

**THE EFFECT OF WAGES RATE, CAPITAL, AND NON-WAGE
EXPENDITURE ON EMPLOYMENT OF SMALL MEDIUM
ENTERPRISES
(CASE STUDY OF CERAMICS INDUSTRY IN DINOYO, MALANG)**

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ABSTRACT

Small and Medium Enterprises play an important role in Indonesia economy, in case SMEs mostly utilized local resources. SMEs have enough contribution to the Gross Domestic Product in Indonesia. However, the existence of SMEs still cannot reduce the higher number of unemployment in the country. In Malang City, there are a large number of SMEs that have potential to increase the number of employment, one of them is ceramics industry. This research has purpose to understand about the effect of wages rate, capital and non-wage expenditure to the employment in the ceramics industry in Dinoyo, Malang. The data used in this research is primary data, which gained from respondents through questionnaire and interview. Total sample collected was 30 units ceramics industry. The data processed with Eviews 7.0 with multiple regression analysis. The result of this study indicates that capital and non-wage expenditure have positive and significant effect on employment, while wages rate have negative and there is no significant effect to the employment in the Dinoyo's ceramics industry.

Keywords: *SMEs, Wages Rate, Capital, Non-wage Expenditure, Employment.*

INTRODUCTION

Background of Study

Indonesia has a largest number of populations that means the basic needs which include food, clothes, and shelter of the society in Indonesia are great. On the other hand, the large population might be potential to cultivate resources or economic potential of a particular area. The conditions that occur in Indonesia during this time is related to labor problem, which is high unemployment.

That condition can prove the absence between unemployment with the amount of job field that exist, so a lot of labor will not be able to get a job. This problem makes the government must improve the availability of employment opportunities for the population. One of the methods to increasing of job opportunities can be done by develops the growth of industrial sector. The

existence of Small and Medium Enterprises (SMEs) make them become a foundation of most all of labor in Indonesia. It can be seen by the largest number of Small and Medium Enterprises rather than large industries. In developing countries, including Indonesia, more than 90 per cent of all firms outside the agricultural sector are SMEs and they are generating a significant portion of GDP (Anand, 2015).

Similarly in Malang, Malang is one of city in East Java and it becomes the second largest city after Surabaya. Malang is the region that its economic structure is almost 50 percent sustained by the industrial sector. The industries that dominated in Malang is small and medium industries. Malang industrial development also can be seen from the role of each sector in its contribution to Gross Regional Domestic Product (GRDP), which shows the economic structure of Malang City. Based on GRDP of Malang city in 2015, Malang City has two main sectors that has high contribution to the GRDP, such as trade, hotels, restaurants and the manufacturing industry. Over year to year, the number of both sectors has increasing. With the excellence in both sectors, especially in manufacturing industry sector, it will increase industrial units in the Malang so that the employment number. But, in the fact, the amount of employment in Malang's industrial sector still below the other factor such trade and financial sectors as stated in table below:

Main Job Opportunities Sectors	Amount of Workforce	Percentage
Agriculture	7,778	1.98
Manufacturing Industry	87,912	22.37
Construction	36,699	10.10
Trade, Hotels, Restaurants	116,432	29.62
Transport and Communication	19,679	5.01
Finance, Real Estate, Corporate Services	119,046	30.29
Mining, Excavation, Electricity, Gas and Water	2,504	0.64

Source: Central Bureau of Statistics of Malang, 2014

Although industrial sector is not the biggest contributor to the Gross Regional Domestic Product of Malang City, however, developing this industry is an essential. This is because most people in Malang who are still in unemployment are having low education background, which makes it difficult for them to find jobs in the formal sector that require high-profile workers. With the high number of industries, it will increase the number of job field available, in case, most of industrial sector does not need high education labor.

In 2016, ceramics industry in Dinoyo, Malang was assigned as central ceramics industry in Malang City by the government. It is because Dinoyo ceramics industry has an innovation where ceramic products are made more diverse and have more good quality from time to time. The motif of ceramics produced by ceramic craftsmen in Dinoyo also has its own distinctive when compared with ceramic motifs made by craftsmen in other areas. That is why this industry has potential to develop and increase the number of employment.

Related to study about the small and medium industries in terms of employment, it also necessary to studied about the factors that affect employment

itself, especially from some internal factors of employment such as wages rate, capital and non-wage expenditure (Simanjuntak, 1985).

Thus, based on ideas and explanation that have been described above, this research conducted to analyze the effect of variables such as wages rate, capital and non-wage expenditure on employment of ceramics industry in Dinoyo, Malang.

LITERATURE REVIEW

Small and Medium Enterprises (SMEs)

SMEs are generally defined as private enterprises that are relatively small compared to other enterprises in the same market or industry and are not formed as a part of large enterprises or business groups (Storey, 1994). This industry is usually a business owned and managed by local people. The number of workers in small industries is relatively small and generally takes place in only one location.

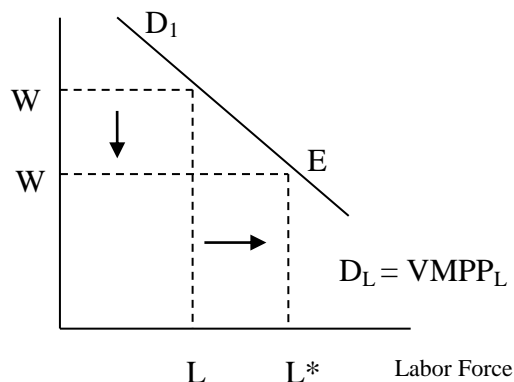
Employment

Based on Don Bellante and Mark Janson (1990), employment also can be associated to a balance between labor demand and labor supply. In this context, the demand and supply of labor simultaneously determine the balance of wages rate and the use of labor.

Labor Demand

The amount of labor employed by the company at any possible wage rate within a given period time also can be defined as the demand of labor (Sholeh, 2007).

Figure 1



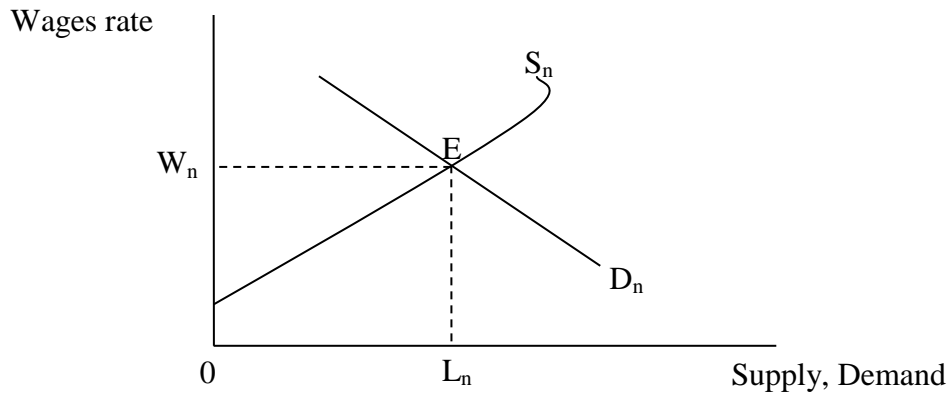
Source: Simanjuntak, 1985

This figure explains that the relation between wage level with labor demand. If the increasing of wage level required, the company will decrease the amount of labor. Besides, the decreasing level of wage will increase the labor demand.

Balance of Demand and Supply of Labor

Labor demand is amount of labor needed by company to conduct production process. Meanwhile, labor supply is amount of people that offering themselves to the company to get a job.

Figure 2



Source: Simanjuntak, 1985

Figure 2 shows the balance in the labor market, where the intersection of the supply (S_n) and demand (D_n) is called the equilibrium point, which determine the amount of placement or number of people employed (L_n) and the prevailing wage rate (W_n) which is then used as a benchmark by family or businessmen in the area that concerned. S_n and D_n can be viewed as a supply and demand for a country.

Production Theory

Production is a process of transforming inputs into outputs so that the value of such goods increases. Input consists of raw materials used in the production process and output are goods and services produced from a production process. Based on Millers and Meiners (2000), production is not limited to manufacturing products but also storage, distribution, transport, retailing, and repackaging.

Production Function

Based on Sukirno (2005), factors of production are also known by the input and the amount of production is also referred as output. The function of production can be formulated as follows:

$$Q = f(K,L)$$

Where:

Q = Quantity of output produced

K = Capital input

L = Labor input

The Relationship of Wages Rate against Employment

According to Haryani (2002), in Yanuwardani and Woyanti (2009), if wages increase the demand for labor demanded will decrease, but the supply of labor will increase. Otherwise, if wages decrease then the demand for labor will increase. This is because the rise in wage rates, then the cost of production will rise, which will then raise the price of goods produced. Rising prices of goods will reduce the amount of public consumption. As a result, a lot of unsold production results so that the amount of production will be reduced. Decrease in the amount of production will cause a decrease in the amount of employment or called scale effect. However, in businesses that use capital intensive, employers will replace labor with technology, such machine, which is called substitution effect (Ehrenberg and Smith, 1994).

The Relationship of Capital against Employment

In an industry it is assumed that the other factors of production are constant, so the greater the capital used, the greater the demand for labor. This causes working capital has a positive influence on labor (Haryani, 2002). According to Winardi (1991 in Indayati et al., 2010), to create new job opportunities in small industries that is by increasing the ability of production. Improving industry capability is done by increasing investment that will increase production and increase production activities, so that in the end will increase the amount of labor force. Capital can also be used in buying machines or equipment to improve the production process. With the addition of technology in the form of the machine will certainly replace the role of labor, so it can affect the absorption of labor. So it can be concluded, the more capital used to buy a machine or equipment will decrease the absorption of labor.

The Relationship Non-wage Expenditure against Employment.

The relation between non-wage expenditure and labor absorption is also stated by Zamrowi (2007), non-wages expenditure is one of production cost that must be issued by company. Demand for labor will be affected by the proportion of non-wages expenditure to total production costs. So if the non-wages expenditure proportion is smaller than the overall cost of production, then the response to demand of labor is small. Otherwise, if the proportion of non-wage labor expenditure is larger than the overall cost of production, then the response to demand of employment is large. If the proportion of non-wages expenditure to the overall cost of production increases, it will increase demand for labor.

RESEARCH METHODOLOGY

The Type of Research

In this study, author used quantitative research with descriptive approach. Quantitative research is to find out how many the variables (in the form of number). These variables are arranged into a model that estimated by regression analysis. While, descriptive approach is intended to describe the result.

The Scope of Research

To focus on the research on the object to be studied, the author gives the scope of the research that conducted in Malang area. This study focuses on the fields of human resources, which is about the influence of the wages, capital, and production value in the ceramics industries located in Dinoyo, Malang. This research is using questionnaire as a method of collecting data. In 2017, there are 35 units of ceramics industries in Dinoyo area. In this study, author used 30 units as research sample, since only there are 30 units companies that have complete data in the questionnaire.

Dependent Variable

The dependent variable is a variable that affected by independent variable. The dependent variable in this research is employment (Y).

Independent Variable

- Wages Rate (X1)
- Capital (X2)
- Non-wage Expenditure (X3)

Type and Source of the Data

To analyze whether the level of wages, capital, and non-wages expenditure affects the level of employment (labor absorption) in the small and medium industries in Malang, this study used both primary and secondary data. Primary data is a data that received from the ceramics industries entrepreneurs through direct interview and filling out a questionnaire. While, secondary data is a data that obtained from the documentation of an institution and parties that are linked to problems that was taken.

Method of Data Analysis

Regression Analysis

In the form of linear, the functional relationship can be formulated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where:	Y	= Employment
	α	= Constanta
	$\beta_1, \beta_2, \beta_3$	= Regression Coefficients
	X_1	= Wages Rate
	X_2	= The Amount of Capital
	X_3	= Non-wage Expenditure
	e	= Error

Classical Assumptions Test

In this study, we will use multicollinearity test, heteroscedasticity test, and normality test.

Normality Test

Normality test is used to test whether in a regression model, dependent variable, independent variable, or both have a normal distribution or not. In the EViews program, normality testing is performed by the Jarque-Bera test. The Jarque-Bera test has a chi square value with two free degrees. If the jarque-bera test results are greater than $\alpha = 5\%$, then the null hypothesis (H_0) is accepted which means the data is normally distributed. If the test result is smaller than the chi square value at $\alpha = 5\%$, then the null hypothesis is rejected which means it is not normally distributed.

Multicollinearity Test

Multicollinearity test aims to test whether the regression model found a correlation between independent variables. There are several ways used to detect multicollinearity, but to detect the presence or absence of multicollinearity in the regression model in this study seen from tolerance value or variance inflation factor (VIF). Based on Ghazali (2006), the decision-making with tolerance value or variance inflation factor (VIF) can be summarized as follows:

1. If the tolerance value > 0.1 and the VIF value < 10 , then it can be concluded that there is no multicollinearity between independent variables in the regression model.
2. If tolerance value < 0.1 and VIF value > 10 , it can be concluded that there is multicollinearity between independent variables in the regression model.

Heteroscedasticity Test

The basis of decision making of heteroscedasticity test through Glejser test are:

1. If probability of Chi-Square value $< \alpha = 0.05$, there has been heteroscedasticity.
2. If probability of Chi-Square value $> \alpha = 0.05$, it means no heteroscedasticity occurs.

Hypothesis Test

Partial Regression Test (t test)

Partial regression test is the test of partial regression relationship, in order to determine whether there is partial significant influence between the dependent variable with the independent variable in the study.

Simultaneous test (F Test)

F test is the testing of regression relationship simultaneously or synchronously between the independent variables on the dependent variable.

Multiple Determination Coefficient Test (R^2)

Multiple Determination Coefficient Test (R^2) could be used to determine the amount of contributions of independent variables (X_1 , X_2 , and X_3) on the dependent variable (Y).

RESULT AND DISCUSSION

Regression Estimation Result

In the regression analysis, it will develop an estimating equation in the shape of formula to find the value of dependent and independent variables. The data related to this research has been processed by a software namely Eviews 7.0. The data processed are consisting of dependent and independent variable, such as wages rate (X_1), capital (X_2), and non-wage expenditure (X_3). The regression estimation result can be seen as follows:

Table 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.143682	1.049308	2.042947	0.0513
Wages (X_1)	-0.001075	0.000856	-1.256415	0.2201
Capital (X_2)	0.000202	9.27E-05	2.177919	0.0387
Expenditure (X_3)	0.000518	0.000275	1.885382	0.0706
Coefficient Determination (R^2): 0.691103 F-Statistic: 19.39013				

Source: Primary Data, 2017. Processed

Multiple linear regression analysis is used to know the relationship and how much influence of independent variables to dependent variable in ceramics industry. Based on table 4.13, thus can be formulating a multiple linear regression equation, such:

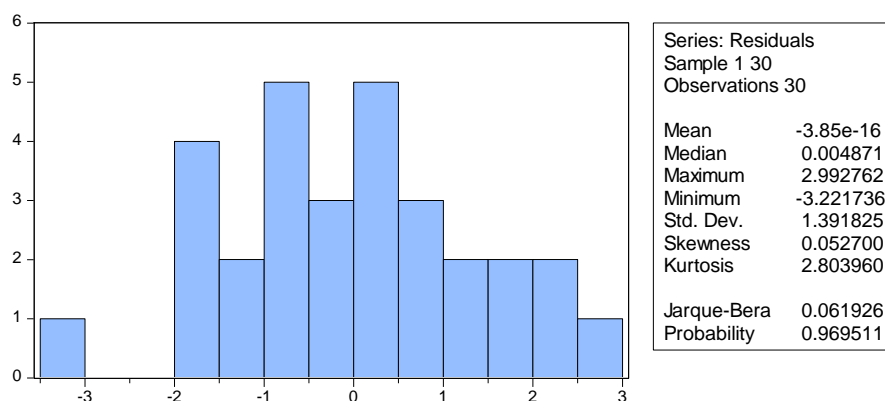
$$Y = 2.143682 - 0.001075 X_1 + 0.000202 X_2 + 0.000518 X_3 + e$$

The interpretations of the results of multiple linear regression equation are:

- a. Constanta coefficient in the regression result is 2.143682. The positive value of Constanta coefficient, indicate that if there is no variable such wages rate (X_1), capital (X_2), and non-wage expenditure (X_3), then the employment (Y) will increase by 2.143682.
- b. The regression coefficient of wages rate (X_1) is -0.001075. The negative value of regression coefficient is explained that if wages rate (X_1) has increasing by Rp 1,000, then the employment (Y) will reduce by 1 person with condition that the other variables are constant.
- c. The regression coefficient of capital (X_2) is 0.000202. The positive value of regression coefficient is explained that if capital (X_2) has increasing by Rp 10,000, then the employment (Y) will increase by 2 persons with condition that the other variables are constant.
- d. The regression coefficient of non-wage expenditure (X_3) is 0.000518. The positive value of regression coefficient is explained that if non-wage expenditure (X_3) has increasing by Rp 10,000, then the employment (Y) will increase 5 persons with condition that the other variables are constant.

Normality Test

Figure 3



Source: Primary Data, 2017. Processed

The decision whether the residual of regression model normally distributed or not is simply by comparing the JB (Jarque-Bera) probability with α (alpha) level of 0.05 (5%). Based on figure 4.1 above, it can be seen that the value of JB Probability is 0.969511. It means that the value of probability is more than α (alpha) level ($0.969511 > 0.05$). Thus, H_0 is accepted and H_1 is rejected and it can be concluded that the regression model is normally distributed.

Multicollinearity Test

Table 2

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.101048	15.28741	NA
X1	7.32E-07	11.69774	1.032741
X2	8.58E-09	15.59886	3.758534
X3	7.55E-08	17.53315	3.733945

Source: Primary Data, 2017. Processed

From the multicollinearity test result on table 4.14 above, it can be seen that the VIF (Variance Inflation Factors) for each independent variable are:

- VIF for wages rate (X_1) is 1.032741
- VIF for capital (X_2) is 3.758534
- VIF for non-wage expenditure (X_3) is 3.733945

Based on the result, the VIF value of all independent variables is less than 10, which means there are no multicollinearity between independent variables. Thus, the assumption test of the absence of multicollinearity can be fulfilled.

Heteroscedasticity Test

Table 3

Heteroskedasticity Test: Glejser

Obs*R-squared	2.001747	Prob. Chi-Square(3)	0.5720
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Source: Primary Data, 2017. Processed

The decision whether there is a heteroscedasticity or not on a linear regression model is done by see the value of the probability of Chi-Square. If the probability value of Chi-Square is greater than $\alpha = 0.05$ (5%) then H_0 is accepted which means there is no heteroscedasticity occurs. Whereas, if the probability value of Chi-Square is smaller than $\alpha = 0.05$ (5%), then H_0 is rejected which means occurs a heteroscedasticity. From the table 4.15 above, it can be seen that the chi-square probability is 0.572, where $0.572 > 0.05$. Thus, in the regression model there is no heteroscedasticity occurs.

**Result of Hypothesis Testing
Partial Regression Test (t Test)**

Table 4

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.143682	1.049308	2.042947	0.0513
X1	-0.001075	0.000856	-1.256415	0.2201
X2	0.000202	9.27E-05	2.177919	0.0387
X3	0.000518	0.000275	1.885382	0.0706

Based on table 4, the following results are:

- The wages rate (X_1) variable partially have not significant effect to the employment (Y) with $\alpha = 0.05$. The probability value of wages rate (X_1) is more than the value of α ($0.2201 > 0.05$), so that H_0 is accepted and H_1 is rejected. Thus, it can be concluded that there are no significant effect between wages rate (X_1) and employment (Y) in the ceramics industry.
- The capital (X_2) variable partially have significant effect to the employment (Y) with $\alpha = 0.05$. This is indicated by probability value of capital that less than 0.05 ($0.0387 < 0.05$) with the coefficient 0.000202, so that H_0 is rejected and H_1 is accepted. It can be concluded that there is positive significant effect between capital (X_2) and employment (Y) in the ceramics industry. Thus, if there is increasing in capital as much as Rp 10,000,00 , the employment will be increasing as 2 persons with an assumption where the other variables are constant.
- The non-wage expenditure (X_3) has probability value at 0.0706, which means the variable partially significant at 10% level to the employment (Y). Thus, if there is increasing in non-wage expenditure as much as Rp 100, will be increase employment as much as 7 persons with an assumption where the other variables are constant.

Simultaneous Test (F Test)

Table 5

R-squared	0.691103	Mean dependent var	4.933333
Adjusted R-squared	0.655461	S.D. dependent var	2.504249
S.E. of regression	1.469931	Akaike info criterion	3.731873
Sum squared resid	56.17811	Schwarz criterion	3.918700
Log likelihood	-51.97810	Hannan-Quinn criter.	3.791641
F-statistic	19.39013	Durbin-Watson stat	1.512120
Prob(F-statistic)	0.000001		

Source: Primary Data, 2017. Processed

From the regression result on the Table 5 above, the probability value of F is less than value of α ($0.000 < 0.05$), so that that H_0 is rejected and H_1 is accepted. Thus, it can be conclude that wage rate (X_1), capital (X_2) and non-wage rate (X_3)

simultaneously have significant effect to the employment (Y) in Dinoyo ceramics industry.

Multiple Determination Coefficient Test (R^2)

From the regression result on table 5, known that the value of R^2 is 0.691, which means the wages rate (X_1), capital (X_2), and non-wage expenditure (X_3) can be able to explaining or give effect against employment (Y) by 0.691 or 69.1%, while the remaining 30.9% is explained or influenced by other variables outside the model.

Research Implications

The Effect of Wages Rate (X_1) on Employment

Wages are a demand in return for employers for workers. The size of the wage rate will affect the rate of employment. From the regression analysis obtained, the wages rate has negative coefficient amounted -0.001075, which means any Rp 10,000,00 reduction for wages rate will increase employment by 1 person on condition the other variables such capital (X_2) and non-wage expenditure (X_3) are constant. Based on this research, wages rate variable has no significant effect to the employment. This is consistent with Simanjuntak's (2001) theory, which said the higher the wage rate, the less demand for labor. Otherwise, with the decreasing in wage rates it will be followed by the rising of labor demand. So that, it can be said that labor demand has an inverse relationship with the wage rate. The increase in wage rate accompanied by the addition of labor will only occur when a company is able to raise the selling price of goods. Although partially wages rate (X_1) variable on the data cannot prove significant relationship with employment (Y), it does not mean that wages rate variable has no effect on employment. This means that wages do not become important aspect on employment in the ceramic industry Dinoyo, Malang. Can be seen from the data, where the level of wages in some ceramics industries are high enough but not followed by high labor absorption. It also because the people desire to work in the ceramics industry in Malang ignore to the size of the wage rate that will be received by them, it means that workers think that the most important is having a job and the wages rate is not a big problem for the workers in the ceramics industry of Malang City. It seems that wage is not the main for labor. Therefore, wage has insignificant effect to thr employment.

The Effect of Capital (X_2) on Employment

From the regression analysis result, the capital variable has positive coefficient by 0.000202, which means if capital increased Rp 10,000,00 , then the employment will increase by 2 persons in ceramics industry of Malang city, with assumption the other variables such wages rate (X_1) and non-wage expenditure (X_3) are constant. In this research, capital variable also has significant effect to the employment. In this case, when the value of wages rate and non-wage expenditure remains constant, the greater capital number will increase the number of employment. If capital increase, the amount of labor will increase because most company will increase their output of production or broader their scale of business. Increasing of capital will be not used to increasing amount of labor's

wages except the owner give it to the several labor as a reward for them that have more contribution, also it can be based on the length employment of labor or labor's quality of work.

The Effect of Non-Wage Expenditure (X_3) on Employment

From the regression analysis result, the non-wage expenditure variable has positive coefficient by 0.000518, which means if non-wage expenditure increased by Rp 10,000,00 , then the employment will increase by 5 persons in ceramics industry of Malang city, with assumption the other variables such wages rate (X_1) and capital (X_2) are constant. In this research, non-wage expenditure variable also has significant effect to the employment. In this case, when the value of wages rate and capital remains constant, the raising number of non-wage expenditure will increase the number of employment.

CONCLUSION AND SUGGESTION

Conclusions

1. Wages rate variable has negative and there is no significant effect to the employment in Dinoyo ceramics industry, Malang. This condition happens because most of people that work in the ceramics industry in Malang ignore the size of the wage rate that will be received by them, it means that workers think that the most important is having a job and the wages rate is not a big problem for the workers in the ceramics industry.
2. Capital variable has positive and significant effect to the employment in Dinoyo ceramics industry, Malang. When the owner of ceramics industry wants to increase their capital, the number of labor will also increase. This condition happens when the wages rate and non-wage expenditure variables are constant.
3. Non-wage expenditure variable has positive and significant effect to the employment in Dinoyo ceramics industry, Malang. Non-wage expenditure in Dinoyo ceramics industry are include raw material costs and additional cost for labor. Thus, when the owner want to increase the number of non-wage expenditure, it will also increase the number of employment. In this case, the value of wages rate and capital remains constant.

Suggestion

1. Things that need to be considered for the ceramics industry entrepreneurs in Malang is that some factors such wage rates, capital, and non-wage expenditure are factor that quite influential on employment. Especially for wages rate factor, since based on the research, it becomes the most dominant factor that influence on employment in the ceramics industry. This condition is expected may encourage the ceramic industry to improve the quality of its industry to be better thus can hire more labor.
2. With the developing of ceramic industries in Malang, of course it can absorb more labor in the informal sector which ultimately can reduce the unemployment. Therefore, this industry is needed attention, especially from the Government of Malang. The government should help the

entrepreneurs of ceramics industry in Dinoyo to improve the socialization and marketing of this business unit, so that this industry can compete with domestic products and foreign products.

3. The Government of Malang and also banks should be more give prioritize and simplify the rules of business capital for small entrepreneurs, so that small industry entrepreneurs can develop their business which may absorb more labor.

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