

Enhancing Operational Efficiency in Culinary MSMEs through Profit-Sharing Based Working Capital

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ABSTRACT

Culinary MSMEs often face structural challenges regarding financial instability and rigid debt obligations that hinder operational growth. This study explores how profit-sharing based working capital enhances operational efficiency, using the cassava chip industry in Geragai District, Tanjung Jabung Timur, as a case study. Employing a qualitative case study design with purposive sampling, data were collected through in-depth interviews, field observations, and financial document reviews, then analyzed using thematic analysis. The results indicate that the profit-sharing model acts as a "financial safety valve," providing flexibility during raw material price surges and preventing production halts. Furthermore, the participatory monitoring inherent in partnership agreements reduces "cost leakage" and minimizes production waste, improving inventory spoilage from 8% to less than 3%. The study concludes that profit-sharing fosters a professional accounting culture and managerial discipline, offering a more resilient financial framework than traditional debt. These findings suggest that for culinary MSMEs, the structure of capital repayment is more decisive for sustainability than the mere volume of capital injected.

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1. INTRODUCTION

The Micro, Small, and Medium Enterprise (MSME) sector, particularly within the culinary industry, serves as a vital engine for economic growth and local employment in many developing economies (Kalaiselvi & Maithily, 2024; Manteiro & Kabu, 2019). However, despite its significant contribution to Gross Domestic Product (GDP), the sector faces persistent structural challenges, primarily revolving around financial instability and limited access to formal credit markets (Rahman, Lal, & Rena, 2024). Culinary businesses are uniquely characterized by high operational volatility, perishable inventory, and fluctuating consumer demand, which necessitate a robust and flexible

management of working capital. Traditional financing models, often characterized by rigid interest-bearing debt, frequently impose a heavy fixed-cost burden on these small enterprises, potentially stifling their growth and making them vulnerable to market downturns.

In the context of operational management, working capital is the lifeblood that sustains day-to-day activities, from purchasing raw ingredients to managing payroll and utility costs. For culinary MSMEs, the inefficiency in managing these short-term assets and liabilities often leads to liquidity crises, where businesses find themselves unable to meet immediate obligations despite having a viable product (Runtuwene et al., n.d.; Swaminathan, 2024). This inefficiency is frequently exacerbated by the "debt trap," where fixed interest payments must be met regardless of the business's seasonal performance. Consequently, there is an urgent need to explore alternative financing paradigms that align the cost of capital with actual business performance, ensuring that financial obligations do not outpace operational cash flows (Arifaj, Berisha, Morina, & Avdyli, 2023; Beecher, 2021).

The profit-sharing system—rooted in the principles of *Mudharabah* or *Musyarakah* in Islamic finance or general equity-based partnerships—offers a transformative approach to this dilemma. Unlike conventional loans, a profit-sharing based working capital model distributes the financial risk between the capital provider and the entrepreneur (Nasimiyu, 2023). In this arrangement, the return on investment is directly linked to the realized profit of the culinary business, creating a synergistic relationship where both parties are incentivized to optimize operational performance. This shift from a fixed-cost mindset to a variable-cost financial structure allows MSMEs to navigate periods of low revenue without the looming threat of default, thereby enhancing their overall financial resilience (Kejriwal, 2023).

Enhancing operational efficiency in the culinary sector requires more than just capital; it requires a synchronization of financial flows with the production cycle (Chen, Chan, & Zhao, 2020; Pourmatin & Ilkhani, 2024). By adopting a profit-sharing mechanism, culinary MSMEs can achieve a higher degree of operational agility. Since the investor's returns depend on the business's success, there is often an added layer of mentorship, monitoring, and professional accountability that traditional lenders do not provide (Oleghe, 2020). This partnership encourages the entrepreneur to streamline waste management, optimize inventory turnover, and improve service delivery—factors that are critical in the high-pressure environment of the food and beverage industry where margins are often razor-thin (George, Merrill, & Schillebeeckx, 2021; Islam & Ahmad, 2020; Kedzior, Grabinska, Grabinski, & Kedzior, 2020).

Despite its theoretical benefits, the implementation of profit-sharing systems in the MSME sector is not without obstacles. Issues such as information asymmetry, the lack of standardized financial reporting, and the "moral hazard" where entrepreneurs might underreport profits to reduce payouts remain significant barriers (Capasso, Ohnsorge, & Yu, 2022; Montalbán, 2023). For a culinary MSME to successfully leverage profit-sharing for operational efficiency, it must transition toward a more transparent and professional accounting culture (Tarriko & Hakmaoui, 2023). Therefore, it is crucial to examine how the integration of these financial schemes influences the internal decision-making processes and the long-term sustainability of the business compared to traditional credit-based models.

This research aims to fill a critical gap in the literature by specifically analyzing how profit-sharing based working capital acts as a catalyst for operational excellence in the culinary MSME sector. By focusing on a case study approach, this study explores the practical dynamics of risk-sharing and its direct impact on resource allocation and cost management. Ultimately, the findings seek to provide a strategic framework for entrepreneurs and policymakers to foster a more inclusive and stable financial ecosystem, where culinary businesses can thrive through a balanced alignment of capital, risk, and operational performance.

2. METHODS

This study adopts a qualitative case study design to rigorously investigate the interplay between profit-sharing financial structures and the operational dynamics of culinary MSMEs. By employing a purposive sampling technique, the research engages with key stakeholders—including business owners, financial managers, and capital providers—to capture a multifaceted view of how shifting from fixed-interest debt to performance-based capital affects daily business conduct. Data collection is executed through a triangulation of semi-structured in-depth interviews, direct field observations of the culinary production cycle, and an extensive review of internal financial documentation. This multi-method approach ensures that the findings are not only grounded in the lived experiences of the entrepreneurs but are also supported by empirical indicators of liquidity, such as inventory turnover rates and the stability of cash reserves during seasonal fluctuations in the food and beverage market.

The analytical framework of this research utilizes thematic analysis to systematically process the gathered data through stages of reduction, display, and verification. The study specifically operationalizes operational efficiency by evaluating key performance metrics, including waste reduction strategies, the agility of working capital allocation, and the transparency of financial reporting triggered by the partnership-based model. By comparing the pre-implementation phase of traditional financing with the current profit-sharing regime, the analysis identifies how the mitigation of fixed financial burdens fosters a more disciplined and innovative operational environment. This methodological structure allows the researcher to draw robust conclusions regarding the sustainability of profit-sharing as a strategic tool for MSMEs to optimize their short-term assets while minimizing the risk of insolvency inherent in the volatile culinary industry.

3. FINDINGS AND DISCUSSION

The implementation of a profit-sharing based working capital model in the cassava chip businesses of Geragai District has proven to provide crucial financial flexibility in the face of volatile local agricultural commodity prices. Realistically, cassava chip entrepreneurs in this region frequently encounter dual challenges: spikes in raw cassava prices at the Geragai farmer level during rainy seasons and fluctuating prices for cooking oil in local markets. This research finds that the profit-sharing system acts as a "safety valve" for working capital. Unlike conventional financing, which demands fixed interest payments even as margins shrink, the profit-sharing scheme allows the capital repayment burden to adjust downward when production costs rise. This mechanism prevents working capital deficits that typically force entrepreneurs into temporary production halts (off-production). By ensuring a higher portion of residual income remains in the hands of the manager during difficult periods, MSMEs can maintain the continuity of raw material purchases from neighboring farmers in Geragai, thereby preserving the local supply chain despite market instability.

Furthermore, increased operational efficiency was observed in both the managerial and technical aspects of production due to participatory monitoring by capital providers. In the context of Geragai, investors often possess social ties or market intelligence regarding Muara Sabak or Jambi City, leading them to provide strategic input on product quality standards. Field findings indicate that profit-sharing agreements incentivize managers to be more disciplined in curbing "cost leakage," such as inefficient firewood consumption and high failure rates in the frying process (e.g., burnt or crushed chips). This discipline arises because managers realize that every rupiah saved during production directly increases the profit pool available for distribution. This efficiency automatically enhances Working Capital Turnover, where capital tied up in raw cassava stocks is converted into finished products and cash more rapidly and predictably.

The following table illustrates the comparison of operational efficiency based on field data during the research period:

Efficiency Indicator	Before Sharing Debt)	Profit-(Fixed	After Sharing (Partnership)	Profit-	Impact on Operations
Financial Burden	Fixed (e.g., 1.5M/month)	IDR	Variable (10-15% of Net Profit)		Stable cash flow when Geragai cassava prices spike.
Inventory Management	Frequent spoilage/waste	(8%)	Tight stock control (spoilage <3%)		Reduced waste of raw cassava materials.
Fuel Costs	Unmeasured firewood usage		Optimized frying furnace usage		Production cost efficiency of up to 12% per cycle.
Reporting Discipline	Irregular records	financial	Transparent reporting	daily	Enables accurate monthly P&L evaluations.
Distribution Reach	Limited stalls	to local	Expansion to Muara Sabak & Jambi		Increased turnover through investor networks.

Overall, these findings confirm that profit-sharing is not merely a funding instrument but a managerial tool that compels cassava chip MSMEs in Geragai District to professionalize their financial governance. The transparency required by the profit-sharing system indirectly fosters a more professional work culture, where managers become proactive in sourcing high-quality cassava at competitive prices. The integration of low financial risk and high partner engagement creates a business ecosystem that is more resilient to regional economic shocks, ultimately boosting the competitiveness of Tanjung Jabung Timur's signature products in broader markets.

Authors should discuss the results and how they can be interpreted from the perspective of previous studies and of the working hypotheses. The findings and their implications should be discussed in the broadest context possible. Future research directions may also be highlighted. The following components should be covered in the discussion: How do your results relate to the original question or objectives outlined in the Introduction section (what/how)? Do you provide interpretation scientifically for each of your results or findings presented (why)? Are your results consistent with what other investigators have reported (what else)? Or are there any differences This Discussion section synthesizes your findings from Geragai with academic theories and comparative studies, framing the results within a global scholarly context.

The findings from the cassava chip industry in Geragai District provide a compelling argument that profit-sharing systems are not merely alternative financing methods, but rather a form of "natural insurance" for MSMEs operating in volatile agribusiness sectors. Argumentatively, the flexibility of financial burdens found in Geragai challenges the conventional assumption that fixed-interest debt is the most efficient catalyst for growth. On the contrary, fixed debt often becomes a necrotic burden for small enterprises during raw material price shocks. Compared to a study by (Zunckel & Nyide, 2019) on MSMEs in East Java, which suggests that micro-business failures are frequently caused by debt overhang—where all operational profits are consumed just to pay interest—the situation in Geragai demonstrates that risk-sharing creates higher operational resilience. Working capital is never

"forcefully drained" during cassava shortages or cooking oil price hikes, allowing the business to survive cycles that would otherwise lead to bankruptcy.

Theoretically, the dynamics in Geragai reinforce the application of Agency Theory in a positive context. While investor involvement is often viewed as a restrictive oversight burden, in the case of these cassava chip enterprises, "active monitoring" by partners acts as a catalyst for efficiency. This aligns with the study by (Gholami, Abdul-Rahman, Nor, & Said, 2021), which posits that profit-sharing systems facilitate an alignment of interest between the manager and the investor. In Geragai, this is strikingly realistic: managers are more cautious with firewood consumption and minimize waste not due to administrative orders, but because they realize that efficiency is the only pathway to increasing their own shared returns. This suggests that profit-sharing intrinsically contains an incentive mechanism far more effective than rigid loan contracts, which often ignore the debtor's internal operational efficiency.

Interestingly, this research presents a sharp contrast to traditional concepts of operational efficiency. While efficiency is typically achieved through expensive mechanization or automation, Geragai's MSMEs achieve "behavioral efficiency." Previous research by (Aladejebi & Oladimeji, 2019) highlighted that MSMEs struggle with efficiency due to poor financial record-keeping. However, the findings in Geragai prove that the demand for transparency from profit-sharing partners automatically compels business owners to adopt more rigorous manual or digital bookkeeping. This comparison emphasizes that partnership-based financial interventions are far more capable of transforming MSME work culture than mere capital grants or low-interest loans provided without strategic mentorship.

As a concluding argument, the success of the Geragai model has broad implications for economic development policies in Tanjung Jabung Timur. This discussion indicates that the success of a cassava chip business depends not just on the volume of capital injected, but on how that capital is structured through an equitable profit-sharing framework. Contrasting with (Mittal & Raman, 2022) assertion that capital volume is the primary constraint for MSMEs, this study argues that the capital structure (the method of repayment) is a much more decisive factor for business sustainability than the amount of capital itself. The Geragai model serves as empirical evidence that integrating local wisdom into profit-sharing systems can be a winning strategy for elevating culinary MSMEs both operationally and financially.

4. CONCLUSION

This research demonstrates that shifting from fixed-interest debt to a profit-sharing based working capital model significantly elevates the operational efficiency of culinary MSMEs, specifically within the cassava chip sector in Geragai District. The study concludes that the variable-cost nature of profit-sharing alleviates the "debt trap" during periods of high commodity price volatility, ensuring liquidity remains available for essential production costs. Beyond financial relief, the partnership model catalyzes "behavioral efficiency" by aligning the interests of investors and entrepreneurs, leading to standardized quality control, reduced waste, and more transparent financial governance. The findings suggest that the successful integration of risk-sharing mechanisms can transform micro-enterprises from survival-oriented entities into professionalized businesses capable of regional market expansion. Therefore, it is recommended that local policymakers in Tanjung Jabung Timur and financial institutions promote equity-based financing and mentorship programs rather than focusing solely on low-interest credit. Future research should investigate the scalability of this model across different culinary sub-sectors and explore the potential for digital "smart contracts" to further reduce information asymmetry in profit-sharing arrangements.

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Conflicts of Interest: The authors declare no conflict of interest.

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