MSME's sustainable economic behavior for struggling poverty: Agency theory vs. bounded rationality theory

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Abstract. Covid-19 pandemic is attacking almost whole parts of the world. This negatively affects the most Sustainable Development Goals (SDGs) agenda. This study is intended to identify the MSME's sustainable economic behavior for struggling poverty through the literature review of agency theory and bounded theory. This literature review uses contextual techniques related to MSME's sustainable economic behavior for struggling poverty with the support of Agency Theory and Theory of Bounded Rationality. The literature exam includes about 15 books and 20 journals collected from the University of Indonesia's virtual library facilities and the Google Scholar application for 2015 – 2020 by using a systematic mapping study. Results indicate that agency theory is an element of different interests (between MSEs and Principals/guarantor of purchasing MSMEs products) then the theory of bounded rationality as elements of rationality and utility (the minimal state of MSMEs). Moreover, the influence that influences (influences) intend to survive or survive economically for Micro, Small, and Medium Enterprises. It is recommendable to apply the agency theory and bounded rationality theory to have a further empirical study on MSMEs’ economic resilience.

1. Introduction
SDGs are a set of promises of countries leaders including Indonesia in order to eliminate poverty, reduce inequality, and a sustainable environment. World leaders have agreed to achieve seventeen goals by 2030. The United Nations set this deadline as a world development agenda for humans' safety and planet earth. Currently, the Covid-19 pandemic is attacking almost whole parts of the world. This negatively affects the most SDGs agenda. Almost all parts of the world are experiencing the COVID-19 pandemic and the worst economic crisis in the last hundred years. Increased poverty due to job losses and economic lockdown, and disproportionate impact on vulnerable groups (e.g., the poor) are positively affected to goal one on the no poverty agenda. The economic crisis, trade disruption, mass unemployment, a sharp decline in tourism activities, and massive public deficits attack the SDGs' agenda of decent work and economic growth [1].

In March 2006 - March 2011, Indonesia has succeeded in reducing the number and percentage of the population of poor people from 39.3 million to 30.02 million people, and from 17.75% to 12.49%. Until September 2019, the decline in the number and percentage of the low population was very gentle and slow. Even in September 2014, there was an increase. With the Covid-19 pandemic, the poor people...
increased from September 2019 by 24.79 million to 26.42 million in March 2020. This is presented in chart one below. This situation also occurred in developing the GINI ratio chart from March 2013 to March 2020, described in chart two below.

**Figure 1.** Number and Percentage of Poor Population, Maret 2006 – Maret 2020.
*Source: Processed from the National Socio-Economic Survey data.*

**Figure 2.** GINI Ratio Progress, Maret 2006 – Maret 2020.
*Source: Processed from the National Socio-Economic Survey data.*

The strength of an organization recovering from or being able to adapt to adverse events can be interpreted as resilience. Conceptually, this pattern can help many organizations and systems deal with uncertainty and operational complexity so that they can better cope with shocks. In practice, inconsistency in performing resilience can limit the success of an organization or system in dealing with the intended shock [2]. In Indonesia’s case, LEMHANAS, the National Defence Agency of the Republic of Indonesia, set the definition of national resilience. That is the national capability of a nation for a dynamic condition that includes all elements of life as a unity can tenaciously develop national strength to overcome all challenges, threats, and disturbances from internal and external to ensure a complete national and state identity in order to achieve national goals. The economic aspect of this term confirms that economic development is directed at meeting the needs of the people, nation, and state and increasing the capacity and quality of adequate national resources to achieve a sustainable competitive advantage [3].
Micro, small and medium-sized enterprises (MSMEs) are a mainstay of socio-economic welfare. MSMEs represent 99% of all businesses by generating 60% of employment covers. MSMEs contribute significantly to sustainable and inclusive economic growth. MSMEs play a big role by ensuring that the wheels of the economy and society are transformed massively, such as globalization, digitalization, aging, and a sustainable environment. The OECD (Organization for Economic Cooperation and Development) identifies that MSMEs generate more than half of all business sector GDP. [4].

According to the OECD, MSMEs employ less than 250 employees, of which less than 10 people are called micro enterprises, 10 to 49 employees are small enterprises, 50 to 249 employees are categorized as medium enterprises. Companies with 250 employees or more can be said as large companies. [4]. Indonesia classifies enterprises not on the basis of the number of employees but on the amount of net assets and annual sales. Micro enterprises are individual businesses or groups of individuals, small enterprises are individual businesses or entities that are not owned, or controlled either directly or indirectly, by medium or large businesses. Likewise, medium enterprises are also individual businesses or entities that are not owned, and are controlled by small and large enterprises. For more details, the following table can explain the classification of enterprises in Indonesia [5].

| Enterprise | Net Asset | Annual Sales |
|------------|-----------|--------------|
| Micro      | no more than 50 million rupiahs (not including land or buildings) | no more than 300 million rupiahs |
| Small      | at least 50 million rupiahs, and no more than 500 million rupiahs (not including land or buildings) | between 300 million and 2.5 billion rupiahs |
| Medium     | between 500 million and 10 billion rupiahs (not including land or buildings), | between 2.5 billion and 50 billion rupiahs |

Agency theory expresses the concept of the relationship between shareholders as principal and managers or directors as agents in managing the company, not always for the interests of shareholders unless the company implements a proper governance structure to protect the interests of shareholders. Problems can occur if the principal and the agent have different goals or because the principal is unable to verify the agent's actions under conditions of information asymmetry [6].

The theory of bounded rationality explains that rationality is limited when individuals of MSMEs make decisions by the regularity of decision issues, the cognitive limitations of thought, and the time available for making decisions. Decision-makers, in this view, act as satisfiers, seeking satisfying solutions rather than optimal ones. Therefore, humans do not perform a full cost-benefit analysis to determine the optimal decision but instead select options that meet their sufficiency criteria. [8].

Like many theories originating from neoclassical economics, agency theory aims to provide accurate predictions of economic phenomena without claiming predictive assumptions and intrinsic and extrinsic motivation as factors that can be measured based on contingent factors associated with the agent situation [9]. Theory bounded rationality is bound to the individual and does not pay attention to social contexts, habits, and tends to tacitly or less openly. [10]. The two theories' ineffectiveness on MSMEs' capacity to struggle poverty during the economic crisis, including the Covid-19 pandemic, can lead to theoretical gaps. The problem statements are that most MSEs have low education (finance and technology), low entrepreneurial spirit, lack of managerial skills, technical abilities, and mindsets, so they are less interested in accessing micro-credit [11]. This article is intended to identify the MSME's sustainable economic behavior for struggling poverty through the literature review of agency theory and bounded theory.
2. Method
Contextual techniques related to MSME's sustainable economic behavior for struggling poverty with the support of Agency Theory and Theory of Bounded Rationality. The literature exam includes about 15 books and 20 journals collected from the University of Indonesia's virtual library facilities and the Google Scholar application for 2015–2020 by using a systematic mapping study.

3. Results and discussion
Agency theory through the perspective of main agent research obtains the possibility of agency issues, namely risk sharing and agent monitoring. Principal-to-agent sharing of different risks can create information asymmetry which in turn reduces the principal's ability to monitor agents in managing MSMEs. Furthermore, the process may, in actuality or perception, result in a shift in risk sharing which inherently increases the difficulty of obtaining the ideal contract between principal and agent [12].

The Wealth of Nations of Adam Smith has alluded to a dangerous gap between the interests of shareholders and managers which was later identified as an agency problem [12]. Bureaucracy is one solution to addressing agency problems. However, bureaucracy is a problem related to agency because of the separation of individuals from their personalities [13].

Management is important for an organization, with the assumption of modern economics that prices are known, individuals are rational, and have knowledge so that individuals are rationally constrained such as information asymmetry, cognitive abilities, time, etc [14]. Agency problems may occur due to poor communication, not agent or principal fraud. The implementation of an incentive system in such an organization will have limited benefits because it is difficult for the principal to identify the right incentive so that the operational conditions are in line with the principal's expectations [12].

The principal or shareholders who are increasingly inhomogeneous and scattered can reduce the capacity of the principal to monitor the agent or manager / director of an MSMEs [15]. The cooperation system develops and tries to survive in times of conflict and power takes precedence during the industrial revolution, so that in the end it can be seen that social factors play a role.

It is realized that the roles of the principal and agent are mutually necessary. Agents as managers cannot manage the company competitively without capital. Likewise, the principal cannot separate himself from the agent as the manager of the company because he cannot share the risk with the agent in investing in MSMEs as the owner of capital. Therefore, how to combine the two parties is a beautiful art to manage a relationship [12].

Conflict resolution systems evolved by a compromise through three mechanisms although only one survived the trials. The relationship between the principal and the agent may dominate one side over the other. The principal as the owner of the capital really expects the agent as the manager of MSMEs to take more risks, but the opposite happens when agents tend to avoid risk because their wealth is related to the MSMEs corporation. In order to improve the performance of MSMEs management, an integrative solution can be given in the form of compensation to agents as MSMEs managers for trying to improve the performance of MSMEs by taking additional risks.

The provision of incentives from the principal to the agent which is increasingly spread out is such that it can be said that the market provides incentives to limit agency [16]. This is an optimistic approach because companies can easily identify all aspects of the agency problem even though the literature is not certain that agency can affect performance [18]. The Chicago approach adds regarding market efficiency that an inefficient company cannot receive punishment from the market. Furthermore, pricing in an efficient market can be seen that property rights are the main consideration so that there is an adaptation of the idea of limited rationality in expensive enforcement mechanisms.

Bounded rationality is useful for sorting types of rationality when the business environment is too complex for limited mental abilities. This shows that human behaviour is rational but limited. As for complexity, it does not underlie the concept of uncertainty in economics, which in general relates uncertainty to a lack of information. Uncertainty can be interpreted by the probability of the confidence level. Epistemology relates that uncertainty occurs because of a lack of knowledge. Ontologies argue that uncertainty is always related to reality. In summary, complexity means a feature.
Unique probability distributions can characterize uncertainty in mainstream subjectivist conceptions. The lack of information distribution is also a character of the uncertainty caused by a lack of evidence. This understanding of uncertainty has not been able to help neoclassical economics to distinguish between the various types of situations that are contradictory to each other in explaining the theme of risk, although the meaning of uncertainty has many uses for a number of purposes. The definition of uncertainty actually goes beyond standard treatment but has not arrived at a more important understanding of its relevance in economics. This weak uncertainty can be said to be ambiguity, which is the uncertainty in the form of possibilities created by missing information, but it is relevant and knowable [19].

Although the decision maker under ambiguity does not know with full reliability the likelihood that any event (or world state) will be obtained, he is usually aware of all possible events. Although not completely known, the list of all possible events is predetermined. In contrast, situations of fundamental uncertainty are essentially characterized by the possibility of creativity and structural change and, therefore, by significant future uncertainty. Fully reliable probabilistic predictions cannot anticipate the future because the future has yet to be created. A record of possible events or unspecified status. This means that some relevant information cannot be known, even in principle when making many important decisions.

Decision makers who are faced with the reality to make decisions, usually know all possible events even though there is ambiguity with full reliability of the likelihood that an event will occur. On the other hand, uncertainty is characterized by the possibility of creativity and structural change. Estimates of probability are assumed to be helpful but cannot anticipate the future because the future is being prepared for its creation. A record of possible future events is not predetermined. This identifies that there may be relevant information that cannot be known when important decisions need to be prepared by the decision maker.

Management of MSMEs in such a way can encourage competition for decision makers to innovate in order to obtain additional benefits. This results in the formation of internal pressures that lead to fundamental uncertainties. Uncertainty can also occur in MSMEs investment on the income that the investment decision maker will earn in financial institutions over the distribution of MSMEs assets. The uncertainty in financial institutions or investments is masked by the appearance of sophisticated financial institutions so that ambiguity increases. A dynamic atmosphere can reinforce the contrast of fundamental ambiguity and uncertainty.

Bounded rationality is a theory of reality. A psychological perspective says bounded rationality is plausible. The goal of bounded rationality is to understand the pattern of humans making decisions as opposed to celestial beings with unlimited time, knowledge, memory, and other resources. Furthermore, placing bounded rationality in cognitive, emotional, social, and human behaviour is a challenge in itself. Bounded rationality is a theory of reality because it places the social environment as an influence on individuals in making decisions [20].

When the concept of bounded rationality was introduced, the concept referred to a pattern of individual behaviour that deviates from the pattern predicted by rational choice theory. This shows the occurrence of cognitive shortcuts taken by agents or managers of MSMEs in making decisions [21]. Meanwhile, the development of bounded rationality no longer deals with "biased" behaviour patterns, which reflect more on the actual steps the agent takes in making decisions.

4. Conclusion
The description above can illustrate that the agency theory and the theory of bounded rationality. That can be the theoretical basis to answer the limited capacity of Micro, Small, Medium Enterprises to struggle from poverty, especially groups of recipients of social protection assistance who are slow and have not graduated from the program in question.

The agency theory as an element of different interests (between MSEs and Principals/guarantor of purchasing MSMEs products) then the theory of bounded rationality as elements of rationality and utility (the minimal state of MSMEs). Moreover, the influence that influences (influences) intend to survive or
survive economically for Micro, Small, and Medium Enterprises. It is recommendable to apply the agency theory and bounded rationality theory to have a further empirical study on MSMEs' economic resilience.

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