overtime regulation, transparent pre-payroll communication, and a phased BPJS roadmap starting with senior employees. This model can be replicated by traditional Indonesian culinary MSMEs.

This study focuses on a single culinary MSME in Yogyakarta with a limited number of informants, which may restrict generalizability. The qualitative design also limits statistical measurement of compensation-performance relationships. Future studies may employ mixed-method or quantitative approaches across multiple MSMEs and sectors to test the effectiveness of hybrid compensation models and examine long-term impacts on employee retention, productivity, and organizational competitiveness.

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Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.



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