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Preface

Dear Distinguished Delegates and Guests,

The Conference Committee warmly welcomes our distinguished delegates and guests to the 2015 International Conference on Management, Finance and Entrepreneurship (ICMFE-2015) held on April 11-12 in Medan, Indonesia.

ICMFE-2015 is organized by International Foundation for Research and Development (IFRD). The conference is aimed at discussing with all of you the wide range of problems encountered in present and future issues in economies and Societies. ICESS-2015 is organized in collaboration with Universitas Islam Sumatera Utara, Medan, Indonesia, Yildirim Beyazit University, Turkey, Shinawatra International University, Thailand, PERTRE ANDERI of IASI, Romania and National Academy of Management, Ukraine where researchers from around the world presented their work. The conference committee is itself quite diverse and truly international, with membership around the world.

Proceeding records the fully refereed papers presented at the conference. Main conference themes and tracks are Management, Finance and Entrepreneurship. Conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

Conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance, and clarity for the purpose of the conference. Conference program is extremely rich, featuring high-impact presentations. The high quality of the program guaranteed by the presence of an unparalleled number of internationally recognized top experts. Conference will therefore be a unique event, where attendees will be able to appreciate the latest results in their field of expertise, and to acquire additional knowledge in other fields. The program has been strutted to favor interactions among attendees coming from many diverse horizons, scientifically, geographically, from academia and from industry.

We would like to thank the program chairs, organization staff, and members of the program committee for their work. We are grateful to all those who have contributed to the success of ICMFE-2015 especially our partners. We hope that all participants and other interested readers benefit scientifically from the proceedings and find it stimulating in the process. Finally, we would like to wish you success in your technical presentations and social networking.

We hope you have a unique, rewarding and enjoyable time at ICMFE-2015 in Medan.

With our warmest regards,

Conference Committee
April 11–12, 2015
Medan, Indonesia.
ICMFE-2015

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PAPERS
Developing Islamic City through Network-of-Mosque (NoM)

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Abstract: Learning from the history, our prophet used mosque to provide many activities and served as community center for the purpose of society welfare. Today, we can find the mosque everywhere but its function were limited and only used for religious and spiritual purposes. Thus, this conceptual program will develop the Islamic City through Network of Mosque. Network of Mosque can be used to create center for transformation which can provide the services to the society. These services will include community classes, zakat collection and distribution, halal certification, and eating place for the hungry and needy. This conceptual program introduces to improve the quality of service through strategic partnership between government, industry, and society which will result to raise the entrepreneurs and lead to the prosperity. This program offers Quadruple Helix Model (QHM) which involve the Government, Academia, Industry, and Citizen as the main actor for this program. Nine blocks of Business Model Canvas (BMC) framework and Literature Review used as the methodology for this paper. To achieve its goals, this program collaborates and synergize with the Whole of Government (WoG). The findings of this paper show that the Mosque can facilitate and serve the society better by harnessing Network of Mosque, which guide to the developing Islamic City.

Keywords: Islamic city, Network of Mosque, Business Model Canvas, Society welfare, Quadruple Helix Model

1. Introduction

Today, people use mosque only for the purpose of Ibadah. But, we realize that Network of Mosque (NoM) has a great potential to improve social welfare for the society who live around the mosque. By harnessing Network of Mosque (NoM) we can help the people to save time without having to go to a government or industry building. Mosque committee will provide many kind of service such as for marriage class and education, hajj and umroh training, waqaf and zakat collection and contribution, Islamic learning, and more. Based on the Office for National Statistics (ONS) (Measures of National Well-being, 2014), there are ten factors to consider in order to measure the national wellbeing. From their graphic, health is one of the factor that is important for national wellbeing. From ONS National wellbeing graph, health, personal wellbeing, relationship, and education and skills are some of the factors that we need to understand. And Islamic City program can help the government to improve the national wellbeing from these factors. Islamic City developed to create the wellbeing for society. One of its program is to provide medical service that will benefit for society's health and helping the government in providing the medical treatment to the society (Portal resmi Kementrian ke-sehatan Malaysia, 2014). Islamic city developed using Network of Mosque that will create the better relationship to the people around the mosque. Personal interaction between the society and committee can bring the positive impact and satisfy the customers (Azam, 2013).

In education sector, Islamic City has a program to educate the people. Islamic city provide an online and offline class for Muslim and Non-Muslim society. Moreover, Islamic city developed to help people in their activities. With Islamic city, the personal wellbeing can be improved to create the happiness in the society.

Program Background: This paper proposed the developing of wellbeing by creating Islamic city harnessing of the Network of Mosque (NoM). Through our program we are trying to make a lot easier for the people. We propose Mosques to be our center services. Since we can find mosque everywhere, than we can provide many activities that can help more people. The focus targeted audiences of this program are all the people who lives around the mosque interfaith everyone. This program has the potential to provide quality services for the society and improve the level of awareness's of the society. This can be achieved by providing certain services and programs, namely: marriage class and education, hajj and umroh training, waqaf and zakat collection and contribution, Islamic learning. This program synergize with the Whole of Government (WoG), where similar/related/cluster of government agencies collaborate to achieve the goals (Habiba, et. al, 2013). Besides that, this program also offered Quadruple Helix Model (QHM), which is a concept in innovation research that that integrates Government, Academia, Industry & Citizen/Community (Ania Fuzi, 2013). Islamic city project provides services to help the Muslim society,
this services include immigration problems and counselling, legal advice, marriage counselling, marriage arrangement counsellor and set-up information, family planning advice, making the Muslim communities aware of help and opportunities available for them, have some sort of facilities to the help the destitute, temporarily homeless. We also try to organize a group of people for welcoming visitors to the mosque and advertising mosque functions to the community. Then we can reach our vision as the religion of "Rahmatan Lil Alamin" (mercy to all mankind).

Program Objectives: The main objective for this paper is to propose the creation of Islamic city to create the wellbeing for society. Islamic city defined as a city where the communities are well advanced in terms of education, economic, services and social lives according to Islamic traditions (Rabah Saoud, 2002). By harnessing Network of Mosque (NoM) we can help the people to save time without having to go to a government or industry building by providing the service for them. Mosque committee will provide many kind of service such as for marriage class and education, hajj and umroh training, waqaf and zakat collection and contribution, Islamic learning, and more. Islamic City can collaborate with Lembaga Tabung Haji to provide the hajj, umroh and other Islamic activities (Bimbingan – Lembaga Tabung Haji, 2014). These can make the Muslim society more convenient on performing their obligation as a Muslim. As we know, almost all of the services that has been mentions are very rare to be seen at the similar place/centre, the Muslim society might spent a huge cost to reach each of the service. This is an opportunity for the Muslim to centralized all of the Muslim activities in one place as we call it as an “Islamic City”. In Islamic city, Islamic scholars around the world are encourage to be contributed in Islamic city in order to give sermons for people who are needed or lack of Islamic knowledge. This Islamic city can be accessible all over the world but also played a very important role in spreading Islam and also to clarify the misconceptions of non-Muslims about true of Islam.

This project will bring the wellbeing to the society. This program offers Quadruple Helix Model (QHM) which involves the Government, Academia, Industry, and Citizen as the main actor. It will cooperate with a government institution such as Jabatan Kebajikan Malaysia (JKM), Ministry of Health Malaysia (KKM), Jabatan Kemajuan Islam Malaysia (JAKIM), and Tabung Haji department of Malaysia. Besides, this program will collaborate with hospitals and clinics in Malaysia to provide and improve the health service to the society. For event development, this program will include the public company such as wedding event organizer that will help society in managing and organizing the wedding activities. For educational cluster, this program will collaborate with universities in Malaysia and the society experts who want to be volunteers. As the main actor in this program, mosque committee has a significant impact to handle the program through the network of mosque.

2. Literature Review

The world mosque or masjid taken from Arabic language which is sujud (sajada). It means the devoted, loyal, and with bowed heads with full of respect and reverence. The mosque use for many function, not only for worship but also to seek for knowledge, Muslim centre activities, as well as the centre developing economic of the ummah. According to Omar Bakri (Muhammad, O. B, n.d.) on his book The Role of Mosque explained that in the prophet time, there are 20 activities/tasks which we expect from the mosque. Some of the activities that expected from the mosque are the mosque as the Judiciary Court, the mosque as the headquarters of the Islamic State’s supreme leadership, the mosque as a section of the Department of Information and Culture, the mosque as the University for Learning and Teaching, the mosque as the platform for oratory, eloquence and poetry, the mosque as the hospital where casualties of war are treated, the mosque is a home and refuge for the poor, needy and the travellers, the mosque as an eating place for the hungry and the needy and the Mosque as a place for consultation and exchanging views. From the points above, only few activities that handled by the mosque in this time. Today, the Mosque do not act as the Muslim centre anymore, Muslim uses mosque as the place for religious practices only. We as Muslim should expand the culture of the Mosque based on the prophet era, as a key role of Muslim activities. We need to return the Mosque to its original function.

In this globalization era, we may utilize the Mosque as the Muslim centre in order to develop Islamic country. We can have many Islamic activities that can be handled in the mosque. This activities can be implemented in different program. We can harnessing the Network of Mosqueto establish the Mosque as a centre of education, marriage course, zakat collection and distribution, Umroh and Hajj training, halal certificate distribution, Islamic seminars, and providing other value-added services to the people who live around the mosque. But, in order to develop Islamic city, all stakeholders must give its contribution
including Government, Mosque committee, company, and the society (Habiba, et. al, 2013). Then, we can improve the social welfare for those people who live around the mosque. In Malaysia, Urban Transformation Centre or UTC becomes one of the good example to improve the social welfare for people around him. UTC is one of the government effort and initiatives providing the urban community with key government and private sector services under one roof. With UTC, people around can come for many activities. The services that UTC provides are, National Registration Department, MyEG, Public Transportation Commission (SPAD), Immigrations Departments, Department of road transportation (JPJ), Lembaga Hasil Dalam Negeri (LHDN), and Companies Commissions of Malaysia (Treasury-UTC, 2012). The main purpose of UTC is to provide the business service centre that bring the social welfare to the society. Based on the News Strait Times dated 6 of August 2014, the government targeted 123000 business registrations for the Goods and Service Tax (GST) which bring the social welfare for those who live around UTC (Dasspetaling, 2014).

Currently, the coverage of UTC is still not nation-wide. Thus, the researcher suggests the Network of Mosque as the solution to improve the social welfare because we can find the mosque even in remote areas. We can use this network to develop Islamic country that will served the Ummah better just like what the sahabah did in the prophet era. We can also can learn from Smart city concept. Smart city is the concept is really a framework for a specific vision of modern urban development. Smart city recognizes the growing importance of information and communication technologies (ICT) as drivers of economic competitiveness, environmental sustainability and general liveability (Alcatel-Lucent, 2012). Smart cities are expected to be the key to combine a sustainable future with continued economic growth and job creation which also bring the welfare to the society. The main purpose of Islamic city is to establish a “user-driven” based development model to enhance the community quality of life. Islamic City project combines and merges government agencies services and voluntary services in an easy way, saving money and time. Islamic City project will connect all the Mosques in Malaysia through Network of Mosque (NoM) and provide Services for the Society. As we can find mosques almost everywhere in Malaysia, we decided to use NoM to create an Islamic city which the basic services will be delivered through it. The activities that will be served in the Islamic city project through the Network of Mosque are:

1. Community classes: Community classes’ purposes to educate people become better. This will help Muslim youth to learn how to read the Quran, learn about Islamic history, manners and Etiquettes, traditions of the holy prophet (SAW), Fiqh as well as memorization of the Quran. And for the Non-Muslim, they may joined the language class. So, they can learn English and Arabic language that can be benefit for their future. We can have Muslim communities who are fluent in Arabic and English to teach them. Furthermore, we also have special classes for Elders women and men separately. As the fact is, that in our societies we find many elders who cannot even read the Quran. We will provide special classes teaching how to read the Quran properly and memorizing the small surah’s of the Quran so that they can read in their prayer. This will also help the elders invest their time in a good matter and gives them the opportunity to meet each other and strengthen the bond of Muslim hood. All the teaching services mentioned above not only for the Muslims. We will also encourage and welcome the non-Muslims to join these classes. This can be a good example of Da’wah.

2. Marriage-related services: Marriage is the Sunnah of our prophet. Based on themalaymailonline.com dated march, 3rd 2014 there are 148,806 Muslim marriages in 2012, according to the Department of Islamic Development Malaysia (JAKIM) and a total of 65,993 marriages were registered in 2012 (Su-lyin, 2014). This number shows that there are the significant numbers of marriage in every year. With Islamic City, we can help people who want to get married by providing marriage service. These services include marriage registration, certification and wedding event. For marriage event, NoM will also cooperate with other wedding organizer. Besides, Islamic City also provide birth certification and marriage consultation.

3. Zakat and Waqaf collection and distribution: Zakat is the practice of taxation and redistribution, including benefits paid to poor Muslims, imposed upon Muslims based on accumulated wealth. It is obligatory for all who are able to do so, and it is considered to be a personal responsibility for Muslims to ease economic hardship for other Muslims to eliminate inequality among followers of Islam (Wikipedia, 2014). As the centre of Muslim community, Zakat can be collected through the mosque and it can distribute to the needy people around the mosque. This benefit will bring the wellbeing to the society who live around the mosque because the mosque committee know who are the needy and can distribute it to the right people.
4. Promoting Halal Product: Network of Mosque unable us to distribute and promote the halal product easily. One of the conceptual solutions for promoting halal product via Network of Mosque is an eHalal4All Program which aim to raising the economic and social status of rural communities/entrepreneurs in Sabah, Malaysia (Abdul Rahman, et. al, 2014). We can cooperate with JAKIM in order to succeed on of their program in promoting Halal Product (Bantuan Kebajikan – Jabatan Kebajikan Masyarakat Malaysia, 2014). Thus, it can improve the wellbeing for the society.

5. Sermons and Islamic lecturers: As the centre of Muslim society, Mosque can be used to spread Islamic value. One of the way to spread Islamic value is through the lecturer and sermons. Mosque also can be used as the place for those who want to convert to Islam, and people who just converted to Islam can present in Islamic lecturer and learn basic Islamic activities such as how to perform wudhu, prayer, and so on.

6. Umroh and Hajj learning: With harnessing the Network of Mosque, government can easily manage and monitor the people who intent to perform Umroh and haj easily. Mosque committee can cooperate with Tabung Hajj for Umroh and Hajj learning activities. It included the registration of Hajj and Umroh, the seminar about Hajj and Umroh, learning and guidance and counselling about Hajj and Umroh. Besides that it also helps the people to apply for passport, health test, payment of the costs, and the updated information about hajj.

7. Medical centre: Based on the WHO Statistics, Malaysia has a big number for the total expenditure on health per capita in Malaysia which is $692 (WHO Malaysia, 2012). With this conceptual solution, mosque can be used as the medical centre. Thus, Muslims without insurance or those who are in need of emergency help can receive treatment. It can be conducted by cooperating with the minister of health Malaysia and the nearest hospital to the mosque. With Network of Mosque, people can save their time and money because they do not need to go further if they need any treatment.

8. Home for the disable, needy, and traveler: Jabatan Kebajikan Masyarakat (JKM) declared that one of their objective is to help the disable people (Bantuan Kebajikan JKM, 2014). With network of Mosque, we can cooperate with JKM to provide the home for disable people and needy. Not only that, mosque can be used as the home for travellers, especially for those who spread the Islamic messages (da’wah).

9. Eating place for the hungry and needy: Today, Malaysian government concerned and makes the poverty eradication as one of the primal priority. (Abdul Rahman, et.al, 2014). In Islamic city, we can help government to control and help the disable, hungry and needy people. Based on the Department of Statistics Malaysia, the poverty rate went up from 3.6 percent in 2007 to 3.8 percent in 2009 while the hardcore poverty rate remained at 0.7 percent. (Suara Sarawak, 2012).Thus, by utilizing the network of mosque the Islamic City can collaborate with government institution like JKM to feed the disable, hungry, and needy people. People may also give their Sadaqah to the mosque to feed the needy. Moreover, we may have the fasting and future together as the weekly agenda in the mosque so that we can help the people around us.

Figure 1: Islamic City Portal (Homepage)
10. Islamic city portal: Islamic city portal is an online website that consists of all information regarding the activities in the mosque including the service that provide by the mosque and its procedures. With Islamic city portal, people can get and update any information directly through their gadget. Islamic portal also provided articles that can be read for free by visitor. Moreover, it also has an online learning that provided to the people who want to learn Islam via internet. People must pay subscription fees in order to get these features. The ten activities above can improve and guide to the wellbeing of society.

With network of Mosque, it is not impossible to develop Islamic City. The current and future trend of people to come to the mosque at least for performing five times prayers. At this five times, people comes and gather to perform Islamic rituals. And people gathering may have a great potential, not only for silaturrahmi but also to build and improve their life. Mosque that build in the centre of the city or village and can be used as central of activities because of its strategic location. With Network of Mosque, we can provide more service and activities to the society around the mosque. Then, we can improve the wellbeing of the society.

Proposed Conceptual Solution: In order to create the Islamic city, we can utilize the use of Network of Mosque to develop wellbeing to the society. Ibnu Khaldun as one of Islamic Scholar states that entrepreneur is seen as a knowledgeable individual and is instrumental in the development of a city-state where enterprises will emerge (Mervyn, K. 2007). We can practice this concept to the network of mosque to improve our social welfare. Managing and creating the Mosque as the Community center can help people in many activities. Moreover, people can find the mosque everywhere which will reach more targeted audience that will cover more people in the society. In Islamic City, we also come with an online portal that include all information and activities that related to the Islamic City activities. This portal will help people to view and get the updated news about the mosque and its activities. It will include the procedure to apply marriage certificate, halal promotion, and Learning material. Also it will display the event that will be hold by the mosque committee such as seminar information and wedding event. Not only that, it also will include the khutbah, islamic teaching, and Islamic articles that can be read by the society for free. The society can also do an online consultation via Islamic city portal. Thus, it can develop the wellbeing of people and make society’s activities become easier. In order to achieve its goal, this program will collaborate with many government agencies including Islamic Department of Malaysia, Ministry of Health Malaysia, Jabatan Kebaikan Masyarakat Malaysia,and Tabung Haji Malaysia. Also it will collaborate with the university and academia in order to provide Islamic activities such as sermons and Quranic learning. In industry and Malaysian company, this program also collaborates to achieve its goal as Islamic City, such as a wedding organizer. Mosque committee plays an important role in Islamic City. They will handle the activities with collaboration with the government, industry, academia, and society who will use the system.

Customer Segments: The Customer Segments is the society or the organization that involve and have a contribution in developing Islamic city. The customer segments included:

- Poor families
- Disable people
- Malaysian society
- Malaysian organization/companies
- Malaysian entrepreneurs
Cost Structure: The cost structure is the cost amount that must be paid from the activities that utilized during developing Islamic city. The Cost structure included:
- Portal development and maintenance
- Staff salary
- Food and medicine
- Fees for Ad space
- Subscription fees for premium services
- Donation/Waqaf
- Service cost

Revenue Streams: The Revenue Streams is the revenue that generates from the customer to cover the cost structure in developing Islamic city. The revenue streams included:
- Service fees for marriage and hajj program
- Proposal funds from the government
- Freemium service for Online Islamic lecturers and learnings
- Subscription fees for those who want to subscribe to an online learning, such as the subscription fee for those who want to get the weekly Islamic courses through Islamic portal website.
- Booking fees for those who want to book the mosque facilities such as for wedding party
- Advertising fees for advertisement that related to Islamic City
- Seminar fees for those who want to join the seminar
- Donation and Waqaf from the society.

Key Partners: The Key Partner describes the people or group of people who that act as partners order to run the Islamic City Program. The key partners include:
- Public company such as wedding organizer in Malaysia to organize marriage related activities.
- Tabung Hajj department of Malaysia for Hajj and Umroh program
- Society that want to be volunteer
- Mosque committee
- University in Malaysia for running the community class and educational program
- Hospital in Malaysia for treatment and medical related activities
- Ministry of Health Malaysia for medical related activities
Key Activity: The Key Activities is the main activities that provide in Islamic City to develop the wellbeing to the society. The key activities included:
- Provide Community classes
- Provide Marriage service
- Collect and Distribute zakat and Waqaf to the right people.
- Provide Halal certification
- Provide Sermons and Islamic lecturers
- Provide Umroh and Hajj learning
- Provide Medical service
- Home for the disable, and needy
- Eating place for the hungry and needy
- Provide Islamic city portal

Key Resources: The Key Resources describes the most necessary assets required to process Islamic City Program work. The key resources such as:
- Islamic expertise on marriage, hajj, zakat and knowledge of Islam.
- Tabung haji is required in order to support the financial of candidate of hajj
- Companies that can provide the weeding party
- Programmer that can build an Islamic city portal
- Islamic department of Malaysia (JAKIM) for collaboration in Islamic related activities
- Jabatan Kebaikan Masyarakat (JKM) to support the home and eating place for the needy
- Ministry of Health Malaysia (KKM) to collaborate in the medical center program

Value Preposition: The Value Propositions is the value of the services that provided in the Islamic society in order to satisfy the customer. The value prepositions included:
- Convenient and customer can save their time
- Trusted zakat collection and distribution
- Trusted database system
- Trusted ad space
- Trusted information distribution
- Trusted teaching and learning system
- Ubiquity, because people can find the mosque everywhere and at anytime
- Efficiently in processing marriage because we are providing almost all of the services which are the regulation of marriage in Malaysia such as HIV test, Seminar, Wedding.

Customer Relationship: The Customer Relationships is the type of relationship that used in the Islamic city Program. The purpose of this program is to provide the efficiency of different aspect of activities, including marriage, umroh, hajj, learning, waqaf, zakat and other related activities for the Muslim society.

Channels: The Channels are the parties that communicate in Islamic city program in order to achieve its Value Proposition. The Channels included:
- Network of Mosque
- Islamic City Portal
- Face to face
- Seminar

2. Conclusion and Future Works

In the prophet era the utilizing of mosque not only for Ibadah but also for spread knowledge and dakwah. Nowadays, the function of mosque is not well optimized like in the during the prophet era. To improve the function of Ibadah, mosque also can be used as a centre of Islamic activity. Mosque not only utilized for Ibadah but also for the activity that can help ummah which spreading knowledge, contribution of Zakat and many others. In order to reach the Islamic city, the Network of Mosque is one of the ways that can be used. In Islamic City, we also come with an online portal that include all information and activities that related to the Islamic activities. Indeed, another program and tools also can be added for future works for example, in order improve the development of Islamic city we might also utilize social
networking as a media of communication. Islamic City program should provide video, cassette and CD libraries, with equipment to use them. This is a very important facility that every mosque should have. Another future work suggestion could be providing shelters for the visitors. Moreover, provide Muslim shop, where they can find Islamic Books, clothes, Islamic decorations. It would be a great idea if a Muslim Bookshop, cafeteria, and Halal food-store could be incorporated into the areas around the mosques.

References


The Influence of Job Market Factors and Parental Influence towards Accounting Students in Becoming Professional Accountants in Indonesia

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Abstract: This study aims to investigate accounting students' pursuit of becoming professional accountants in Indonesia and how this may influence their career path decisions. There has been much talk that experienced professional are lacking considerably over the last decade. Although this trend has attracted academic attention regarding the factor that influence accounting students has increase become professional accountants. In this article, we provide a critical review on the contextual variables such as job market factors and parental influence. This study adds to present literature by explaining conceptually on the linkages between the variables by applying the Theory of Planned Behaviour (TPB).

Keywords: job market factor, parental influence, accounting students and professional accountant

1. Introduction and background

Accounting is one of the major fields in the economic faculty that demands for accounting students. Accounting students' ambition are to become professional accountants. While many accounting students have the motivation to become an accountant because they have plans to study to professional accountant education because many companies is requiring professional accountant in Indonesia. Throughout the world, future accountants are expected to meet certain minimum educational requirements for entering the professional field. In Indonesia, as in other countries, Professional Accounting Education (PAE) has emerged since the year 2000 as a result of the implementation of the Government of Indonesia's Regulation Number 60 of 1999 that states the education for professional accountants is a mandatory function of the professional association. In this case, it is the Indonesian Institute of Accountants (IIA). IIA established a set of PAE curricula in which a candidate shall pass minimum 7 mandatory subjects or equivalent of 245 hours. The purpose of PAE is to enhance the accountants' professionalism. There are several chronological stages to be accomplished before becoming a public accountant in Indonesia. These namely include:

1. He/she must hold a Bachelors degree in Economics (Sarjana),
2. He/she must pass the PAE and
3. He/she who continues and achieves the PAE certification will have an additional title, called a professional accountant, which is abbreviated as Ak and will receive a registered number for accountants from the Ministry of Finance
4. He/she must pass the Certified Public Accountant examination (Ujian Sertifikasi Akuntan Publik).

This long process requires not only time but also additional costs. To most university accounting graduates this is seen as a barrier into becoming a Certified Public Accountant. Tompessy (2005) shows that the interest of final year undergraduates to continue their career in a public accounting firm is lower as compared to those who are in school. It appears that the undergraduates have better understanding of the process required for becoming Certified Public Accountants. It takes a long time and incur high costs, when they are in the final years in the university. Year 2009 saw 26 new Public Accountants while 24 more people emerges to became Public Accountants in 2010. The number of new Public Accountants were lesser when compared to the number of graduates from Professional Accountant Education Institutes all over Indonesia, that is only 0.005%. The percentage becomes even more insignificant when compared to the number of university graduates from the last ten years. The decline in Public Accountant popularity occurs in developed countries as well. Take Australia as an example; the local CPA launched an advertising campaign since 2003 to promote the Public Accountant field. The campaign emphasized "the diversity of its membership, inspirational role models and the opportunities and excitement that accounting offers as a career." (Anonymous, 2008). 75% of the Public Accountant population in the United States will soon retire, as mentioned by Murphy (2006), CPA, Chairman of AICPA and a partner in Plante & Moran Public Accounting Firm. Recruiting new CPA’s has never been an easy task.
Most CPA's remain in public accounting firms for as long as five to seven years only (Baldiga, 2005; Bufe & Murphy, 2004; Murphy, 2006). When compared to the other countries, the number of public accountants in Indonesia is relatively small (Sarwajuno, 2013).

Accounting profession witnesses more than a century of standards setting in developed countries (Flesher et al., 1996). Nonetheless, in the developing countries, accounting profession and standard setting has been basically developed in the line of primary mentor, colonial or influential developed country such as Indonesia, Malaysia, Thailand and China. The Indonesian accounting profession was formed in the line of the Netherlands. The Indonesian Institute of Accountants (IAI) which was established in 1959 created the Financial Accounting Standards Committee in 1974 to develop the required accounting standards. In 1994 this committee restructured to Financial Accounting Standards Board (FASB) to be more independent than IAI. In recent years, FASB is working towards international harmonisation in standard setting (Radebaugh, et al, 2006, 87). The Malaysian accounting profession was formed in the line of the UK. Standard setting in Malaysia is in the hands of the Malaysian Accounting Standards Board (MASB). The financial Reporting Foundation monitors standard setting under Financial Reporting Act of 1997, but not involved in the process of standard setting. So far, out of 32 MASB’s Standards, 29 are the same as International Financial Reporting Standards (Radebaugh, et al, 2006, 83). In Thailand, accounting standards must be approved by the Ministry of Commerce. Thai’s accounting standards are issued by the Institute of Certified Accounting and Auditors of Thailand which was established in 1948. This country has adopted 21 of the International Accounting Standards until the end of 2005 (Radebaugh, et al, 2006, 89). China’s accounting systems has been influenced by both Western (UK and USA) and the Soviet Union. As China moves towards market oriented economy, the accounting profession and standard setting changed to meet new economic development requirements. More recently in 1992, the conceptual framework of accounting has issued Basic Accounting Standards for Business Enterprises (Radebaugh, et al, 2006, 86). After the announcement by IFAC in December 2015, the Chinese Auditing Standards Board has decided to adopt the International Standards on Auditing.

2. Literature Review

Job market factors: Dalci, Arasli, Tümer, and Baradarani (2013) examines the influence of various career-choice factors on students’ decisions to choose an accounting major in Iran. The findings indicate that students who wish to select an accounting major attach significantly higher priority to “financial and job-market factors” than those students who would choose a non-accounting major. Additionally, the discriminate analysis reveals that “financial and job-market factors” have the highest discriminatory power. This means that the more Iranian students perceive the “financial and job-market factors” as important, the more likely they would be to major in accounting. This finding could be attributed to the war, high-inflation rates, foreign embargos, and high unemployment rates in Iran because students are likely to strive for financial and job-market issues when looking for a career under such conditions. Anna and Rahayu (2011) showed that the most significant factor affecting the selection accounting department students and professional accounting education (PAE) choose their profession as public accountants and non public accountants are number of job offers and work environment. Significant factors that influence the selection of the public accounting profession and non public accountants when viewed by gender is the type of work and student perceptions about the benefits of the public accountant. The differences become significant factors in influencing selection between accounting department students with PAE students in choosing the profession as a public accountant and public accountant non showed no significant factors that influence the selection of the public accounting profession.

Financial and job-market factors: several prior studies Mauldin, Crain, and Mounce (2000) suggest that “financial and job-market factors” may influence students’ major choice. For instance, Lowe and Simons (1997) findings in the USA reveals that future earnings have the strongest influence on students’ choice of a major in accounting. Additionally, Ahmed et al. (1997) found that New Zealand students place considerable importance on financial factors when choosing an accounting major. Similarly, the findings of Felton et al. (1994) in Canada revealed that accounting students place greater emphasis on job availability and good long-term earnings. A number of research, Chatzoglou et al. (2011), Spector (1997), Spithis (1999), and Dole and Shroeder (2001), indicate staff turnover is caused by low job satisfaction. Chatzoglou et al. (2011) also added that if job satisfaction is met, public accounting firm’s commitment and sustainability will certainly improve. On the contrary, unmet job satisfaction will result in turnovers and absenteeism. Lander, Reinstein and Henson (1993) added two factors that cause unmet job satisfaction: low compensation rates (Gullapalli, 2005) and unmet expectations (Sutton...
and Griffin, 2004). This condition is caused by the disparity between individual expectations and the reality of things (Cluskey Jr. and Vaux, 1997). Adriyanto (2009) mentions that professional mismatches often occur in public accounting firms, particularly for auditors working on taxation.

**Parents influence:** Tan and Laswad (2006) found that parents influence appear to have a stronger influence on students’ intentions to major in accounting. The parents’ perception and the students’ view of becoming professional accountants influence students’ career choice. Myburgh (2005) found that, for first-year accounting students at the University of Pretoria in South Africa, the factors that have the greatest influence on their choice towards becoming a professional accountant is the parental influence. Despite the range of approaches used, there are significant similarities in the career choice variables selected for consideration in accounting career choice studies. In addition, background variables, such as prior work experience and parents’ occupation, have also been included in some of these studies (Leung & Clegg, 2001). As previously noted, general research on career choice has demonstrated that key figures in the lives of young people exert a strong influence on their career aspirations (Levine & Hoffner, 2006; Paa & McWhirter, 2000).

In a US study, Paolillo and Estes (1982) reported that teachers had a greater influence than parents or peers on students’ decisions to pursue a career in accounting. The influence of parents was also much greater for accountants than for three other professional groups. In two US studies, Inman, Wenzler, and Wickert (1989) and Mauldin, Crain, and Mounce (2000) found that parents, followed by teachers, had a strong influence on students’ decisions to major in accounting. In a study set in New Zealand, Tan and Laswad (2006, 2009) reported that students who majors in accounting were more motivated to comply with their parents than non-accounting major students when making career choices. Myburgh (2005) in a study set in South Africa, also found that the advice given by parents, relatives and school teachers influenced Asian, black and white students’ decisions to pursue a career in accounting. Hence, the inconsistencies in the findings regarding key referents maybe due, in part at least, to cultural differences.

In contrast, Gul et al. (1989) found that Australian students were not influenced by their parents, teachers or peers in choosing to study accounting. Bebbingtion, Thomson, and Wall (1997) reported that parents, teachers and peers influence students’ decisions to pursue a career in accounting. The influence of parents was also much greater for accountants than for three other professional groups. Three studies by Strasser, Ozgur, and Schroeder (2002), who reported that parents, peers and advisers had little influence on students’ decision to major in accounting. This finding is consistent with a later study by Law (2010) who reported that parental influence makes significant and independent contributions in predicting the career choice of accounting students. The results also indicate that parental influence has significant influence on the decision whether to select a CPA career. Another study by Allen (2004) also concluded that the important referents such as parents support influence the students’ decisions to major in accounting in the university. However, limited research has been conducted on the parental factors and their influence in the career choice of accounting students. Jackling and Calero (2006) suggest that parental factors influence students’ aspiration to pursue a career in professional accountancy.

**Intention to Professional accountant:** Jackling and Calero (2006), Chatzoglou et al. (2011), Spathis (1999), and Dole and Shroeder (2001) found typical causes that make graduate accountants’ reluctant to become professional accountants. However, these studies were conducted on positivism view, therefore the results only shows the surface and the general problems such as, fresh graduates from the department of accounting are reluctant to become public accountants as they have limited knowledge on what a public accountant really is. This perspective is supported by the empirical results that states the following: a student’s perception towards an accountant’s scope of work, relevant professional knowledge, intrinsic interest towards the discipline, and job satisfaction of their studies, are primary factors that influences their interest (Jackling and Calero 2006). Extensive measures must be taken to encourage students to work in a field relevant to their academic discipline. Perspectives also need to be straightened, and awareness need to be raised so that graduates do not have the wrong perception towards the world of public accounting. Doing so may secure the regeneration rates of public accounting firms.

Sugahara, Hiramatsu and Bolland (2007) state that students do not choose to become public accountants due to this negative perception. In a student’s mind, a public accountant’s work is structured, repetitive, according to the standard operating procedures (SOP), demanding high
precission, rigid, monotonic, boring, and introverse. According to Sakagami, Yoshimi, and Okano (1999) major accounting profession divisions include not only charteredaccountants and chartered certified accountants, but also includes chartered public finance accountants and chartered management accountants. Chartered public finance accountants conduct accounting operations and auditing of corporations in the public sector in the UK and no equivalent professional accounting position exists in Japan. Moreover, it cannot be said that Japanese CPA or certified public tax accountants carryout auditing for corporations in the public sector or provide managementaccounting service. The conceptual framework that will be used in this study is illustrated in Figure 1. The job market factors and parental influencetowards accounting students in becoming a professional accountant.

3. Conclusion

The purpose of this study is to investigate the factors influencing accounting students in becoming professional accountants. The intention is to provide a critical explanation of the specific model of the accounting students' decision in becoming professional accountants. The present evidence also suggests that the key to influence accounting students to become professional accountant have understanding how accounting students have to become professional accountant.

Reference


Using the Social Network for Business Sustainability: Examining Start-up SME Firms in Malaysia

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Abstract: The purpose of this paper is to examine social network among SME firms in Malaysia. Specifically, this paper aims to investigate the usage of social network among Malay ethnic entrepreneurs in the start-up phase of SME firms in manufacturing sectors. Secondly, this paper aims to investigate the relationship between social network and business performance of the start-up manufacturing SME firms in Malaysia. The research data were collected through self-administered and mail questionnaire with a stratified random sample of 83 SME firms around Malaysia. The hierarchical regression was used for hypothesis testing. The result shows that Malay entrepreneurs used extensively business contact in their social network. For the hypothesis testing, the hierarchical regression shows that social network has significantly positive relationship with business performance. This paper contributes to the body of knowledge especially to the social network theme in Malaysia which is considered to be in the infant stage still. The discussions of the results, the contribution to the body of knowledge as well as limitations of the study are also discussed.

Keyword: Social network, Start-up phase, SMEs, Malay entrepreneurs, Malaysia

1. Introduction

Social network is defined as the interrelationship between the entrepreneurs (ego) and their contacts (alter/s) for business development purposes (Formbrun, 1982). The concept of network and its focus lies on the person who has the relationship with ego and thus, social network research utilises the relationship either directly or indirectly between the ego and their alter(s). Alters comprise family members, friends, relatives and business contacts (Birley, 1985; Brown and Butler, 1995; Das and Teng, 1997; Premaratne, 2001). The need for social network was cited by the scholars to secure important resources from the alters especially for the start-up firms (Witt, 2004; Witt, Schroeder and Merz, 2008). Even though the research on social network theme was done extensively, there is a limited understanding on the role of social network especially in the developing country like Malaysia (Minai, Ibrahim and Kheng, 2012; Wahab and Surin, 2013). Majority of the researches were done in the western countries for example in the Scandinavia (eg. Greve, 1995; Nybakk, Lunnan, Jenssen and Crespel, 2013; Nybakk, Vennesland, Hansen and Lunnan, 2008), in the United Kingdom (eg. Cromie and Birley, 1992; Kenny and Fahy, 2011; Ostgaard and Birley, 1996) and in the United State of America (eg. Martinez and Aldrich, 2011; Quan and Motoyama, 2010; Zimmerman, Barsky and Brouthers, 2009). Thus, this paper was carried out to examine social network among manufacturing SMEs in Malaysia during their start-up phase. Specifically, this study attempts to examine; (1) the usage of social network of Malay manufacturing SME firms, (2) the relationship between social network and business performance of Malay manufacturing SME firms. Malay entrepreneurs are included in the analysis as this ethnic constitutes as one of the major ethnic players in the entrepreneurship field in Malaysia. The remainder of this paper is organised as follows. We introduce social network theory and the development of the hypothesis in Section 2. The research methodology comprises of sample and data collection method as well as operationalisation of variables used in this study is presented in Section 3. In Section 4, we present the research findings including descriptive analyses, reliability test, mean, standard deviation and correlation and also the hypothesis testing. In the discussion section (Section 5), we present the adoption of the alters in the entrepreneurs’ social network and discuss how finding reflects on prior investigation. We also put forward the contributions and limitations of the study in Section 6.

2. Literature Review

Social Network Theory: The social network theory was popularised in the middle of the 1980s by Birley (1985) and sought to explain the capability of the network to help the entrepreneur access resources. A social network is made up of persons to whom the individual primarily relates to on a social level. This
network functions largely on trust (Porras, Clegg and Crawford, 2004). Firms' survival in the business is dependent on the resources obtained by the entrepreneurs. The core argument of this theory is entrepreneurs will fulfill their firm’s demands through alters due to the lack of certain resources. Due to the resource constraint, the entrepreneurs have searching for the alters to obtain an assistance through social network (Starr and MacMillan, 1990). The resources mentioned could take the form of information, motivational resources and material resources (Jessen and Koenig, 2002). Social network adopted the structuralist perspective when operationalising and measuring network and try to connect the theme with organisational outcomes (Borgatti and Foster, 2003; Hoang and Antonic, 2003). Structuralist perspectives explain the configuration of network ties of the social network. The network is structured within which the entrepreneurs and the alters interact. It also provides an understanding of the role of network structures in influencing entrepreneurial outcomes. The perspectives included in this study are network density and network centrality.

Network density can be defined as alters that are connected and know each other in the network of the ego (Hansen, 1995). The density of a network forms part of the network characteristic and also identifies the number of ties that link the ego to the alters (Rowley, 1997; Frazier, 2000). Ibarra (1995) introduced the term homophily in social network that refers to the tendency of individuals to bond with others who are similar. For example, Ibarra found that a group of people bonded as they shared a similarity in terms of sex. Some of the barriers faced in a dense network are communication problems where different languages are spoken, a lack of familiarity between the alters and the uncertain purpose of participating in the group. People who share a common understanding maybe included in the dense network. From the ego’s perspective, a dense network that functions on trust will enable them to acquire resources easily. Previous studies discovered the network density positively affects firm’s business performance (Liedka, 1991). Reese (1992) also concluded that network density may contribute to the business performance.

On the other hand, network centrality refers to the position of the ego in the group from which the flow of information is spread (Frazier, 2000). In business, an ego that is central to communication will have early access to information and thus control the spread of information to the alters. Centrality is key to controlling the flow of information from multiple sources (Rowley, 1997) and also essential in controlling the distribution of resources (Boje and Whetten, 1981). However, in large network, not all information will be transferred evenly to the alters. Therefore, it is necessary to place oneself centrally in the network in order to access information and control the transfer of information. Individuals can still be associated with others even though they are not in the same area or field (Perry-Smith, 2006). Centrality is beneficial to motivate the individual’s innovation effort (Ibarra, 1993), allow learning and knowledge transfer (Cantner and Joel, 2011), business unit’s innovation enhancement (Tsai, 2001) and also beneficial to the ego as they are able to influence resource transactions among the social network members (Perry-Smith, 2006). In this paper, we propose positive relationship between social network and business performance as suggested by social network theory (Hoang and Antonic, 2003). The positive relationship was developed to indicate the direction for the hypothesis testing. It had been adopted by prior researchers (Brown and Butler, 1995; Bruderl and Preisendorfer, 1998; Greve, 1995; Quan and Motoyama, 2010). Therefore, the hypothesis is;

H1: There is a positive and significant relationship between social network and business performance

3. Methodology

Sample and data collection method: Our unit of analysis is organisation, therefore the data were collected from the SMEs owner-managers. In Malaysia, the entrepreneur can be viewed simply as an owner-manager because both these roles are significant to the business (Ndubisi and Kahraman, 2005). A total of 306 firms were selected by using stratified random sampling (the firms were categorised according to their geographical zones; North, South, East, Central and West). The listing was obtained from Companies Commission of Malaysia (SSM) based on the criteria of being a manufacturing SME; which have either of the following; (1) more than 5 and fewer than 150 full-time employees and (2) an annual sales turnover between RM250,000 and less than RM25 million. Additional criteria were also used in sample selection; (1) the full name of the owner has been stated in the directory, (2) the firm must have been operating not more than three years, and (3) the firm is not a franchise-based. This is due to the lack of control over their business and tailored to the requirement of their parent company. This study utilised mailed questionnaire and self-administered questionnaire to obtain data from the sample firms in Malaysia. Questionnaire is found to be predominant research method used in social network-based research (Greve, 1995; Greve and Salaff, 2003; Marsden, 1990). 83 completed questionnaires were
received, yielding a response rate of 8.3 percent (1000 questionnaires sent). Another 5 responses were considered inappropriate as they did not meet the SMEs criteria and provided incomplete information for the name generator. The questionnaires sent out especially to food and beverage entrepreneurs were attached with official receipts and packaging of the entrepreneurs’ brands to demonstrate researcher support. The initiative was conducted in order to increase the response rate.

Operationalisation of Variables: In order to determine social network, the entrepreneurs were asked to list down five names of alters they had been in contact with over the last month. In general, respondents are usually required to name five important alters that they interact with whilst running the business (Greve, 1995; Hansen, 1995; Marsden, 1990). Based on the name listed by entrepreneurs, they are then asked to rate how familiar each alter is with other members in the network (network density). The respondents were then asked to rate the items using a 5 points Likert scale where 1 point meant that they strongly disagreed whilst 5 points signified that they strongly agreed. These answers would thus uncover strong links where alters knew each other well and weak links where alters were mere acquaintances. For another measure, network centrality was measured by using six items using a 5 points Likert scale. 1 point meant that they strongly disagreed whilst 5 points signified that they strongly agreed. For the performance measure, the modified non-financial business performance items were adopted from Lee and Lee (2007) and Lee, Lee and Wu (2010). The items were rated using the 5 points Likert scale. In this scale, 5 points signify strong agreement whilst 1 point shows that the entrepreneurs strongly disagreed. This study employed non-financial measure to analyse business performance. Procuring financial data directly from the SME entrepreneurs may lead to false information due to the sensitive nature of the data (Mahmood and Hanafi, 2013; Wahab, 1996). Therefore, utilising subjective measures are acceptable when the nature of the data is sensitive which may lead to inaccurate reporting by entrepreneurs (Ahmad, 2007). Lastly, we controlled the potential bias towards business performance. The control variables include firm size, firm age and parental business history.

4. Findings

Descriptive Statistics: The findings showed that the majority of the respondents were male accounting for 51.8 percent of the sample, whereas females accounted for 48.2 percent of respondents. The age of the respondents showed that most of them were 46 years old and above (39.8%). Only 7.2 percent 26 to 30 years of age, meanwhile no respondent comes from 25 years and below. In terms of educational level, the majority of the respondents obtained the SPM (31.3%). This is followed by diploma holders (25.3%), undergraduate degree (22.9%), STPM (4.8%), master’s degree (3.6%), and Ph.D (1.2%). Approximately 7 percent of respondents reported no formal educational. The majority of respondents (37.3%) possessed 11 to 15 years of work experience. This is followed by 31.1 percent of respondents who had 16 to 20 years of work experience and 26.5 percent with 5 to 10 years of work experience. A small number of respondents represented the maximum years of work experience with 4.8 percent having more than 20 years of working experience. No respondents indicated less than 5 years of working experience. In terms of firm’s profile, the majority of businesses (54) came from the food and beverage sector, wood-based product (11), textiles, apparel and leather (5), electric and electronics (3), plastic-based products (2) and rubber-based products (1) and approximately 7 of the respondents indicated their firms were in other sectors, representing a combination of businesses in wood, iron and metal-based sectors. As regards business types, sole-proprietorship firms accounted for 48.2 percent of enterprises, and 27.7 of enterprises reported sole-proprietorship while another 24.1 percent of enterprises were private-limited firms. In terms of firm’s location, most of the firms operated in Western region (29), followed by Southern region (26), Northern region (15), Central region (11) and Eastern region (2). Through the name generator method, majority of the respondents indicates that business contacts are the main player in their social network which constitutes 156 persons. This is followed by family members (135) and friends (89). Only a small number of relatives (35) were included in the entrepreneurs’ social network.

Reliability Test: For this study, the reliability test was conducted on each variable to ensure their reliability and internal consistency. The Cronbach’s alpha value were considered good since all the reliability values were above 0.70, which concur with Nunnally’s (1978) minimum threshold of 0.70. The results of reliability test are presented in Table 1.
Table 1: Cronbach alpha values for variables

<table>
<thead>
<tr>
<th>Study variables</th>
<th>Items</th>
<th>Cronbach alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social network</td>
<td>- Network density</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>- Network centrality</td>
<td>6</td>
</tr>
<tr>
<td>2. Business performance</td>
<td></td>
<td>6</td>
</tr>
</tbody>
</table>

**Mean, Standard Deviation and Correlation:** Table 2 illustrates mean, standard deviation and correlations of the studied variables. The results revealed that the correlation between social network and business performance was significant (r = 0.283, p < 0.01).

Table 2: Means, standard deviations and correlations for the variables

<table>
<thead>
<tr>
<th>Study variables</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Social network</td>
<td>3.84</td>
<td>0.5</td>
<td>0.283**</td>
</tr>
<tr>
<td>2. Business performance</td>
<td>3.78</td>
<td>0.48</td>
<td>.283**</td>
</tr>
</tbody>
</table>

* p< 0.05
** p< 0.01

**Hypothesis Testing:** Table 3 summarises the result of the hierarchical regression analysis. In the first step, the model shows the $R^2 = .047$, $R^2$ change = .047, F value = 4.029 and a significant F change of .048 which indicated that the model is significant. For the second step, the model was improved with $R^2 = .111$, $R^2$ change = .064, F value = 5.005 and a significant F change = .019 which means that the model is also significant. Control variables were examined and parental history was included in the model as it achieved a valid significance level in both the first ($\beta = -.218$, p < .05) and second step ($\beta = -.178$, p < .01). However, the finding is inversely associated with business performance and against the view of previous research (Che Rose, Kumar and Yen, 2006). Meanwhile, the regression analysis revealed that social network was positively and significantly related with business performance ($\beta = .256$, p < 0.05). Therefore, hypotheses 1 was supported.

Table 3: Hierarchical regression analysis

<table>
<thead>
<tr>
<th>Study variables</th>
<th>Standardised Beta</th>
<th>Standardised Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>First step</td>
<td>Second step</td>
</tr>
<tr>
<td>Control variable</td>
<td>Parental history</td>
<td>-.218*</td>
</tr>
<tr>
<td>Independent variable</td>
<td>Social network</td>
<td>.256*</td>
</tr>
<tr>
<td>R</td>
<td>.218</td>
<td>.333</td>
</tr>
<tr>
<td>R2</td>
<td>.047</td>
<td>.111</td>
</tr>
<tr>
<td>R2 change</td>
<td>.047</td>
<td>.064</td>
</tr>
<tr>
<td>F value</td>
<td>4.029</td>
<td>5.005</td>
</tr>
<tr>
<td>Significant F change</td>
<td>.048</td>
<td>.019</td>
</tr>
</tbody>
</table>

**Discussion:** The challenges facing by SME firms have led to a growing interest by scholars in entrepreneurship field including social network theme. Despite of the importance of social network, however there are limited studies done on social network especially for Malaysian SMEs scenario. Social network is important to SME firms as an important part of the firms’ effectiveness and broadly accepted as a tool for securing resources from alters (Laere and Heene, 2003; Sengupta, 2011). This study revealed that business contact constitutes a big number in the Malay respondents’ social network through name generator technique. This is followed by family members, friends and the least number is relatives. Previous literatures have widely discussed the important roles of business contact in enhancing entrepreneurs' business performance. For example, supplier plays a crucial role in supplying market and competitor information to the entrepreneur (Fortner, 2006; Idris, 2008). Millington, Eberhardt and Wilkinson (2006) also discussed the finding of foreign firms operating in China relied on their suppliers to provide information on the activities of their competitors. The information gleaned from the suppliers would be of purchasing activities of their competitors. If competitors cease to purchase certain items, this would be a reason to follow suit in their own business. The reason for these actions will be sought from
other firms. In Malaysia, Hamed (1995) stated that Malay entrepreneurs depended on the information gleaned from their suppliers.

More than half of the successful manufacturing firms in Malaysia built social network consisting of family members and embraced the moral support, information and benefits gained (Osman and Hashim, 2003; Sulaiman and Mohd Saukani, 2007). This is supported by Birley (1985) whose study identified family members as an important player in the social network. Family members play an integral role in the success of entrepreneurs as these relationships are often close knit (Bratkovic and Antonic, 2009). For the involvement of friends in the social network, the present study found that friends were at the third place. Ahmad (2005) found that some owner-managers in Malaysia depend heavily on friends for morale support and advice. Hamed (1995) also discovered that friends also provide funding to the entrepreneurs. Even though there is a lack of in-depth discussion of the roles of relatives in the social network, some studies have found that relatives provide great support to entrepreneurs (Bogren, Friedrichs, Rennemo and Widding, 2011; Copp and Ivy, 2001). Relatives comprise of a wider family network and also include the family of the spouses (HAMED, 1995). In this study, there is relatively small attention given to incorporate relatives in the social network. However, previous scholar for example Wahab (1996) discovered that the financial advisors of small business entrepreneurs in Malaysia comprised of relatives. Ahmad (2005) found that entrepreneurs in the tourism industry included relatives in their social network while Ibrahim (1998) also revealed that small-sized firms relied greatly on their relatives for financing since formal financing was often inaccessible. Among the reasons for sourcing financial aid from these informal channels are the ease of access, the urgency of financial need, the lack of formal procedures in obtaining funds and the flexibility in loan repayment.

Indeed, relying on social network alters are crucial to the SME entrepreneurs to gain important resources. Even though the government through their agencies provides the financial assistance for the SMEs’ development, however, not all applicants are successful in securing the assistance. Omar (2006) brought forth the issue of the applicants’ personalities in the selection process that could lead to bias especially for entrepreneurs who are not well or fully established. Abu Bakar (2008) reported that accessibility to financial aid is still very limited despite the government’s efforts to promote the various aids programs. The author noted that graft and bureaucracy problems are among the significant factors that prevent certain entrepreneurs from getting assistance. This view is supported by Mohamed (2001) who noted that bureaucracy, slow decision making and grafting are synonymous with government agencies. Mohd. Jan, Wahab, Salleh, Abdul Kadir and Osman (2010) also found that bureaucracy is one of the factors that contributed to the failure of SMEs in Malaysia. In addition, Wahab (1996) also provided evidence that unreasonable levels of collateral and higher interest rates are among the barriers faced by small firms trying to gain access to financing. Another studies found that the collateral is taken into consideration by the financial institution prior to approving a loan to entrepreneurs (Mohd Harif, Hoe and Md. Zali, 2011; Zairani and Zaimah, 2013).

For the hypothesis testing, the hierarchical regression analysis was conducted to examine the relationship between social network and business performance. The result shows that social network is positively and significantly related to business performance. This finding supports past studies (Kristiensen, 2004; Ostgaard and Birley, 1996; Premaratne, 2001; Surin and Wahab, 2013; Thrikawala, 2011) on the importance of the alters to enhance business performance. Two new findings appear in this study regarding the relationship between social network and business performance that have not discovered in the literature so far. Firstly, the result of this study found that social network affect business performance where the business performance was measured by non-financial indicator. Prior studies tend to use financial data in measuring business performance. However due to constraint in gathering the financial data, the subjective measures were deemed appropriate especially for SMEs in Malaysia (Ahmad, 2007; Mahmood and Hanafi, 2013; Wahab, 1996). Secondly, social network affects business performance for Malay manufacturing start-up firms in Malaysia.

5. Conclusion

This study examined Malay manufacturing start-up firms in Malaysia with emphasis on the social network of these firms. It empirically tested the relationship between social network with business performance while the business performance was measured by using non-financial indicator. Prior researchers have concentrated the social network research in the Western context; given the opportunities to carry out the research for this theme in the developing country like Malaysia. Besides,
this paper also examined the roles of four types of alters in the entrepreneurs' social network; family members, friends, relatives and business contacts using the name generator technique. The result contributes to the growing body of knowledge especially on SME firms use of social network in Malaysia. The finding shows that the social network is positively related to business performance. This study lies on the ties between entrepreneurs and their family members, friends, relatives and business contacts, making it a unique contribution to the literature centered on the social network theme. Previous literature on social network has focused on these ties but mainly in relation to the transferring of resources. Moreover, previous literature has been criticised as it overlooked the role of family members, friends, relatives and business contacts in social network and placed more focus on formal network. Lastly, previous research on SMEs in Malaysia have limited their scope to certain regions only (Muhammad, Ahmad and Shahnon, 2011; Zainol and Wan Daud, 2011). This study, however, includes all the regions in Malaysia and aims to generalise the findings to the whole manufacturing sector population.

It should be noted that this study has several limitations. The sectoral biases that are of concern in this study arise from the investigation concentrating SME manufacturing firms. The current study attempts to examine the social network for the following sectors; (1) textiles, apparels and leather (2) food and beverage (3) wood-based products (4) plastic-based products (5) rubber-based products and (6) electric and electronics. Therefore, the results produced might differ from that of other sectors. This study also focuses on start-up SME firms and as such, the results cannot be generalised to the manufacturing firms that are operating in the later phases. Lastly, the sample chosen is drawn from each region in Peninsular Malaysia and Borneo. To reach out to these respondents that are based over a wide area, a suitable data collection method, i.e. the postal questionnaire was adopted. This method is deemed suitable as opposed to the personal interview which involves higher cost and is time consuming. However, it is impossible to ensure that the selected respondents from each region are represented in the sample. To rectify this problem, the researcher sent reminder letters to the respondents four weeks after the original questionnaire was posted.

References


Weekend Effect of Stock Returns in Indonesia: The Unconditional Method and the Conditional Method

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Abstract: This paper examines the weekend effect on stock market returns by using the unconditional method and the conditional method. This paper uses daily closing prices of firms listed in Indonesian Stock Exchange by using LQ-45 Index from January 2006 to December 2013 in three subperiods: all months, non January months and January month. Independent sample t-test is applied to examine the significance of the weekend effect. Results support the weekend effect in three subperiods by using the unconditional method. But when using the conditional method, the weekend effect only exists in down market for all months period and non January months period. There's no weekend effect in January month period by using the conditional method, both in up and down market. This paper presents new evidences and supplements the finance literature on the weekend effect for the case in Indonesian Stock Exchange, and also help investors to develop a good investment strategy.

Keywords: weekend effect, the unconditional method, the conditional method, return of stock

1. Introduction

Information is one of the key factor for an investor in the capital market. Efficient market is defined as one in which the prices of securities quickly and fully reflect all available information about the assets (Jones, 2004). According to the efficient market, prices of securities are assumed random, not patterned, and unpredictable. Market anomalies are in contrast to what would be expected in a totally efficient market. Numerous empirical studies have indicated persistent and potentially exploitable weekend effect and January effect in stock returns in many countries. The first study of weekend effects in security markets appeared in the Journal of Business in 1931, written by Fields (1931).Fields didn’t use statistical tests, but many researchers interested in the same field of research. French (1980) continued this direction of research and was the first author to employ statistical methods in order to test for the existence of the calendar effects. There’re many other studies about weekend effect anomaly, which referred to the negative Monday returns and the positive Friday returns (Lin and Chen, 2008; Cinko and Afci, 2009; and Kamath and Liu, 2011). However, various studies on market anomalies not occurred only on Monday and Friday, but also occurred on other days. There’re negative returns on Tuesday (Raj and Kumari, 2006). Elango and Al (2008) found the lowest returns were on Monday and Friday, whereas the highest returns were on Wednesday. Tachiwou (2010) found the lowest returns were on the middle of the week, Tuesday and Wednesday, and a higher pattern towards the end of the week, Thursday and then Friday. Derbaliand Khadraoui (2011) found negative returns on Wednesday and positive returns on Friday. Darrat, Li, and Chung (2013) found Monday Effect and Tuesday Effect, whereby the returns on Monday and Tuesday were significantly lower than the return on the benchmark day of Wednesday.

Market anomaly also appears on January month, it’s called January effect. Wachtel (1942) was the first to examine January effect. Since this discovery, many studies that examined this market anomaly. Other researchers that supported the existence of January effect were Kato and Chailhei (1985); Choudhry (2001); Al-Rjouband Alwaked (2010); and Guler (2013). Market anomalies also appear on other months. Ahsanand Sarkar (2013) found June Effect in Bangladesh, whereby there were significant positive returns on June. However, in contrast to the findings from Nageswari, Selvam, Vanithaand Babu (2013), they found the highest returns were on December and the lowest returns were on January. Ogieva, Osamwonyiand Idolor (2013) found negative returns were on February, March, April, May and December. Whereas positive returns were on January, August, September, October and November. Stock prices in the stock market will always fluctuate. Fluctuations in market can occur whether in up or down market. For a rational investor, that fluctuations must be faced with a good investment strategy to obtain the optimal returns at a certain level of risk that is able to be carried. This study will also test the weekend effect without differentiated market (the unconditional method) and differentiated market (the conditional method). So far, no studies have examined more comprehensively about the capital market anomalies, namely weekend effect, with three subperiods for the test: all months, non January months and January...
month, using the unconditional method and the conditional method in companies listed in the LQ-45 Index in Indonesian Stock Exchange.

2. Literature Review

Weekend effect is used to describe the phenomenon in financial markets in which stock returns on Monday are often significantly lower than those of the immediately preceding Friday (Singhal and Bahure, 2009). Weekend effect anomaly is contrary to the theory of market efficiency. This anomaly is appealing to be examined because the presence of weekend effect can be useful as a trading strategy that can gain profits for investors. Investors could buy stocks on days with abnormally low returns and sell stocks on days with abnormally high returns (Tachiwou, 2010). Fields (1931) examined the pattern of the Dow Jones Industrial Average (DJIA) for the period 1915-1930. He examined the closing price of the DJIA for Saturday with the mean of the closing prices on Friday and Monday. For the 717 weekends he studied, the Saturday prices were more than $10 higher than the Friday-Monday mean. French (1980) continued this direction of research and was the first author to employ statistical methods in order to test for the existence of the calendar effects. He used the S&P 500 index to study daily returns and obtained similar results. He studied the period 1953-1977 and found that the mean Monday returns were negative for the full period and also for every five-year sub-period. The mean returns were positive for all other days of the week, with Wednesdays and Fridays having the highest returns. Lin and Chen (2008) found the weekend effect in the Taiwan mutual fund market in period January 1986 to June 2006. The results revealed significantly negative Monday returns and positive Friday returns. This weekend effect did not vary greatly between the early and later periods of the month. Cinko and Afci (2009) used the data in Istanbul Stock Exchange from ISE-100 Index. The data set was composed of daily returns for 324 stocks listed in ISE and market capitalization-based portfolio returns during 1995-2008. By the use of regression model, they found significant negative Monday returns and significant positive Thursday and Friday returns. Kamath and Liu (2011) examined the daily return data on the market index, IPSA, of the Santiago Stock Exchange of Chile. By using the regression model, in the first sub-period (January, 2003-October, 2005), there was the traditional Monday-Friday pattern, in the second sub-period (November 2005–August 2008), the anomaly effect was attributable to the significantly positive Wednesday returns.

However, various studies on market anomalies were occurred on other days. Raj and Kumari (2006) investigated the presence of seasonal effects in the Indian stock market by the two major indices, the Bombay Stock Exchange Index and the National Stock Exchange Index. By using the multiple regression model, the results found returns on Monday were positive, returns on Wednesday were negative and January effect was not found in India. Elango and Al (2008) used the real-time data of the National Stock Exchange of India (NSE) for 1999-2007 period of three of the major indices, S&P CNX Nifty, S&P CNX Defty, and CNX Nifty Junior. Results indicated lower returns on Monday and Friday. Surprisingly, Wednesdays have yielded the maximum returns across indices. Tachiwou (2010) investigated daily stock market anomalies by using daily opening and closing values for the two stock Index of West African regional markets from September 1998 to December 2007. The two indexes were Brvm-10 index and Brvm-composite index. A pattern of lower returns around the middle of the week, Tuesday and then Wednesday; and a higher pattern towards the end of the week, Thursday and then Friday, were observed. Derbali and Khadraoui (2011) used the data of Morocco Exchange Market for 74 companies. The results showed that Friday was a statistically significant positive return on assets. While that on Wednesday was a statistically significant negative return on assets. Darrat, Li and Chung (2013) examined seasonal anomalies in Johannesburg daily stock returns from January 1973 to September 2012. They found no compelling evidence for either a January or December effect in the South African market. Returns on Monday and Tuesday were significantly lower than their returns on the benchmark day of Wednesday. Nevertheless, these strong seasonal effects disappeared in the post-2008 period following the global financial crisis.

Market anomalies also occur in January month, whereby stock prices tend to fall towards the end of December and then recuperate quickly in the first month of the New Year, January (Ahsan and Sarkar, 2013). Wachtel (1942) was the first to examine January effect in the Dow Jones Industrial Average (DJIA) Index from 1927 to 1942. He found that the returns in January were higher than other months. Since this discovery, many studies that examined this market anomaly. Researchers who supported the existence of January effect were Kato and Schallheim (1985). Kato dan Schallheim (1985) used the data for the twenty-nine year period of 1952 to 1980 in the Japanese stock market in two market indices, Value Weighted Index (VWI) and Equally Weighted Index (EWI). This study examined stock returns on the TSE for the
presence of January and size effects. Both of these anomalous effects appeared in the Japanese data. Choudhry (2001) investigated seasonal anomalies in the mean stock returns of Germany, the UK, and the US during pre-World War I period using the data from January 1870 to December 1913 in Germany and the UK and from January 1871 to December 1913 for the US. The empirical research was conducted using a non linear GARCH-t model. Results obtained provide evidence of the January effect and the month of the year effect on the UK and US returns. There was month of the year anomaly, but there was no January effect in German returns. Al-Rjouband Alwaked (2010) used the data from the Dow Jones industrial average (DJIA), the Standard and Poors 500 (S&P 500) and the National Association of Securities Dealers Automated Quotations (NASDAQ) indices. By using Ordinary Least Square regression, this paper found that the average January returns were consistently negative during crises. They also found that average loss in returns of January during crises were much smaller than average loss in returns during other months of the crises. Guler (2013) found January effect in China, Argentina and Turkey returns. However no evidence of a January effect was found at Brazil and India stock markets.

Market anomalies also occur in other months. Ahsanand Sarkar (2013) examined the existence of January effect in Dhaka Stock Exchange (DSE) in Bangladesh. Regression model combined with dummy variables and monthly DSE All Share Price Index (DSI) from January 1987 to November 2012 has been used to test January effect in the stock return in DSE. It was empirically found that, although January anomaly didn’t exist in DSE, there was significant positive return in June. Nageswari, Selvam, Vanithaand Babu (2013) found that the highest mean return was earned in December and the lowest/ negative mean return earned in January Month for S&P CNX Nifty index. The S&P CNX 500 Index recorded the highest mean return in the month of March and the highest negative mean returns in the month of January. The analytical results of seasonality indicated the absence of January anomaly during the study period. Ogieva, Osamwonyiand Idolor (2013) examined the calendar effect in the Nigerian Stock Market from 19 April 2005 to 30 September 2010. Using the multiple ordinary least square regression, they found negative returns on Monday, Thursday and Friday. They also found positive returns on Tuesday and Wednesday. Returns in February, March, April, May and December were negative significant. Wheras the positive returns appeared in January, August, September, October and November. In the case of June and July there were mixed signs.

3. Methodology

This paper uses weekly data, every Monday and Friday in period 2006-2013 and it is divided into 3 subperiods: all months, non January months and January month. By using purposive sampling, this paper has 12 firms that continued listing in LQ-45 Index in Indonesian Stock Exchange. Dependent variable in this paper is return of stock, calculated as:

$$R_{(t)} = \frac{P_{(t)} - P_{(t-1)}}{P_{(t-1)}}$$

Where $R_{(t)}$ is return on stock i at time t; $P_{(t)}$ is price on stock i at time t; $P_{(t-1)}$ is price on stock i at time t-1.

Independent variables in this paper are weekend effect. Weekend effect refers to the abnormally high returns to common stocks on Friday and negative returns on Monday. This paper uses the unconditional method and the conditional method (Pettengill, SundaramdanMathur, 1995). The unconditional method is a method without dividing the market conditions, wheras the conditional method is a method with dividing the market conditions, up and down market. Up market is whenthere is a positive risk premium($Rm - Rf > 0$) dan down market is when there is a negativerisk premium($Rm - Rf < 0$). Where $Rm$ refers to return of market and $Rf$ refers to return of risk free rate. The hypotheses in this paper are:

$Ho$: The average return on Monday is the same to the average return on Friday.

$Ha$: The average return on Monday is different to the average return on Friday.

Before testing the significance of differences between return on Monday and return on Friday, first it can be found if there is weekend effect in each of the subperiods, where the mean return on Monday is lower than the mean return on Friday. Next, the significance of differences should be investigated. In testing the hypothesis, this study will use the independent sample t-test. If the probability of significance ≤ 0.05, $Ho$ is rejected, that means the average return on Monday is different to the average return on Friday. If the probability of significance > 0.05, $Ho$ is accepted, that means the average return on Monday is the same to the average return on Friday.
4. Results and Discussions

(1) All months period by using the unconditional method

<table>
<thead>
<tr>
<th>Table 1: Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Day</strong></td>
</tr>
<tr>
<td>Monday</td>
</tr>
<tr>
<td>Friday</td>
</tr>
</tbody>
</table>

Table 1 shows that the average return on Monday is -0.0015, lower than the average return on Friday, 0.0011.

<table>
<thead>
<tr>
<th>Table 2: Independent Samples Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Levene's Test</strong></td>
</tr>
<tr>
<td><strong>F</strong></td>
</tr>
<tr>
<td>Return</td>
</tr>
<tr>
<td>Return</td>
</tr>
</tbody>
</table>

The probability of significance in Levene's test for equality of variances is 0.000 ≤ 0.05, that means the variance is different. Thus the t-test analysis is using equal variances not assumed. The probability of significance in equal variances not assumed is 0.001 (two tailed). So it can be concluded that there is weekend effect, whereas the average return on Monday is lower than the average return on Friday, and the average difference on Monday and Friday is significant different (the probability of significance 0.001 ≤ 0.05).

(2) All months period by using the conditional method (up market):

<table>
<thead>
<tr>
<th>Table 3: Group Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Day</strong></td>
</tr>
<tr>
<td>MondayUp</td>
</tr>
<tr>
<td>FridayUp</td>
</tr>
</tbody>
</table>

Table 3 shows that the average return on Monday is 0.0137, higher than the average return on Friday, 0.0104.

<table>
<thead>
<tr>
<th>Table 4: Independent Samples Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Levene's Test</strong></td>
</tr>
<tr>
<td><strong>F</strong></td>
</tr>
<tr>
<td>Return</td>
</tr>
<tr>
<td>Return</td>
</tr>
</tbody>
</table>

The probability of significance in Levene's test for equality of variances is 0.005 ≤ 0.05, that means the variance is different. Thus the t-test analysis is using equal variances not assumed. The probability of significance in equal variances not assumed is 0.000 (two tailed). So it can be concluded that there is no weekend effect, whereas the average return on Monday is higher than the average return on Friday, even though the average difference on Monday and Friday is significant different (the probability of significance 0.000 ≤ 0.05).

(3) All months period by using the conditional method (down market):
Table 5 shows that the average return on Monday is -0.0149, lower than the average return on Friday, -0.0116, or in other words, the average loss in return of Monday is bigger than Friday.

Table 6: Independent Samples Test

<table>
<thead>
<tr>
<th></th>
<th>Levene’s Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
<th>Sig. (2-Mean Difference Interval of the Difference)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variances</td>
<td>4.540</td>
<td>.033</td>
<td>-3.719</td>
</tr>
<tr>
<td>Equal variances</td>
<td>-3.828</td>
<td>4254.106</td>
<td>.000</td>
</tr>
<tr>
<td>not assumed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The probability of significance in Levene's test for equality of variances is 0.033 ≤0.05, that means the variance is different. Thus the t-test analysis is using equal variances not assumed. The probability of significance in equal variances not assumed is 0.000 (two tailed). So it can be concluded that there is weekend effect, whereas the average return on Monday is lower than the average return on Friday, and the average difference on Monday and Friday is significant different (the probability of significance 0.000 ≤ 0.05).

(4) Non January months period by using the unconditional method:

Table 7: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monday Down</td>
<td>2367</td>
<td>-0.0149</td>
<td>.03281</td>
<td>.00067</td>
</tr>
<tr>
<td>Friday Down</td>
<td>1899</td>
<td>-0.0116</td>
<td>.02507</td>
<td>.00058</td>
</tr>
</tbody>
</table>

Table 7 shows that the average return on Monday is -0.0007, lower than the average return on Friday, 0.0011. The probability of significance in Levene's test for equality of variances is 0.000 ≤0.05, that means the variance is different. Thus the t-test analysis is using equal variances not assumed. The probability of significance in equal variances not assumed is 0.009 (two tailed). So it can be concluded that there is weekend effect, whereas the average return on Monday is lower than the average return on Friday, and the average difference on Monday and Friday is significant different (the probability of significance 0.009 ≤ 0.05).

(5) Non January months by using the conditional method (up market):
Table 9: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MondayNonJanuaryUp</td>
<td>2154</td>
<td>0.0135</td>
<td>0.02819</td>
<td>0.0061</td>
</tr>
<tr>
<td>FridayNonJanuaryUp</td>
<td>2410</td>
<td>0.0103</td>
<td>0.02641</td>
<td>0.0054</td>
</tr>
</tbody>
</table>

Table 9 shows that the average return on Monday is 0.0135, higher than the average return on Friday, 0.0103.

Table 10: Independent Samples Test

<table>
<thead>
<tr>
<th>Levene's Test for Equality of Means</th>
<th>t</th>
<th>df</th>
<th>Sig.</th>
<th>2-Mean Difference</th>
<th>Std. Error</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>for Equality of Variances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower</td>
</tr>
<tr>
<td>Equal variances assumed</td>
<td>3.805</td>
<td>.051</td>
<td>4562</td>
<td>.000</td>
<td>.00081</td>
<td>.00162</td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>3.945</td>
<td>4423.468</td>
<td>.000</td>
<td>.00081</td>
<td>.00161</td>
<td>.00479</td>
</tr>
</tbody>
</table>

The probability of significance in Levene's test for equality of variances is 0.051 < 0.05, that means the variance is the same. Thus the t-test analysis should use equal variances assumed. The probability of significance in equal variances assumed is 0.000 (two tailed). So it can be concluded that there is no weekend effect, whereas the average return on Monday is higher than the average return on Friday, even though the average difference on Monday and Friday is significant different (the probability of significance 0.000 ≤ 0.05).

(6) Non January months period by using the conditional method (down market):

Table 11: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MondayNonJanuaryDown</td>
<td>2129</td>
<td>-0.0147</td>
<td>.03211</td>
<td>.00070</td>
</tr>
<tr>
<td>FridayNonJanuaryDown</td>
<td>1730</td>
<td>-0.0116</td>
<td>.02497</td>
<td>.00060</td>
</tr>
</tbody>
</table>

Table 11 shows that the average return on Monday is -0.0147, lower than the average return on Friday, -0.0116, or in other words, average loss in returns of Monday is bigger than Friday.

Table 12: Independent Samples Test

<table>
<thead>
<tr>
<th>Levene's Test for Equality of Means</th>
<th>t</th>
<th>df</th>
<th>Sig.</th>
<th>2-Mean Difference</th>
<th>Std. Error</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>for Equality of Variances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower</td>
</tr>
<tr>
<td>Equal variances assumed</td>
<td>3.840</td>
<td>.050</td>
<td>3857</td>
<td>.001</td>
<td>.00094</td>
<td>-.00499</td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>-3.413</td>
<td>3849.810</td>
<td>.001</td>
<td>-.00314</td>
<td>-.00494</td>
<td>-.00133</td>
</tr>
</tbody>
</table>

The probability of significance in Levene's test for equality of variances is 0.050 ≤ 0.05, that means the variance is different. Thus the t-test analysis should use equal variances not assumed. The probability of significance in equal variances not assumed is 0.001 (two tailed). So it can be concluded that there is weekend effect, whereas the average return on Monday is lower than the average return on Friday, and the average difference on Monday and Friday is significant different (the probability of significance 0.001 ≤ 0.05).

(7) January months period by using the unconditional method:
Table 13: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>MondayJanuary</td>
<td>394</td>
<td>-0.0116</td>
<td>.11353</td>
<td>.00572</td>
</tr>
<tr>
<td>FridayJanuary</td>
<td>360</td>
<td>0.0012</td>
<td>.02828</td>
<td>.00149</td>
</tr>
</tbody>
</table>

Table 13 shows that the average return on Monday is -0.0116, lower than the average return on Friday, 0.0012.

Table 14: Independent Samples Test

<table>
<thead>
<tr>
<th>Levene’s Test</th>
<th>F</th>
<th>Sig.</th>
<th>df</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-Mean Difference)</th>
<th>Std. Difference</th>
<th>Error 95% Confidence Interval of the Difference</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levene’s Test</td>
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<tr>
<td>Test for Equality of Means</td>
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<tr>
<td>Confidence Interval of the Difference</td>
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</tr>
<tr>
<td>Equal variances assumed</td>
<td>16.491</td>
<td>.000</td>
<td>752</td>
<td>-2.075</td>
<td>752</td>
<td>.038</td>
<td>-.01277</td>
<td>.00615</td>
<td>-.02484</td>
<td>-.0069</td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>-2.160</td>
<td>.445939</td>
<td>868</td>
<td>.031</td>
<td>.01277</td>
<td>.00591</td>
<td>.02438</td>
<td>-.00115</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The probability of significance in Levene’s test for equality of variances is 0.000 ≤ 0.05, that means the variance is different. Thus the t-test analysis should use equal variances not assumed. The probability of significance in equal variances not assumed is 0.031 (two tailed). So it can be concluded that there is weekend effect although in January month, whereas the average return on Monday is lower than the average return on Friday, and the average difference on Monday and Friday is significant different (the probability of significance 0.031 ≤ 0.05).

(8) January months period by using the conditional method (up market):

Table 15: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MondayJanuaryUp</td>
<td>145</td>
<td>0.0166</td>
<td>.09371</td>
<td>.00778</td>
</tr>
<tr>
<td>FridayJanuaryUp</td>
<td>191</td>
<td>0.0122</td>
<td>.02550</td>
<td>.00184</td>
</tr>
</tbody>
</table>

Table 15 shows that the average return on Monday is 0.0166, higher than the average return on Friday, 0.0122.

Table 16: Independent Samples Test

<table>
<thead>
<tr>
<th>Levene’s Test</th>
<th>F</th>
<th>Sig.</th>
<th>df</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-Mean Difference)</th>
<th>Std. Difference</th>
<th>Error 95% Confidence Interval of the Difference</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levene’s Test</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Test for Equality of Means</td>
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<tr>
<td>F</td>
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<tr>
<td>Sig.</td>
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<tr>
<td>df</td>
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<tr>
<td>Error 95%</td>
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</tr>
<tr>
<td>Confidence Interval of the Difference</td>
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<td>Lower</td>
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<td>Upper</td>
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<tr>
<td>Return</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variances assumed</td>
<td>4.626</td>
<td>.032</td>
<td>334</td>
<td>.539</td>
<td>.00437</td>
<td>.00710</td>
<td>-.00960</td>
<td>.01833</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>.546</td>
<td>160.260</td>
<td>586</td>
<td>.00437</td>
<td>.00800</td>
<td>-.01143</td>
<td>.02016</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The probability of significance in Levene’s test for equality of variances is 0.032 ≤ 0.05, that means the variance is different. Thus the t-test analysis should use equal variances not assumed. The probability of significance in equal variances not assumed is 0.586 (two tailed). So it can be concluded that there is no weekend effect, whereas the average return on Monday is higher than the average return on Friday, and the average difference on Monday and Friday is not significant different (the probability of significance 0.586 > 0.05).

(9) January months period by using the conditional method (down market):
Table 17: Group Statistics

<table>
<thead>
<tr>
<th>Day</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monday</td>
<td>238</td>
<td>-0.017</td>
<td>0.03853</td>
<td>0.00250</td>
</tr>
<tr>
<td>Friday</td>
<td>169</td>
<td>-0.0113</td>
<td>0.02606</td>
<td>0.00200</td>
</tr>
</tbody>
</table>

Table 17 shows that the average return on Monday is -0.0170 lower than the average return on Friday, -0.0113, or in other words, average loss in returns of Monday is bigger than Friday.

Table 18: Independent Samples Test

<table>
<thead>
<tr>
<th>Levene’s Test</th>
<th>t-test for Equality of Means</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>F</td>
<td>Sig.</td>
<td>t</td>
</tr>
<tr>
<td>Return</td>
<td>Equal variances assumed</td>
<td>.380</td>
</tr>
<tr>
<td>Return</td>
<td>Equal variances not assumed</td>
<td>1.784</td>
</tr>
</tbody>
</table>

The probability of significance in Levene’s test for equality of variances is 0.380 > 0.05, that means the variance is the same. Thus the t-test analysis should use equal variances assumed. The probability of significance in equal variances not assumed is 0.095 (two tailed). So it can be concluded that there is no weekend effect, because the average difference on Monday and Friday is not significant different (the probability of significance 0.095 > 0.05).

5. Conclusion and Recommendations

Results support the weekend effect in three subperiods by using the unconditional method. But when using the conditional method, the weekend effect only appears in down market in all months period and non January months period. There's no weekend effect in January month period when using the conditional method, both in up market and down market. This paper presents new evidences and supplements the finance literature on the weekend effect for the case in Indonesian Stock Exchange, and also help investors to develop a good investment strategy. Investors could buy stocks on Monday with abnormally low returns and sell stocks on Friday with abnormally high returns in three subperiods by using the unconditional method. Investors could also buy stocks on Monday, because the prices on Monday are lower than the prices on Friday in all months period and non January months period by using the conditional method in down market, and then sell stocks on Friday in three subperiods by using the unconditional method.

References


World Oil Price Movement And Stock Return on Some Capital Markets in Southeast Asia

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Financial Management Diponegoro University, Indonesia
gondoarum65@gmail.com

Abstract: The existence of inconsistent research results on the effect of changes in world oil prices on the capital market return also shows the need for a study on the effect of oil price changes on the stock market return. Therefore, this study examines the effect of the change on world oil prices on the stock market return located in Southeast Asia such as the Indonesia Stock Exchange, Kuala Lumpur Stock Exchange, Singapore Stock Exchange, Philippines Stock Exchange and the Stock Exchange of Thailand. The data used in this study is a composite price index data on the capital market being observed, and West Texas Intermediate (WTI) crude oil prices in the period of January 2003 to December 2013. Data are analyzed using Generalized Autoregressive Conditional Heteroscedasticity / GARCH (1,1). The results of this study show that changes of the world oil prices only have a significant impact on the Malaysian capital market, represented by the Kuala Lumpur Composite Index (KLCI), and the Thai capital market, represented by the SET Index.

Keywords: West Texas Intermediate (WTI), GARCH, Capital Markets in ASEAN Region

1. Introduction

Investment activities are capital investing activities either directly or indirectly, in the hope in due course the owners of capital (or investors) will get some benefit from the results of their investment. Investment at the present time is not only dominated by investments in financial markets alone, but has penetrated to the commodity markets. Today's commodity markets are evolving and price movements in these commodity markets are also capable of affecting the movement of stock prices in the stock markets. The existence of the investments made by the investors in different varieties of asset classes also create a link between commodity markets and capital markets (Morales, 2009). One of the main commodities that affect the movement of stock prices in the stock market in general, and in the portfolio management in particular is oil. Fischel (1989) suggests that the risk due to changes in oil prices is essential for portfolio management. It is based on the idea that oil is one of the main energy source used by the industry. Even oil is also a strategic commodity for the global economy (Hussin, Muhammad, Awang, Marwan, & Razak, 2013; Hussin, Muhammad, Razak, Tha, & Marwan, 2013; Le & Chang, 2011) and the price of energy in the form of oil can affect the world economy (Papież & Śmiech, 2012). However, the results of research on the effects of oil on the capital markets in general, and the stock markets in particular are still quite varied, for example research conducted by Le and Chang (2011) finding that changes in world oil prices do not affect the stock market in Japan. This finding is supporting research conducted by Papież and Śmiech (2012) which concludes that there is no effect of changes in world oil prices to the S & P500 index. The same result is found by Basit (2013) who finds that there is no relationship between the oil and the stock market in Pakistan.

Meanwhile, the research conducted by Abdelaziz, Chortareas, and Cipollini (2008); Hussin, Muhammad, Awang, et al. (2013); Hussin, Muhammad, Razak, et al. (2013); Jubinski and Lipton (2013); Patel (2012) finds the opposite results. Abdelaziz et al. (2008) finds that there is a relationship between the oil and the stock market in Egypt, Oman, Saudi Arabia and Kuwait. Patel (2012) also finds that his research results are consistent with this finding by using the Indian capital market as an object of the study. In the research carried out by using the S & P500 index, Jubinski and Lipton (2013) also find that changes in world oil prices have a significant impact on the stock market return as represented by the S & P500 index. The research results of Hussin, Muhammad, Awang, et al. (2013); Hussin, Muhammad, Razak, et al. (2013) confirm this by concluding that the world oil price changes affect the short-term and long-term against the FTSE Bursa Malaysia Emas Shariah Index (FBMES). The existence of inconsistent research results on the effect of changes in world oil prices on the capital market return also shows the need for a study on the effect of oil price changes on the stock market return. Therefore, this study examines the effect of the change on world oil prices on the stock market return located in Southeast Asia such as the Indonesia Stock Exchange, Kuala Lumpur Stock Exchange, Singapore Stock Exchange, Philippines Stock Exchange and the Stock Exchange of Thailand.
2. Literature Review

Malkiel (2011) argues that there are two world oil prices which are used internationally. They are the price of West Texas Intermediate and Brent North Sea (Brent North Sea / Europe Brent). The West Texas Intermediate is the benchmark oil price in the United States, while the Brent North Sea is a benchmark price in Europe. In practice, the price of West Texas Intermediate often become the main reference in international oil prices. After the oil price shocks in the 1970s, much research was done to assess the effect of oil price changes on real economic variables. Most of these studies find that shocks to oil prices will affect the economic activities of developed and developing countries (Fischel, 1989). The studies then bloom again after the oil price increases very dramatically in the years leading up to the 2008 global financial crisis due to the high demand for oil from Asia and the geopolitical risks occurring in the Middle East (Masih, Peters, & Mello, 2010). The impact of rising oil prices is relatively varied on the economy in general and on the capital markets in particular. In the economy of oil-exporting countries, the increase in oil prices has a positive impact, but for the importing countries and consumers of oil, the effect of the oil price increase is negative. Meanwhile, the empirical studies conducted to assess the effect of changes in world oil prices in the capital market have been done by many researchers. The research conducted by Le and Chang (2011) concludes that the world oil price changes do not affect the stock market in Japan. The research conducted by Papież and Śmiech (2012) also finds the same thing. In their research, Papież and Śmiech (2012) state that there is no effect of oil price changes to the S & P500 index. Similar findings are obtained by Basit (2013) who studies the effect of the change of the world oil prices on the stock market in Pakistan.

At the same time, there are many studies which find that there are influences and/or significant relationships between the world oil price changes and the stock market. The research conducted by Abdelaziz et al. (2008); Hussin, Muhammad, Awang, et al. (2013); Hussin, Muhammad, Razak, et al. (2013); Jubinski and Lipton (2013); Patel (2012) find the opposite results. Abdelaziz et al. (2008) find that there is a relationship between the oil price changes and the stock market in Egypt, Oman, Saudi Arabia and Kuwait. Patel (2012) also finds that his research results are consistent with these findings by using the Indian capital market as an object of his study. In the research carried out by using the S & P500 index, Jubinski and Lipton (2013) also find that changes in the world oil prices have a significant impact on the stock market return as it is represented by the S & P500 index. The research results of Hussin, Muhammad, Awang, et al. (2013); Hussin, Muhammad, Razak, et al. (2013) confirm this by concluding that the world oil price changes, both in the short-term and in the long-term, affect the FTSE Bursa Malaysia Emas Shariah Index (FBMES).

3. Methodology

Data: The data required in this research are the data for the monthly closing price of West Texas Intermediate crude oil and the data for the monthly closing stock price index in the capital markets studied in the period of January 2003 to December 2013. The data for the monthly closing price of West Texas Intermediate (WTI) crude oil is obtained from the US Energy Information Administration. The data for the composite stock price index required in this research are the data for the closing months of the Indonesia Stock Exchange Composite Index (ICI), KLCI at the Kuala Lumpur Stock Exchange, the Straits Times Index on the Singapore Stock Exchange, PSEI in Philippines Stock Exchange and the Stock Exchange of Thailand SET in the period of January 2003 until December 2013. These data are entirely derived from the Capital Market Statistics published by the Financial Services Authority (FSA).

Operational Definition of Variables: There are two variables used in this research, namely the WTI crude oil return, and the stock market return. The WTI crude oil return is measured by the ratio of the measurement scale. It is calculated with the following formula:

$$ R_{WTI} = \left[ \frac{WTI_t - WTI_{t-1}}{WTI_{t-1}} \right] $$

where:

$WTI_t$ = the closing price of WTI oil spot in month \( t \)

$WTI_{t-1}$ = the closing price of WTI oil spot in month \( t-1 \)
The same thing applies to the stock market return variable measured by the ratio of the measurement scale. The stock market return being studied is measured by the ratio of the measurement scale, and calculated using the following formula:

\[ R_{mt} = \left( \frac{\text{Composite}_t - \text{Composite}_{t-1}}{\text{Composite}_{t-1}} \right) \]

where:
- \( \text{Composite}_t \) = the Closing Stock Price Index at the Stock Exchange studied in month \( t \)
- \( \text{Composite}_{t-1} \) = the Closing Stock Price Index at the Stock Exchange studied in month \( t-1 \)

**GARCH (1,1):** The data analysis is performed by using the Generalized Autoregressive Conditional Heteroscedasticity / GARCH (1,1). The Model of Generalized Autoregressive Conditional Heterokokedasticity (GARCH) is developed by Bollerslev (1986) which is the development of the ARCH model. This model is built to avoid too high order in ARCH models that are based on the principle of parsimony or choose a simple model, so it will ensure the variance is always positive.

The equation used is as follows:

\[ R_{mt} = \alpha + \beta_1 R_{WTI_t} + \epsilon_t \]

with
- \( \epsilon_t = \Phi_1 \epsilon_{t-1} + \ldots + \Phi_p \epsilon_{t-p} + \eta_t \)
- \( \eta_t = \sigma_t \varepsilon_t \)
- \( \sigma^2_t = \alpha_0 + \alpha_1 \sigma^2_{t-1} + \ldots + \alpha_p \sigma^2_{t-p} + \beta_1 \sigma^2_{t-1} + \ldots + \beta_q \sigma^2_{t-q} \)

and \( \epsilon_t \) is independent and identical distributed \( N(0,1) \) and is independent of past state of \( \eta_{t-p} \).

\[ R_{mt} \] is the Return of capital markets studied in month \( t \)

\[ R_{WTI_t} \] is the Return of WTI crude oil in month \( t \)

Before the GARCH analysis, the stationarity test data is performed by using the Augmented Dickey-Fuller Test / ADF (Enders, 2009; Greene, 2003).

4. Results and Discussion

**Stationarity Test Result of Data:** In the following Table 1, we can see the stationarity test results of data.

<table>
<thead>
<tr>
<th>No.</th>
<th>Variable</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>WTI</td>
<td>-8.869594*</td>
</tr>
<tr>
<td>2.</td>
<td>JCI</td>
<td>-9.229721*</td>
</tr>
<tr>
<td>3.</td>
<td>STI</td>
<td>-8.949736*</td>
</tr>
<tr>
<td>4.</td>
<td>SET</td>
<td>-9.514737*</td>
</tr>
<tr>
<td>5.</td>
<td>PSEI</td>
<td>-11.17431*</td>
</tr>
<tr>
<td>6.</td>
<td>KLCI</td>
<td>-12.26893*</td>
</tr>
</tbody>
</table>

Source: FSA and U.S.Energy Information Administration, processed.

* Significant at the level of significance of 1%

Based on Table 1, it can be seen that all the data used in this study has a significant value of ADF level at a significance level of 1%. Hence, it is concluded that all the data used in this study are stationary and they are not indicated by the presence of a unit root. Therefore, no further treatment is necessary specifically for this data and this data can be directly analyzed by using GARCH analysis technique. For data that can be analyzed directly without any further treatment, analysis of GARCH (1,1) is a proper analysis to be used (Posedel, 2005). Therefore, this study using analysis of GARCH (1,1).

**Results Analysis of the GARCH (1,1):** This section will discuss the results of the analysis of GARCH (1,1). The summary of the results of the analysis of GARCH (1,1) can be seen in Table 2 below.
Table 2: Results Analysis of the GARCH (1,1)

<table>
<thead>
<tr>
<th></th>
<th>Constant</th>
<th>WTI</th>
<th>Resid(-1)^2</th>
<th>GARCH(-1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JCI</td>
<td>0.023012***</td>
<td>-0.088432</td>
<td>0.455880***</td>
<td>-0.044506</td>
</tr>
<tr>
<td>KLCI</td>
<td>0.014679***</td>
<td>0.085800**</td>
<td>0.296887**</td>
<td>-0.170552</td>
</tr>
<tr>
<td>PSEI</td>
<td>0.015074***</td>
<td>0.053423</td>
<td>-0.057350</td>
<td>0.467846</td>
</tr>
<tr>
<td>SET</td>
<td>0.010098***</td>
<td>0.123800*</td>
<td>0.253303**</td>
<td>0.587452***</td>
</tr>
<tr>
<td>STI</td>
<td>0.008013*</td>
<td>0.072037</td>
<td>0.251098***</td>
<td>0.644687***</td>
</tr>
</tbody>
</table>

Source: FSA and the US Energy Information Administration, processed.
* Significant at 10% significance level
** Significant at the 5% significance level
*** Significant at 1% significance level

Changes in world oil prices (WTI) has no significant effect on the return of JCI. The WTI influence coefficient is negative indicating that the greater the rate of change in the WTI oil price the lower the JCI return will be. This is quite reasonable because Indonesia is an importer of oil and its trade balance will depend on world oil prices, especially the increase in world oil prices would cause the fuel subsidy born by Indonesia will swell, and it will ultimately have an impact on Indonesia’s macroeconomic stability and the industrial sectors in general. Changes in world oil prices (WTI) has no significant effect on the returns of PSEI and STI. Unlike the influence coefficient of WTI to the JCI return which has negative sign, the influence coefficient of WTI to the returns of PSEI and STI is positive which indicates the existence of potential positive relationship between WTI and the returns of PSEI and STI. Meanwhile, the changes in world oil prices (WTI) have a significant positive effect on the returns of KLCI and SET. This suggests that the higher the level of change in the world oil prices, the higher the returns of KLCI and SET will be.

5. Conclusion

Changes in world oil prices only have a significant impact on the Malaysian capital market return (KLCI) and the capital markets of Thailand (SET) with a positive influence. There is no significant effect of changes in world oil prices on the stock market return in the Indonesia Stock Exchange, but the sign on the regression coefficients indicate a potential negative effect. Furthermore, it is found that there is no significant effect of changes in world oil prices on the stock market return in Singapore and the Philippines despite their signs of regression coefficient are positive.

Recommendations: Because of the time difference of trade due to the geographical location of WTI trading on the New York Mercantile Exchange (NYMEX), the change in the closing session on the NYMEX trading can be a reference for stock investors in Southeast Asia. Investors in Indonesia Stock Exchange need to pay attention to changes in world oil prices in the stock investing due to changes in world oil prices have potential negative affect to stock returns in the Indonesia Stock Exchange. If the closing price on the NYMEX WTI shows better improvement of the equity, the investors in Indonesia Stock Exchange need to avoid stock transaction that can potentially lead to a decrease in the share price. Meanwhile, the investors in the capital markets of Malaysia and Thailand can make transactions, due to the closing price of WTI which tends to rise may increase stock returns in the capital markets of Malaysia and Thailand.

Future Research Agenda: The researchers interested in assessing the same field can develop a more robust analysis method to examine the same field so that the results found in this study can receive support by using different analytical methods. The impacts of other commodities can also be examined towards the capital markets in the ASEAN region.

References


The Examination of Day of the Week Effect and Turn-of-Month Effect in Indonesian Stock Exchange using Garch Approach

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Abstract: Seasonality or Calendar Anomalies is an interesting topic in capital market. A lot of studies have been documented that seasonality still exists in capital market through time. The most prominent seasonality is Day of the Week Effect and Turn-of-Month-Effect. Some researchers have already studied Day of the Week Effect in Indonesia Stock Exchange with various conclusions but no one has studied Turn-of-Month-Effect in Indonesia Stock Exchange. Moreover, most researchers tend to use limited period in their studies and abandon the heteroscedasticity in return data. Since limited period of study can produce a misleading conclusion, Wiley and Zumpano (2009) suggest that researchers must use broad range of data to avoid this mistake. Based on that fact, this study will scrutinize Day of the Week Effect and Turn-of-Month-Effect in Indonesia Stock Exchange by using long research period. This study uses daily return of Jakarta Composite Index (JCI) from 1 July 1997 to 3 June 2014. By applying GARCH (1,1), the finding shows that there are Day of the Week Effect and Turn-of-Month-Effect in Indonesia Stock Exchange. All trading days have significant impact towards JCI return. Monday has negative and significant impact towards JCI return, meanwhile other trading days have positive and significant impact towards JCI return, and Friday has the highest impact. Days during Turn of Month have positive and significant impact towards JCI return. These findings may have implications for investors’ trading strategies.

Keywords: Seasonality, Day of the Week Effect, Turn-of-Month-Effect (TOME)

1. Introduction

Seasonal phenomenon (seasonality) or calendar anomalies in the capital market is a phenomenon that is very attractive to many researchers both abroad and within the country. This phenomenon has evolved from the influence of the trading day (Day of the Week Effect and Monday Effect) which has been investigated by Altiza (2007); Brockman and Michayluk (1998); Brooks (1997); Cahyaningdyah and Witiastuti (2010); Coutts and Sheikh (2002); Dickenson and Peterson (1995); Iramani and Mahdi (2006); Kristiawan (2010); Lakenishok and Maberly (1990); Lutfi and Djazuli (2012); Rita (2009); Widodo (2008) to the influence of matters that are superstitious like Friday the 13th Effect (Coutts, 1999; Lucey, 2000, 2001). Seasonal phenomenon has also become one of the evidence that the stock market tends to be inefficient in its weak form, and this proves that behavioral aspects play a role in the process of investment’s decision making made by investors. Research on the calendar anomalies that have been carried out in Indonesia, especially that examines the Day of the Week Effect is often performed by using analysis tools that are less appropriate for the nature of the stock market return data that are used daily. This can result in differences in the research results. Techniques of Ordinary Least Square (OLS) is an analytical technique that is often used in calendar anomalies research in Indonesia (e.g. research Ambarwati (2009); Cahyaningdyah and Witiastuti (2010); Kristiawan (2010)), but this technique assumes that the data must be normally distributed and there is no heteroscedasticity in the data used.

Corhay and Rad (1994) state that the daily stock market returns do not tend to be normal and there is heteroskedastistias. This is also strengthened by the statement of Kamath, Chakornpipat, and Chatrath (1998) who discover a stock market return in Thailand that is also abnormally distributed and there is heteroskedasticity. Robiyanto (2000) finds that all returns of share price index in the Jakarta Stock Exchange are not normally distributed. The analysis tool that can accommodate the data behavior is GARCH (Generalized Autoregression Conditional Heteroscedasticity) which was introduced by Bollerslev (1986). Therefore, this study uses GARCH analysis in analyzing the data. In addition, this study also examines Turn-of-Month Effect because research on this is still relatively rare in Indonesia, although there is a lot of overseas research that proves the existence of this phenomenon such as research conducted by McGuiness (2006); Nikkinen, Sahlstrom, and Aljo (2007); Zwerge (2010). The study period used in this research husband is a long period, viz. the daily periods from 1 July 1997 to 3 June 2014. It is different from the research conducted by the Indonesian Stock Exchange which uses shorter period than the period used in this study. The application of long period of study is due to the warning stated by Wiley...
2. Literature Review

**Capital Market Efficiency**: One of the main hypothesis in the field of modern finance is the Efficient Capital Market Hypothesis. Fama (1970) states that an efficient capital market is the capital market supplying stock prices which always reflect complete information available quickly. There are three forms of testing the efficiency of the capital market, firstly, a weak form efficiency testing where the capital market is said to be efficient if its stock price movements cannot be predicted/random (*random walk*). Secondly, semi-strong form efficiency testing where the capital market is said to be efficient when its stock prices reflect all available information publicly. Thirdly, strong form efficiency testing where the capital market is said to be efficient when efficient capital market if its stock prices reflect all available information. Various studies on the efficiency of the capital market, especially those that examine the efficiency of the capital market using the weak form efficiency testing find things contrary to the concept of efficient capital markets as a pattern that is seasonal and not as a result of a reaction to the existing information. When the stock market reacts to things that are not included in the concept of efficient market then this is referred to as anomalies or interference (Fitriyani & Sari, 2013). Anomalies that often occur in the capital market is an anomaly in the form of **Day of the Week Effect** and **Turn-of-the-Month Effect**.

**Day of the Week Effect**: **Day of the Week Effect** is an anomaly where the trading day differences have an influence on the pattern of stock returns in one week. One of the major phenomena in the **Day of the Week Effect** is **Monday Effect**, it is an empirical regularity that a stock returns tend to be lower on Monday when compared with other days. According Lakonishok and Maberly (1990), this can happen due to the tendency of high selling act of the investors on Monday compared with the tendency to make a purchase.

**Turn-of-the-Month Effect**: The phenomenon of **Turn-of-Month-Effect** has been found in many capital markets (Martikainen, Perttunen, & Puttonen, 1995). Pioneering research study on the **Turn-of-the-Month Effect** is research conducted by Ariel (1987). Ariel (1987) finds that the stock return in the first half of the month tends to be higher than half of the next month. He even notes that half of the next month is likely to produce negative stock returns. Nikkinen et al. (2007) suggests that the phenomenon of **Turn-of-Month-effect** can occur due the announcement of macroeconomic data at the beginning of the month. Different thing is proposed by Ogden (1990) yang melakukan penelitian untuk melakukan telaah lebih jauh mengenai **Turn-of-Month-Effect**. Ogden's research (Ogden 1990) does not only provide an explanation, but it also tests the validity of the **Turn-of-the-Month Effect**. Ogden (1990) concludes that the **Turn-of-the-Month Effect** in the United States may occur due to the US standard payment system that pays salaries, dividends and other things at the beginning of the month and this turns out to encourage investment activity at the beginning of the month. While Sias and Starks (1995) state that the policy of the pension fund to purchase shares at the beginning of the month as portfolio strategy impacts on stock returns at the beginning of the month.

**Hypothesis**: Investors' liquidity needs may change from day to day of the trading week. This condition leads to the activities of buying and selling a stock which can change every day according to the demand for money. Due to the wants and needs of the investors that are likely to change throughout the day, the stock market is also changing both in price and quantity traded. The hypothesis of the liquidity needs states that the individuals prefer to estimate their needs for liquidity at the weekend, but put a sell order at the beginning of the week. Furthermore, the hypothesis of information processing also states that individual investors tend to make their policies of portfolio balance at the end of the week, but it depends on the condition occurs (Brockman & Michayluk, 1998). The above explanation shows that individual investors play a role in influencing the behavior of stock prices every day. In fact, however, institutional investors also play a role in influencing the behavior of stock prices. This is proved by Sias and Starks's research (Sias and Starks 1995) that finds that stocks with large institutional ownership tend to have a higher seasonal behavior than stocks with a low level of institutional ownership. Based on the above matters, in general, it can be stated that the behavior of investors on every trading day tend to be different and this may affect the behavior of stock returns. Various studies have found that the trade can influence stock returns such as research conducted by Brockman and Michayluk (1998); Cahyaningdyah and Witiastuti (2010); Iramani and Mahdi (2006); Pearce (1996); Rita (2009); Robiyanto (2000); Sias and Starks (1995). Therefore, the hypothesis is formulated as follows:
H1: The trading day having effect on stock returns

The days of month transition (Turn of Month) is the days which are estimated to influence the behavior of stock returns because of the macroeconomic data released at the beginning of the month (Nikkinen et al., 2007) and the existence of the payment system that adheres to the payment of wages, dues and other things at the beginning of the month (Ogden, 1990) well as the purchase of shares for investment policies of pension funds at the beginning of the month (Ariel, 1987). Various empirical evidence shows that the days of month transition has an influence on stock returns, such as research conducted by Ariel (1987); Martikainen et al. (1995); McGuiness (2006); McGuiness and Harris (2011); Nikkinen et al. (2007); Ogden (1990); Zwergel (2010). Therefore, the hypothesis is formulated as follows:

H2: The days of the month transition has an influence on stock returns

DATA: The data used in this research is the data of Composite Stock Price Index (CSPI) daily closing in Indonesia Stock Exchange during the period of 1 July 1997 to 3 June 2014. These data are used to calculate the daily CSPI returns by using the formula: \( \text{Return CSPI}_t = \frac{\text{CSPI}_t - \text{CSPI}_{t-1}}{\text{CSPI}_{t-1}} \). These data were obtained from Yahoo Finance.

GARCH: In this study, the data analysis is conducted by using Generalized Autoregressive Conditional Heteroskedasticity (GARCH) introduced by Bollerslev (1986). GARCH model used in this study is a GARCH (1,1). To test the impact of trading days on the market return, I use the following model:

\[
\text{Return CSPI}_t = \beta_1 \text{MONDAY} + \beta_2 \text{TUESDAY} + \beta_3 \text{WEDNESDAY} + \beta_4 \text{THURSDAY} + \beta_5 \text{FRIDAY} + \epsilon_t
\]

with

\[
\epsilon_t = \Phi_0 + \Phi_1 \epsilon_{t-1} + \ldots + \Phi_p \epsilon_{t-p} + \eta_t
\]

\[
\eta_t = \sigma_t \epsilon_t
\]

\[
\sigma^2_t = \alpha_0 + \alpha_1 \eta^2_{t-1} + \ldots + \alpha_p \eta^2_{t-p} + \beta_1 \sigma^2_{t-1} + \ldots + \beta_q \sigma^2_{t-q}
\]

and \( \epsilon_t \) is independent and identical distributed N (0,1) and it is independent of the past state of \( \eta_{t-p} \).

\[
\text{CSPI}_t \text{ Return} = \text{Daily CSPI return}
\]

\[
\text{MONDAY} = \text{MONDAY dummy variable, 1 if it is MONDAY and 0 if it is not}
\]

\[
\text{TUESDAY} = \text{TUESDAY dummy variable, 1 if it is TUESDAY and 0 if it is not}
\]

\[
\text{WEDNESDAY} = \text{WEDNESDAY dummy variable, 1 if it is WEDNESDAY and 0 if it is not}
\]

\[
\text{THURSDAY} = \text{THURSDAY dummy variable, 1 if it is THURSDAY and 0 if it is not}
\]

\[
\text{FRIDAY} = \text{FRIDAY dummy variable, 1 if it is FRIDAY and 0 if it is not}
\]

3. Findings and Discussion

Descriptive Statistics of CSPI Return: Descriptive statistics of CSPI Return based on trading day can be seen in Table 1. According to Table 1, it can be seen that Monday has the greatest maximum value of CSPI return if it is compared with the other days. However, Thursday has the lowest minimum value of CSPI return if it is compared with the other days. Meanwhile, based on the average value, Friday has the highest average value of CSPI return if it is compared with the other days, and Monday has the lowest average value of CSPI return, and it is the only day that has an average rating of CSPI return with a negative sign. Furthermore, based on the standard deviation, Monday is the day with the value of the highest standard deviation of CSPI return, it shows that the risk of stock transactions on Monday is higher than the other days.
Table 1: Descriptive Statistics of CSPI Return Based on Trading Days

<table>
<thead>
<tr>
<th>Day</th>
<th>Monday</th>
<th>Tuesday</th>
<th>Wednesday</th>
<th>Thursday</th>
<th>Friday</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>0.140285</td>
<td>0.121771</td>
<td>0.079215</td>
<td>0.084082</td>
<td>0.112836</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.10357</td>
<td>-0.08874</td>
<td>-0.10375</td>
<td>-0.11955</td>
<td>-0.07639</td>
</tr>
<tr>
<td>Average</td>
<td>-0.00137</td>
<td>0.000567</td>
<td>0.001122</td>
<td>0.000939</td>
<td>0.001807</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.018595</td>
<td>0.016313</td>
<td>0.016818</td>
<td>0.017257</td>
<td>0.016518</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance, processed.

Descriptive Statistics of CSPI Return based on days of month transition can be seen in Table 2.

Table 2: Descriptive Statistics of CSPI Return Based on Days of Month Transition

<table>
<thead>
<tr>
<th>Day of Month Transition</th>
<th>TOM</th>
<th>Non TOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>0.1402848</td>
<td>0.1217708</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.103753</td>
<td>-0.119546</td>
</tr>
<tr>
<td>Average</td>
<td>0.0012235</td>
<td>0.0005072</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.018212</td>
<td>0.0169508</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance, processed.

Based on Table 2, it can be seen that the CSPI return on the days of month transition has greater maximum value than on the days other than the days of month transition. However, different thing is found on the minimum value of the CSPI return. On the days of month transition, the minimum value of the CSPI return is smaller than the minimum value of CSPI return on days other than the days of month transition. The average value of the CSPI return on the days of month transition is higher than the average rate of CSPI return on the days other than the days of month transition, but the risk on the days of the month transition is greater when it is compared with the risk of days other than the days of month transition. It can be seen from the value of the standard deviation of the CSPI return on the days of month transition is greater if it is compared with the standard deviation of the CSPI return on the days other than the days of month transition.

Unit Root Testing: The unit root testing is done by using the Augmented Dickey-Fuller Test. The results of this test are shown in Table 3. Based on Table 3, it can be concluded that the data used in this study are the data that do not have unit root and they are stationary.

Table 3: Result of Unit Root Testing

<table>
<thead>
<tr>
<th>Description</th>
<th>t-Statistics</th>
<th>Probability</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return</td>
<td>-55.70965</td>
<td>0.000</td>
<td>Stationary</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance, processed.

Day of the Week Effect Testing: The results of the Day of the Week Effect Testing, done by using the GARCH (1,1) can be seen in Table 4.

Table 4: The results of the Day of the Week Effect Testing

<table>
<thead>
<tr>
<th>Day</th>
<th>Coefficient</th>
<th>Z Statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>-0.001027</td>
<td>-2.531315</td>
<td>0.0114</td>
</tr>
<tr>
<td>Tuesday</td>
<td>0.001157</td>
<td>2.636504</td>
<td>0.0084</td>
</tr>
<tr>
<td>Wednesday</td>
<td>0.002182</td>
<td>5.285159</td>
<td>0.0000</td>
</tr>
<tr>
<td>Thursday</td>
<td>0.000898</td>
<td>2.156100</td>
<td>0.0311</td>
</tr>
<tr>
<td>Friday</td>
<td>0.002409</td>
<td>5.951737</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Variance Equation

| C          | 6.30E-06    | 9.661144     | 0.0000      |
| RESID(-1)^2| 0.139437    | 18.00397     | 0.0000      |
| GARCH(-1)  | 0.846805    | 119.1339     | 0.0000      |

Source: Yahoo Finance, processed.

Based on Table 4 above, it can be seen that all the trading days have significant impacts on the CSPI return in the Indonesian Stock Exchange. Therefore, H1 stating that the trading days have no effect on stock returns is accepted. But Monday is the only day that has an adverse impact on the CSPI return in the Indonesia Stock Exchange. While Friday is a day that has the greatest positive impact on the CSPI return.
in the Indonesian Stock Exchange when it is compared with the other days. It supports much research on the Day of the Week Effect conducted abroad by using long research data such as Sias and Starks (1995) using data from 1977 to 1991 period, Pearce (1996) which uses data from 1972 to 1994 period, and Brockman and Michayluk (1998) using data from 1963 to 1993 period. But it is not consistent with some research on the Day of the Week Effect conducted in Indonesian Stock Exchange by using a relatively short period of study such as Rita’s research (Rita 2009) which uses the study period from January 2008 to December 2009, and it finds that Wednesday is the day which has the greatest CSPI daily return. Judging from the side of the value of the average return, the results of this study find that the CSPI average return on Friday is the highest return compared with the other days, this is different from the results Ambarwati (2009) who found that the average return Wednesday is the highest compared to the average return on another day, but the influence of the trading day in this study is consistent with the results of Ambarwati’s research (Ambarwati 2009) finding that Monday has a negative effect on returns and Friday has a positive influence on the return. The findings of this study which indicate that all trading days have significant impacts on the CSPI return in which Monday has the greatest negative impact and Friday has the greatest positive impact are in general also inconsistent with the results of Robiyyanto’s research (Robiyyanto 2000) finding that only Thursday has significant impact on the CSPI return. In general, the differences of the research results occur because the previous study uses very short data, viz. data taken from a period of one to two years of observation.

**Testing Turn-of-the-Month Effect (TOME):** In the following Table 5 below, it can be seen the test results of Turn-of-the-Month Effect using a GARCH (1,1).

<table>
<thead>
<tr>
<th>Description</th>
<th>Coefficient</th>
<th>Z Statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOME</td>
<td>0,001819</td>
<td>3,805761</td>
<td>0,0001</td>
</tr>
<tr>
<td><strong>Variance Equation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>6,10E-06</td>
<td>9,587319</td>
<td>0,0000</td>
</tr>
<tr>
<td>RESID(-1)^2</td>
<td>0,129124</td>
<td>18,07433</td>
<td>0,0000</td>
</tr>
<tr>
<td>GARCH(-1)</td>
<td>0,856548</td>
<td>127,4993</td>
<td>0,0000</td>
</tr>
</tbody>
</table>

Source: Yahoo Finance, processed.

Based on Table 5, it can be seen that the days of month transition (Turn of Month) have a significant positive impact on the CSPI return. Therefore, H2 stating that the days of month transition have an influence on stock returns is accepted. This is consistent with the studies that have been carried out abroad such as Martikainen et al. (1995) who conduct research on capital markets in Finland, McGuiness (2006) who conducted research on capital markets in Hong Kong, and Nikkinen et al. (2007) who conducted a study on the S & P 100 Index. In general, the payment system in Indonesia is similar to the United States. Ogden (1990) suggests that the standard payment system in the United States makes the payment of salaries, dividends and other things at the beginning of the month and it is able to encourage investment activity at the beginning of the month. In Indonesia, the same thing also applies primarily to the payment of salaries and dues associated with the investment (eg insurance companies, pension funds, and others). At the beginning of the month, after the payment of the premium holders, the investment managers perform an investment strategy commonly referred to as dollar cost averaging. They purchase shares in the beggining of each month to add their portfolios. Empirically, Ariel (1987) suggests that the purchase of shares by using pension funds systematically in the early months contributes to the Turn-of-the-Month Effect. The same strategy is also done by individual investors who have more liquidity in the early months after the receipt of their salaries.

**4. Conclusion and Policy Implications**

This study finds that all the trading days have significant effects on stock returns in the Indonesian Stock Exchange. Monday influence is negative, but the other days’ is positive, and Friday has the greatest positive effect. In general, this study is consistent with similar studies conducted in overseas capital markets, and similar studies conducted in Indonesian Stock Exchange by using a long period of research. When it is compared with the research on the Indonesian Stock Exchange using the short study period (one to two years), the findings tend to be different. The use of long data is done to follow the advice of Wiley and Zumpano (2009) in order to avoid misleading results. This study also finds that the days of month transition (Turn of Month) has a significant positive effect on stock returns in the Indonesian Stock Exchange. This is consistent with the studies that have been done previously abroad. These findings
indicate that the payment system adopted in Indonesia and investment policies adopted by individual investors and institutional investors influence the behavior of stock returns in the Indonesian Stock Exchange.

**Policy Implications:** The influence of the trading day and the days of month transition on stock returns in the Indonesian Stock Exchange have implications for stock investors in the stock trading transactions in the Indonesian Stock Exchange. *Buy low sell high strategy* can be done by way of purchasing shares by the end of the session on Monday in the event of a decline, and selling shares on Friday when the stock price increase. Furthermore, investors should consider buying shares at the end of the month and selling them in the early days of the month when there is an increase in the stock price.

**Research Limitations:** Although this study used a long period of research during the period of approximately 17 years, this research has not made any separation analysis during specific periods such as the period after the financial crisis and the post-global financial crisis. Furthermore, there is a need to learn on the interaction between the daily behavior of the stock and the behavior of the stock in the days of month transitions. Therefore, in the future, similar studies are needed to accommodate the things I have just mentioned.

**References**


Minimalizing Agency Costs through Bonding Mechanism

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Abstract: Agency costs arise from the agency problem in which the majority of a company manager will act for their own interests than to maximize the achievement of corporate goals. Related to this, the principal must spend a greater amount of costs to monitor the agent. This is because a company is almost impossible to have zero agency cost in order to guarantee the manager will take optimal decisions of view the interests of shareholders because of the great difference between them. The conflict between the principal and the agent can be reduced to align interests between principal and agent, one through insider ownership. Insider ownership is expected to directly benefit managers feel of any decisions taken, where this process is called the bonding mechanism, which is a process to align the interests of management through binding program management in the company's capital. This study uses a manufacturing company that has gone public in Indonesia Stock Exchange in 2011-2013 were analyzed by simple linear regression method. The results showed that agency costs can be reduced through bonding mechanisms, one of which is the managerial ownership, where managerial ownership shows a negatively and significant effect either partially or simultaneously.

Keywords: insider ownership, agency costs, bonding mechanism, manufacturing company, and simple linear regression method

1. Introduction

Every company has a different agency problems with other companies. Stiglitz (1992) in Harjito and Nurfauziah (2006) suggested that the problems between the principal and the agent will appear when the relationship between the principal and the agent are imperfect information. Reichelstein (1992) in Harjito and Nurfauziah (2006) stated that the agency problem will arise when the principal, the owner of the company given the task to the agent (manager) to manage the company for the value of the invested by the owner can grow optimally. However, because the manager does not share in the increased value of the investment and compounded by the imperfect information in relation to the owner and manager then comes the problem of the agency. Harjito and Nurfauziah (2006) which states that the agency problem may be the use of corporate funds for the purchase of excessive facility managers, corporate profits detention for less profitable investments, and a variety of fraud that could reduce the earnings or assets of the company as the company selling the product at a cheap price. Another company that was owned by the manager. The phenomenon of the emergence of the agency problem is then to encourage the emergence of agency costs. According to Jensen and Meckling (1976), agency costs can be minimized through a bonding mechanism that one through the ownership structure. The structure of ownership in a company will have a different motivation in terms supervise or monitor the company and the management and board of directors. The ownership structure is a mechanism to reduce conflicts between management and shareholders. Jensen and Meckling (1976). The ownership structure is believed to have the ability to influence the future course of the company that could affect the performance of a company. Jensen and Meckling (1976) states that managerial ownership is one of the mechanisms that can control agency problems that exist in a company.

Hypothesis Development

Effect of Managerial Ownership Cost Against Agency: Managerial ownership is ownership by the management company, as measured by the percentage of the number of shares held by management (Jensen and Meckling, 1976; Indriastuti 2014). Managerial ownership structure can be explained by two viewpoints, the agency approach and the approach imbalance. Agency approach considers managerial ownership structure as an instrument or tool used to reduce the agency conflict between some of the claims against the company sebut. Approach sees information imbalance mechanism managerial ownership structure as a way to reduce the imbalance between insider with an outsider information through disclosure of information within the company. Improving managerial ownership is used as one way to address the agency problem in the company. With the rise of managerial ownership, the manager will be motivated to improve their performance so that in this case will impact both the company and
meet the wishes of the shareholders. The greater managerial ownership in the company will be more active management to improve its performance because management has the responsibility to fulfill the wishes of shareholders other than himself. Management will be more careful in making a decision, because the management will participate directly benefit from decisions taken. In addition, management also bear the loss if the decisions taken by them wrong.

Research on the effect of managerial ownership on agency costs (agency costs) are also carried out by Crutchley and Hansen (1989), Bathala, et al., (1994); Chen and Lanfeng, 2005; Harjito and Nurfauziah, 2006; Chen and Yu, 2011; Chen and Xuan, 2011) concluded that the level of higher managerial ownership can be used to reduce the agency problem. The size of the number of managerial stock ownership in the companies may indicate the presence of a common interest between management and shareholders. Companies with a large number of stock ownership should have a low agency conflict and agency costs low. Lower agency conflict are reflected in the high rate of turnover of the company's assets and the low operating expenses to sales. Thus the hypothesis:

**H1**: Managerial ownership and significant negative effect on agency costs

### 2. Methodology

**Sample and Data**: The population of this research is manufacturing companies listed in Indonesia Stock Exchange in 2011 - 2013. The sample was purposive sampling method. Sources of secondary data used comes from the Indonesian Capital Market Directory (ICMD) and website idx.co.id.

\[
AC = \alpha + \beta_1 MO + \epsilon
\]

Where Is:

- AC: Agency Cost firm i in year t-1
- MO: Managerial Ownership firm i in year

**Operational Definition of Variables**

**Managerial Ownership**: Managerial ownership is a shareholder from the management that actively participate in the decision-making companies (Directors and Commissioners). Managerial ownership, measured in proportion to the ownership of the shares owned by managerial (Jensen and Meckling, 1976). Crutchley and Robert, 1989; Bathala, et al., 1994; Ang, et al., 2000; Demsetz and Belen, 2001; Chen and Lanfeng, 2005; Harjito and Nurfauziah, 2006; Bozec and Richard, 2007; Chen and Yu, 2011; Chen and Xuan, 2011) states that the ownership of the shares owned by management increases, then the manager will be more cautious in carrying out its operational activities, it can reduce operating costs, assuming the company is doing business expansion. Managerial ownership is ownership by the management company, as measured by the percentage of the number of shares held by management (Jensen and Meckling, 1976; Indriastuti 2014). The formula:

\[
MO = \frac{\text{The number of shares held by management}}{\text{Total stock company}}
\]

**Agency Cost**: Agency costs is the economic concept of the cost of the owner (principal) good organization, individual or group of people, when the owner (principal) select or hire an "agent" to act on his behalf. Both sides have different interests and agents have more information, then the owner (principal) can not directly ensure that agents always act in the best interests of the owner (principal) (Jensen and Meckling, 1976). Agency costs mainly arise due to the cost of the contract and the difference control, separation of ownership and control as well as different manager.yang purposes (not the maximization of shareholder). Measurement variables using the agency cost burden ratio, ie operating expenses divided by total annual sales. The load ratio measures the inefficiency of controlling operating costs by managerial side, a high ratio (an indicator of inefficient operation) associated with high agency costs (Ang, et al., 2000). The formula:

\[
AC = \frac{\text{Operating Expenses}}{\text{Total Sales}}
\]
3. Research Result

**Effect of Managerial Ownership Cost Against Agency:** The test results demonstrate the significance of the model calculated F value of 3.322 (0.001) so that the significance level below 5% can be said that managerial ownership is jointly affect the agency cost (AC). Adjusted R2 values obtained at 0.2661. The adjusted R2 value indicates that 26.61% of the variation can be explained by the independent variable that managerial ownership, the remaining variation agency cost is influenced by other factors outside the model. The test results showed regression coefficient of managerial ownership is negative (-0.024). The coefficient is negative means that managerial ownership has a negative effect, meaning that the higher the level of ownership by the manager agency costs will be lower / reduced. Significance level α <5% means that the hypothesis H0 is rejected or one that says public companies with high managerial ownership have lower agency costs. Indonesia, which is one of the developing countries found to be largely a public company ownership structure of the company is owned by managerial (La Porta, 1999; Arifin, 2003; Siregar and Main, 2008). Referring to the agency theory (Jensen and Meckling, 1976), agency costs can be minimized through a bonding mechanism that one through the ownership structure. The structure of ownership in a company will have a different motivation in terms supervise or monitor the company and the management and board of directors. The ownership structure is believed to have the ability to influence the future course of the company that could affect the performance of a company. Jensen and Meckling (1976) states that managerial ownership is one of the mechanisms that can control agency problems that exist in a company.

4. Conclusion

Hypothesis test results indicate that managerial ownership variable significant negative effect on agency costs. This is consistent with the mechanism of managerial ownership structure as a way to reduce the imbalance between insider with an outsider information through disclosure of information within the company. Limitations of this study include: the unit of analysis is only derived from the manufacturing companies listed on the Stock Exchange. It is recognized that the results become more narrow in generalizing the results, and the period of observation in this study is quite, but there are limitations of the variables used in this study. Therefore, for future research should add that not only the unit of analysis is derived from manufacturing companies alone (do research on companies across industries or cross country) and develop other measures of agency costs such as using rsio use of the asset, so that the owner of the company apat measure effectiveness in the use of the asset management companies.

References


Fat to Fit – an Asian Obesity Management Program and the Malaysian Case Study

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Abstract: Fat to Fit was a 3-month weight loss program initiated for an Asian obesity management program. The aim of this study is to investigate the effect of physical activity and changes of body size and body composition. A total of 28 subjects ranging from 20-50 years old completed the 3-month program, which required them to follow a structured exercise thrice per week. Subjects were screened and selected through interviews. Anthropometric measurements for body weight, size [height, body dimension circumferences, body mass index (BMI), body composition (fat mass and lean mass)] and skin fold thickness were obtained using conventional method. Body composition was evaluated via Omron HBF 514C body composition monitor and scale. A guided 3-months physical exercise was used as the intervention. Pre- and post- test analysis was computed through paired t-test using IBM SPSS Statistics 22. Changes in body size were examined and the descriptive statistics were reported. Following the intervention, body mass and body composition was significantly lower than the baseline values. This study will be used as a national community intervention programme to combat obesity in Malaysia. This research will contribute to new information on obesity management in Asia Pacific region, which is rather limited at this moment.

Keywords: Fat to fit, Asian, obesity, body size, body composition

1. Introduction

“Globesity”, an escalating global epidemic of overweight and obesity, is taking over many parts of the world. The obesity epidemic is not only restricted to industrialized nations, but in the developing countries as well. Obesity rates across developed countries such as the USA, England, France and others are alarmingly high, ranging from 3-4% in Korea and Japan to more than 30% in the United States (Organisation for Economic Cooperation and Development, 2014). Flegal et al. (2010) expressed that many Asian countries have rates which are similar to that of the United States too. Malaysia is now the fattest country in South-East Asia (The Malaysian Insider, 2014). A 2013 study in Lancet recorded that nearly 45% of Malaysian men and almost half of the women population are obese. The World Health Organization (WHO, 2013) reported that in 2008, more than 1.4 billion of the world’s adult population was overweight (BMI 25-29.9 kg/m²) and 11% were obese (BMI > 30kg/m²). Obesity brings metabolic diseases which hampers the functional capacity, thus negating the quality of health. Although men may have higher rates of overweight, women have higher rates of obesity (300 million women versus 200 million men) (WHO, 2015). Obesity poses a major risk for non-communicable diseases, including diabetes mellitus, cardiovascular disease, hypertension and stroke. It is the significant independent risk factor for cardiovascular disease among women as reported in the Framingham Heart Study (Hubert et al., 1983). Furthermore, Wolin et al. (2010) stated that about 20% of all cancers are caused by excess weight. Obesity may also interfere with the ability to deliver other forms of treatment.

Anthropometric measurements are used for evaluation of health and dietary status, disease risk and body composition changes over time (Fryar, Gu & Ogden, 2012). Body circumference measurements have been recognized as simple indicators for disease prevalence and nutritional assessment. Body mass index (BMI) may be the most frequently-used and easiest indicator for overweight and obesity status, but studies have shown that waist and hip circumferences may be more strongly related to obesity-related diseases (Bosy-Westphal et al., 2006; Rexrode et al., 1998). In view of greater lean mass in non-abdominal regions, hip and thigh circumferences show a protective effect with health risk (Janssen, Katzmarzyk & Ross, 2004). Yusof et al. (2005) found that greater hip circumference has been linked to a reduced likelihood of myocardial infarction. Physical activity is a common recommendation to promote weight loss as well as improve fitness in the overweight and obese population. However, the latest research survey by Mohd Salleh Aman etal (2014) pointed that only 40.8% Malaysians are active in sports. Fat to Fit was an initiation for an Asian obesity management program. The 3-month weight loss program was televised as a TV segment on RTM Malaysia’s national Television channel, had parallel programmes in Singapore and Malaysia and is expanding into Thailand, Indonesia, Philippines and Brunei. The aim of this study is to investigate the effectiveness of Fat to Fit program in combating overweight and obesity.
2. Methodology

Subjects: The study followed a randomization design. A total of 30 subjects ranging from 20-50 years old were recruited for the study. However, 2 subjects pulled out in the middle of the program. They were screened and selected through interviews conducted in University of Malaya, Kuala Lumpur. All participants were academic and non-academic staffs working in the university. Participants were briefed and agreed to follow a 3-month physical training program (intervention). Socio-demographic characteristics of the subjects were obtained through survey form.

Experimental design: Participants for the Fat to Fit program were screened prior of the study. Only those who were previously sedentary, having overweight or obese problem and not on medications that would affect the outcome of the study were selected. Participants then completed an administered survey form and body composition assessment before started the exercise intervention program. The subjects completed a 3-month (12-week) training program and another body composition evaluation at the conclusion of the weight management program. The entire anthropometric measurements and body composition assessment was carried out on the same day. Height, body weight, circumference for neck, arm, chest, waist, hip, thigh and subcutaneous skin fold thickness were manually obtained. The BMI, waist-to-hip ratio and relative weight loss were calculated. Measurement protocols were the same for both pre and post-intervention.

Anthropometric methods and body composition assessment: Anthropometric measurements of the subjects were taken manually after subjects had changed into tight-fitting clothing made from a mixture of Lycra and cotton. Height and body weight were measured t the nearest 0.1cm and 0.1kg, respectively, using the Seca body meter (Seca, Germany) and the Omron HBF 514C body composition monitor and scale (Omron Healthcare Inc., USA). Circumference measurements for neck, arm, chest, waist, hip and thigh were taken to the nearest 0.1 cm using Myotape (AccuFitness LLC, USA). Skin fold thickness measurements were made to the nearest 0.1mm at the triceps, abdominal and thigh with a Holtain callipers (Holtain Ltd, UK). This was achieved by the measurer gently grasping the fold of skin and underlying subcutaneous adipose tissue of the subjects, with the amount grasped depending on the thickness of this tissue. All measurements followed the procedures recommended by Lohman et al. (1988) and were taken in duplicate on the right side of the body.

Exercise training intervention: A guided 3-months thrice weekly physical exercise was used as the intervention. Dynamic warm ups are utilized as opposed to static stretching warm ups because of its effects on power and agility (Macmillian et al., 2006). The exercise training interventions consisted of dynamic warm ups for 5 minutes, intensity intervals and bodyweight exercises (consisting of modified push ups, modified curl ups, burpees, bodyweight squats, planks) of 20 minutes, dynamic cool down and static stretches of 5 minutes. The intensity intervals of the bodyweight movements will be executed in three sets of 12, 9, and 6 repetitions, respectively with 90 seconds of rest in between sets. Midway through the 12 weeks intervention, their rest will be shortened to 30 seconds intra sets. Cardiorespiratory endurance exercises was incorporated from walks/jogs/runs in the Arena Stadium at University Malaya. The twelve static stretches consist of the Quadriceps Stretch, Adductor Stretch, Hamstring Stretch, Tibialis Anterior Stretch, Gastrocnemius Stretch, Oblique Stretch, Latissimus Dorsi Stretch, Pectorals Stretch, Deltoids Stretch, Triceps Stretch and Sternocleidomastoid stretches.

Data analysis and statistical methods: The Statistical Package for the Social Science version 22.0 (IBM SPSS Statistics, Armonk, NY, USA) was used for data entry and descriptive statistical analysis. Data were expressed as means ± standard deviations. Descriptive statistics showed the characteristics and changes in body dimensions of the subjects. A matched pair t-test was used to determine the significance of differences between pre and post-intervention data. The level of significance used was $\alpha = 0.05$. Finally, a two-way analysis of variance (ANOVA) was conducted to determine the influence of age, gender, marital status and income on relative weight loss.
3. Results and Discussion

Table 1: Distribution of subjects according to socio-demographics (n=28)

<table>
<thead>
<tr>
<th>Demographic Variables</th>
<th>Male Mean ±SD n (%)</th>
<th>Female Mean ±SD n (%)</th>
<th>Total Mean ±SD n (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>8 (28.6)</td>
<td>20 (71.4)</td>
<td>28 (100)</td>
</tr>
<tr>
<td>Age</td>
<td>34.1 ± 8.7</td>
<td>33.5 ± 7.3</td>
<td>33.6 ± 7.6</td>
</tr>
<tr>
<td>≤ 30</td>
<td>4 (50.0)</td>
<td>9 (45.0)</td>
<td>13 (46.4)</td>
</tr>
<tr>
<td>31-39</td>
<td>2 (25.0)</td>
<td>7 (35.0)</td>
<td>9 (32.1)</td>
</tr>
<tr>
<td>≥ 40</td>
<td>2 (25.0)</td>
<td>4 (20.0)</td>
<td>6 (21.4)</td>
</tr>
<tr>
<td>Marital status</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>2 (25.0)</td>
<td>6 (30.0)</td>
<td>8 (28.6)</td>
</tr>
<tr>
<td>Married</td>
<td>6 (75.0)</td>
<td>10 (50.0)</td>
<td>16 (57.1)</td>
</tr>
<tr>
<td>Divorced</td>
<td>0</td>
<td>4 (20.0)</td>
<td>4 (14.3)</td>
</tr>
<tr>
<td>Income (RM)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;1500</td>
<td>0 (0)</td>
<td>6 (30.0)</td>
<td>6 (21.4)</td>
</tr>
<tr>
<td>1500-3500</td>
<td>7 (25.0)</td>
<td>10 (50.0)</td>
<td>17 (60.7)</td>
</tr>
<tr>
<td>&gt;3500</td>
<td>1 (12.5)</td>
<td>4 (20.0)</td>
<td>5 (17.9)</td>
</tr>
</tbody>
</table>

Note: income status: - Low < RM 1500, Moderate - RM 1500 - 3500, High - > RM3500 (Malaysian Economic Planning Unit Classification)

The demographic characteristics of the subjects in this study are shown in Table 1. The mean and standard deviation of age for the studied subjects were 33.6 and 7.6 years old, respectively. About 78.5% of the subjects were in the ≤ 30 years old and 31 - 39 years old groups; the rest were in the ≥ 40 years old group. Most of the participants were married (57.1%). The distribution of economic status among the participants was 21.4% low income group, 60.7% earning middle income and 17.9% in the high income group, according to the Malaysian Economic Planning Unit Classification.

Table 2: Changes in anthropometric measurements and body composition pre- to post- training

<table>
<thead>
<tr>
<th>Measurements</th>
<th>Pre-training (Mean±SD)</th>
<th>Post-training (Mean±SD)</th>
<th>Paired differences (Mean±SD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Height</td>
<td>1.62 ± 0.08</td>
<td>1.62 ± 0.08</td>
<td>0.00 ± 0.003</td>
</tr>
<tr>
<td>Weight</td>
<td>88.51 ± 17.07</td>
<td>82.51 ± 16.59</td>
<td>5.99 ± 5.12</td>
</tr>
<tr>
<td>Body Fat Percentage</td>
<td>43.51 ± 6.75</td>
<td>40.24 ± 7.87</td>
<td>3.26 ± 3.23</td>
</tr>
<tr>
<td>Body Muscle Percentage</td>
<td>25.34 ± 3.79</td>
<td>26.86 ± 4.37</td>
<td>-1.52 ± 1.66</td>
</tr>
<tr>
<td>Visceral Fat</td>
<td>10.39 ± 4.18</td>
<td>9.25 ± 3.69</td>
<td>1.14 ± 1.19</td>
</tr>
<tr>
<td>Triceps skin fold</td>
<td>31.66 ± 8.86</td>
<td>27.14 ± 7.72</td>
<td>4.52 ± 5.84</td>
</tr>
<tr>
<td>Thigh skin fold</td>
<td>49.79 ± 14.06</td>
<td>44.46 ± 14.39</td>
<td>5.33 ± 7.24</td>
</tr>
<tr>
<td>Abdominal skin fold</td>
<td>44.88 ± 14.61</td>
<td>37.95 ± 12.53</td>
<td>6.93 ± 10.10</td>
</tr>
<tr>
<td>Neck circumference</td>
<td>38.09 ± 4.38</td>
<td>36.52 ± 3.43</td>
<td>1.57 ± 2.52</td>
</tr>
<tr>
<td>Arm circumference</td>
<td>36.40 ± 3.72</td>
<td>34.58 ± 4.01</td>
<td>1.83 ± 1.74</td>
</tr>
<tr>
<td>Chest circumference</td>
<td>105.18 ± 8.75</td>
<td>94.21 ± 23.00</td>
<td>10.97 ± 21.76</td>
</tr>
<tr>
<td>Waist circumference</td>
<td>102.51 ± 11.76</td>
<td>97.69 ± 11.20</td>
<td>4.83 ± 5.90</td>
</tr>
<tr>
<td>Hip circumference</td>
<td>113.17 ± 10.67</td>
<td>108.94 ± 10.29</td>
<td>4.23 ± 3.77</td>
</tr>
<tr>
<td>Thigh circumference</td>
<td>67.10 ± 6.91</td>
<td>63.88 ± 5.93</td>
<td>3.22 ± 3.22</td>
</tr>
<tr>
<td>Body Mass Index (BMI)</td>
<td>33.45 ± 4.67</td>
<td>31.18 ± 4.69</td>
<td>2.27 ± 1.87</td>
</tr>
</tbody>
</table>
The pre- and post-training data for anthropometric measurements and body composition variables are presented in Table 2. There were significant (p<0.01) decreases in body weight, body fat percentage, visceral fat, skin fold thickness, circumference measurements and BMI, but the magnitude of changes was generally small. The largest changes were obtained from skin fold thickness (triceps, thigh and abdominal) with a percentage ranging from 10.71% to 15.44%. There was a small yet significant (p<0.001) increase in the body muscle percentage or the lean mass (+6.00%). However, the decrease in waist-to-hip ratio (1.10%) was not significant (p=0.197). Paired sample t-test (Table 3) was conducted to evaluate the impact of physical activity training on body mass and body composition in a 3-month interval. There were statistically significant decrease in body mass and body composition from pre-training to post-training (p<0.05). The eta squared statistic indicated large effect size, with a substantial difference in the body mass and body composition before and after intervention based on Cohen’s (1988) interpretation. However, the waist-to-hip ratio (WHR) showed moderate effect (0.061). Waist-to-hip ratio is an easy way to see how much weight a person carries around the abdomen as opposed to around the hip region. Adults who store most of their body fat around their waists have an increased risk of high blood pressure, type 2 diabetes, heart disease and stroke compared with those who have the same amount of body fat stored around their hips and thighs. According to the University of Maryland Medical System, women with a WHR 0.8 or less, and men with a ratio 0.9 or less, are considered safe.

Table 3: Paired sample t-test of anthropometric measurements and body composition pre- and post-training

<table>
<thead>
<tr>
<th>Paired statistics</th>
<th>Correlation r</th>
<th>T</th>
<th>Sig.</th>
<th>Eta squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Height (pre)</td>
<td>0.999</td>
<td>0.000</td>
<td>1.000</td>
<td>0.000</td>
</tr>
<tr>
<td>Height (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weight (pre)</td>
<td>0.954</td>
<td>6.197</td>
<td>0.000</td>
<td>0.587</td>
</tr>
<tr>
<td>Weight (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Body fat (pre)</td>
<td>0.913</td>
<td>5.337</td>
<td>0.000</td>
<td>0.513</td>
</tr>
<tr>
<td>Body fat (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Body muscle (pre)</td>
<td>0.927</td>
<td>-4.850</td>
<td>0.000</td>
<td>0.466</td>
</tr>
<tr>
<td>Body muscle (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visceral fat (pre)</td>
<td>0.962</td>
<td>5.069</td>
<td>0.000</td>
<td>0.488</td>
</tr>
<tr>
<td>Visceral fat (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Triceps skin fold (pre)</td>
<td>0.760</td>
<td>4.096</td>
<td>0.000</td>
<td>0.383</td>
</tr>
<tr>
<td>Triceps skin fold (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thigh skin fold (pre)</td>
<td>0.871</td>
<td>3.894</td>
<td>0.001</td>
<td>0.360</td>
</tr>
<tr>
<td>Thigh skin fold (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abdominal skin fold (pre)</td>
<td>0.733</td>
<td>3.630</td>
<td>0.001</td>
<td>0.328</td>
</tr>
<tr>
<td>Abdominal skin fold (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neck circumference (pre)</td>
<td>0.818</td>
<td>3.288</td>
<td>0.003</td>
<td>0.286</td>
</tr>
<tr>
<td>Neck circumference (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arm circumference (pre)</td>
<td>0.902</td>
<td>5.573</td>
<td>0.000</td>
<td>0.535</td>
</tr>
<tr>
<td>Arm circumference (post)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The two-way between group analysis of variance was conducted to explore the impact of age, gender, marital status and income on relative body weight loss. It was found that there was no statistically significant interaction effect.

### 4. Conclusion

This study will be used as a national community intervention programme to combat obesity in Malaysia. At the same time, this research will contribute to new information on obesity management in Asia Pacific region, which is rather limited at this moment.

### References


Entrepreneurship Education in Sports: Issues and Challenges

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Abstract: Much has been said of the importance of entrepreneurship. Entrepreneurs are giving a helping hand to governments in job creation, economical, technological, and social development. The rise of entrepreneurs has already begun. Having agreed on the controversial statement of “Entrepreneurs are made, and Entrepreneurship can be taught”, universities have dipped their toes into the lake of entrepreneurship trying to shape their students as entrepreneurs. However, studies show many have not been successful in this mission. Among academic disciplines, sports is one of those areas that despite enormous opportunities in the industry, along with graduate level knowledge and skills capable of improving daily lives of many, has produced fewer entrepreneurs than it intended; But why? The main reason, according to many experts, is that entrepreneurship education is not practical. The entrepreneurship courses are not productive and the content of such classes doesn't make a strong bridge between academia and industries; the gap is still there! The question is what is a practical sport entrepreneurship course? Which instructional model is more beneficial for sport students in entrepreneurship classes? This study attempts to answer these questions.

Keyword: Entrepreneurship education, Sport Entrepreneurship, Small Business, Sport industry, Sports students

1. Introduction

The surge of new and innovative business start-ups has left a significant influence on the formation of entrepreneurship as a global phenomenon, showcasing its impact on economic growth. Their undeniable role in job creation and positive contributions to economy has earned entrepreneurial activities governments’ recognition. The association of entrepreneurship with profit orientation, capital investment and new markets creation (Cantillon, 1755; Schumpeter, 1934) has prompted economists to give entrepreneurship substantial credit for economic expansion (Cole, 1949, 1995; Weber, 1930). Consequently, regarding entrepreneurship as a major engine for economic growth and job creation is not far-fetched (Wong, Ho and Autio, 2005; Engelen, Kube, Schmidt and Flatten, 2014; Lackeus and Williams Middleton, 2015). Doh and Kim (2014) believe, in the current knowledge-based economy, entrepreneurship has turned into one of the leading key players of sustainable economic development (Grossman and Helpman, 1994; Kirzner, 1997; Shane, 2000; Audretsch and Thurik, 2001; Baumol, 2002; Acs et al., 2004; Baumol, 2004; Audretsch and Keilbach, 2004; Acs, 2006). Moreover, Dana (2001) points out, entrepreneurs, beyond their contributions to economic growth, improve industrialization through creating wealth and reducing unemployment. They directly impact national wealth through taxation, and through improving living standards they affect social well-being. So governments’ attempts in creating more entrepreneurs do not come as surprising.

Additionally, according to OECD (2000), Small and Medium-sized Enterprises contributes over 95% of companies and close to 70% of employment among its members. SMEs have changed the rules of play in economic performance, leading governments to put more faith in their contributions, as thanks to new technologies, the importance of the scale of economies are being reduced in many kinds of activities (Liesch and Knight, 1999; McIntyre, 2001; Berry, 2002; OECD, 2004; Kramer et al., 2007). Doh and Kim (2014) explain, policymakers should pay more attention to SMEs regarding productivity, industrial renewal, export growth and employment opportunities, as SMEs are now one of the most important sources of innovation and job creation in OECD area. Apart from financial incentives such as loans, tax reduction and import/export supporting policies, one way to bring entrepreneurs into the field is education.

Entrepreneurship Education: Many scholars, now, believe that entrepreneurship can be taught; this is no longer a topic of debate (Gorman, Hanlon & King, 1997; Kuratko, 2005; Drucker, 2006). Bae and Qian and Miao and Fiet (2014) conducted a comprehensive meta-analysis on entrepreneurship education literature. They further report that based on their meta-analysis, there is an association between entrepreneurship education and entrepreneurial self-efficacy in the literature, which in turn could have a
Entrepreneurship education methods: Kuratko (2005) demonstrates that there are several pedagogical designs for entrepreneurship education and they vary from business plan to venture creation. Business planning is used by most courses because the process of drafting business plans intends to expose learners to sets of knowledge and skills that strengthens their entrepreneurial intentions (Becker, 1964; Honig, 2004; Youndt, Subramaniam, & Snell, 2004; Fayolle, Gailly, & Lassas-Clerc, 2006; von Graevenitz et al., 2010). On the other hand according to Lee, Chang, & Lim (2005) many universities opt for the venture creation focus in their entrepreneurship education. This approach intends to teach practical steps to creating mini companies (Rodrigues et al., 2012), and because it is done through a multi-functional implementation process it helps students develop skills needed in the entrepreneurial venture (Lilán, 2007). Additional apprenticeship training along with formal training by abstraction is supported by some scholars as they believe without it formal training has little value (Brown, Collins, & Duguid, 1989). Similarly, business guru, David Birch counts three skills that entrepreneurs must master in order to become successful: selling, managing people and creating new product and service. He argues that critical skills like managing people are not things that can be taught through formal training of business plan writing.

The learning-by-doing experience has received approval from education scholars. Repetition and experimentation is said to increase the confidence of an entrepreneur in actions and enhance his/her knowledge (Minotti and Bygrave, 2001 p.7). It is further argued that this approach emphasizes venture creation consequently giving students practical experiences and skills which otherwise would be missing from business planning. Rasmussen and Sørheim (2006) reviewed five Swedish universities’ action oriented programs and found out many such programs emphasize learning-by-doing. One example that they bring up is the Chalmers University of Technology in Gothenburg. In this university the designated program tries to get students actively involved in the start-up process, team composition, and venture formation. Audet (2000) argues that the best way for increasing entrepreneurial activities in students is affecting their perception of desirability and feasibility of starting venture, which in turn enhances their entrepreneurial intentions. Audet lets the participants choose between either a business plan or a field study. People in the business plan assignment were required to find a business idea, evaluate its commercial potential through market research and prepare a comprehensive business plan revolving the idea. The second choice, the field study, requires students to conduct an study about an entrepreneur, by 1) finding a cooperative entrepreneur, 2) collecting information about his venture’s external environment.
and industry, 3) conducting an interview with him covering his experience and his venture, 4) with the entrepreneurship and small business management theory in mind, analyse the information, and 5) write a report of their findings. The idea behind the interview was to provide the opportunity of private and intimate encounter with a genuine entrepreneur for students. As this project was a group project, students were divided in groups consisting of no more than five and each assignment would be counted towards more than half of the grade (55%). According to Gartner and Vesper (1994), a standard entrepreneurship course includes lectures, texts, use of case studies, entrepreneurs’ talk and presentations, business plan writing and the student entrepreneurship clubs.

**Entrepreneurship in Sport Industry:** Sport industry is divided into three separate segments by Pitts *et al.* (1994): sport performance, sport production and sport promotion. Hence, sport entrepreneurs seek opportunities in these fields and other industries which can be related to the abovementioned segments; just to mention few, fitness clubs, gyms, goods and equipment manufacturers, sport media and advertising agencies, etc. The definition of sports entrepreneurship and the central role of innovation are of crucial importance because it is a relatively new field. Aside from the traditional coaching and teaching physical education, there are several other career paths available for people who venture into the world of sports. Thanks to Information Technology, now sport entrepreneurs can expand entrepreneurial opportunities from sport industry to other industries; computer games, wearable devices, sports application on smart phones, and so many other products and services are the outcomes of this. As Stier (1993) argued, for future sport professionals the need to have an extensive knowledge of business and necessary skills to handle challenges that rise in the business of sports is imperative. He further points out sports entrepreneurship as one of the areas where possible opportunities for employment lie. Moreover, Ratten (2011) relates sports entrepreneurship to people or organizations in sports that bring about innovation in business and deliver something unlike what was previously done and known. The importance of entrepreneurship culture for entrepreneurial opportunities in sports is highlighted by Ratten (2012). There are common attributes and values among entrepreneurship and sports. They both seek economic and regional development. Innovation, risk taking, pro-activeness, initiative, and opportunity seeking are also a few of common traits that run in both fields.

As the numbers of sport entrepreneurs increases, the need among them to act more strategic and innovative to secure their position in the ever evolving and challenging economics of the modern era rises as well. Thus integration of sports management and entrepreneurship disciplines made its way into scholars’ agenda (Ratten, 2011). These entrepreneurs are often contributing to creation of social wealth through social and community activities and are not merely producing personal wealth (Ratten, 2012). The background and experiences of sports entrepreneurs, and the amount of it they possess, is what determines their ability in identifying and deciding on opportunities (Ratten 2012). If they are observant and able to see new opportunities they can use innovation and creativity to clear the way for achieving desirable results.

**Sport Entrepreneurship Education:** For the current system of vocational education, one of the major challenges is to match what students learn, from knowledge and skills to behaviour and attitudes, to what the employment market requires (European Training Foundation 1999). Therefore, the responsibility lies on the shoulders of instructors to develop evolving curriculum standards that are capable of growing and adapting with the changes in the employment sector. The same principle applies in the sports industry, where the constant ever evolving nature of the industry requires instructors to be developing curricula accordingly to prepare students for what lies ahead in their careers. In the discussion of Sport education reform, Ge (2011) believes entrepreneurship education plays an important role. Indeed, with regard to difficulties and challenges in entrepreneurship and self-employment in sport industry, measuring the impact of entrepreneurship education was proposed as one solution. For that, three major measures were suggested, namely to build favourable culture of innovation and entrepreneurship in universities campus, to design new entrepreneurship education instructional models and finally to develop entrepreneurship education in Sport education service system. Sport literature, when it comes to entrepreneurship area, is very young and immature. There are studies that have focused on various aspects of Sport industry, such as development of human capital and competitive sports (Krueger &Neergaard, 2012), entrepreneurial attitudes and sport franchise: increase net income (Legg & Gough, 2012), entrepreneurial strategies and brand management theories (Miloch, Lee, Kraft &Ratten, 2012), relationship between exercise and the attainment of personal and professional goals for entrepreneurs (Goldsby, Kuratko & Bishop, 2005), sport mega-events as promoters of urban entrepreneurship (Hall, 2006), entrepreneurial systems (Spilling, 1996) and sport entrepreneurship, field and suggestions for further research (Ratten, 2012). What is
missing is a category of research in which scholars would study and explain the pedagogical aspect of sport entrepreneurship. Similar need has already been pointed out for sport management field as well (Light and Dixon, 2007). Sport is one of those areas that despite enormous opportunities in the industry, along with graduate level knowledge and skills capable of improving daily lives of many, have produced fewer entrepreneurs than it intended. Having considered increasing number of sport entrepreneurship programs, the productivity of these courses needs much more attentions.

Dana (2001) explains, for training programs to reach to their full success potential, they must be relevant to the host environment. Extending one program’s success in one environment to another, and expecting the same effects would be a fallacy. Hence, it seems the content of a sport entrepreneurship course should be developed based on sport students’ needs. Borges (2010) attempted to do a comparison between sport entrepreneurship instructors and practicing entrepreneurs in what they regard as important skills to teach student to enable their success in running sport-oriented businesses. This comparison is of great value for students as well as educators to evaluate the current material taught in sport entrepreneurship courses. As one of this research’s result, Borges found that larger percentage of sport management and entrepreneurship instructors, value digital skills and strategic management more than sport entrepreneurs do. Instead, sport entrepreneurs give more weight to financial management topic rather than sport entrepreneurship instructors. A review on entrepreneurship education literature shows, sport programs lack a specific and sport-oriented design and content for their entrepreneurship courses. The responsibility of preparing students to enter the ever changing and evolving sports industry has been laid upon instructors of sport management, as they have to ensure the curriculums developed are effective enough to prepare students for the challenging industry of sports. Because many of the instructors do not possess experience in owning their business or employment in large sports corporations, the need for thorough examination of content and skills they offer is extreme (Borges, 2010).

Humphreys and Maxcy (2007) examined the value of sport economics in sport management curricula and reported that this field has received small attention because of two possible reasons; either sport faculties are not qualified in this regard or they are indifferent about the importance of this topic. Since entrepreneurship, like economics, is a relatively new area in sport management programs, similar prediction can be made to justify the indifferent approach toward sport entrepreneurship courses. On the other hand, the quality of education system is mostly reflected in the higher education. For students who seek formal education, higher education institutes are the last step before entering the workforce, hence any changes that occur in the society is usually reflected in the curriculum of higher education. Therefore, it is important that the curricula are not being developed without proper attention to the needs and specific problems of society or to their role in preparing experts of the future (Patesan&Bumbuc, 2010). This shows the importance of pragmatism and timeliness during the instructional design of sport entrepreneurship courses. Entrepreneurs, generally and in any industry, should exploit available resources and tools to make money out of their entrepreneurial ideas. An up-to-date entrepreneurship course and instructor could increase the entrepreneurial skills of students.

2. Conclusion and Suggestions

Much has been said of the importance of entrepreneurship. Similar to other industries, entrepreneurs help the sport industry grow, both locally and globally. One way to produce more entrepreneurs is education. Sport entrepreneurship education courses can, and should be more productive. To achieve that, following suggestions can be a starting point:

1. An entrepreneurship education course should be designed based on specific needs of students who will attend in that course. Hence, a precise need assessment survey should be conducted before the design process starts. This can determine the real needs of students of any sport faculty.
2. Sport entrepreneurship instructors should be expert in the field of entrepreneurship. It is important to know that sport entrepreneurship is different than sport management or even sport business.
3. New methods of teaching and delivering and evaluating should be exploited during a sport entrepreneurship course. The traditional textbook, lecture method will not work anymore.
4. Real examples and case studies of successful entrepreneurial sport-related firms and companies should be discussed in the classrooms.
5. More action researches needs to be conducted to explore various methods of entrepreneurship instruction in sport faculties.
6. Last but not least, sport entrepreneurship courses and programs should receive top management support.
References


Analyze on the Influence of Financing Risk, Capital Adequacy and Financing to Deposit Ratio to Profitability Islamic Bank in Indonesia

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Abstract: Research on financial ratios and its effect to the profitability of banks in Indonesia have been carried out by several researchers, but research results are inconsistent. Profitability has essential means for long-term survival of banking business, because the profitability of the business showed good prospects in the future. This study intends to examine the effect of Risk Financing (Non Performing Finance/NPF), Capital Adequacy Ratio (CAR) and Financing to Deposit Ratio (FDR) to Profitability Islamic bank in Indonesia. This explanatory research was conducted at the Islamic Commercial Bank at Bank Indonesia. Data collection was carried out in the documentation, in the form of financial ratios data from the financial statements of Islamic Banks gained per month of Islamic Commercial Bank Statistical Report published by Bank Indonesia in 2009-2013. The samples are 48 financial ratios of data taken by purposive sampling. Descriptive statistics are used to see an overview of research data individually, and multiple linear regression was used to test the hypothesis, where the previous requirement that the classical assumptions include normality, multicollinearity, heteroscedasticity, and autocorrelation have been fulfilled. The results of multiple linear regression showed the CAR regression coefficient on ROA is 0.002 with p = 0.024; NPF on ROA regression coefficient is 0.008 with p = 0.894; FDR regression coefficient on ROA is 0.009 with p = 0.007. The test results demonstrate F value 3.110 with p = 0.054, and the test results adjusted R² 0.082 shows the explanatory power of the two independent variables in this study was 8.2% on ROA; remaining 81.8% is influenced by other factors are not included in the regression model. Concluded that partially CAR and FDR, respectively have a positive and significant effect to ROA, but NPF have no significant effect on ROA.

Keywords: Profitability (ROA), Risk Financing (Non Performing Financing) and (Capital Adequacy Ratio, FDR (Financing to Deposit Ratio))

1. Introduction

The national development of a nation involves economic development in it. In the economic development, it is required the participation of financial institutions to finance, because the development requires the availability of funds. Therefore, the existence of financial institutions to finance the development is needed. Financial institution involved in the financing of economic development is divided into two; bank financial institutions (BFIs) and non-bank financial institutions (NBFIs). Bank is one of the financial institutions that has important role in economic field of a country as a financial intermediary and as the lifeblood of the economy throughout the country. Many economic activities, especially in the real sector, are driven by banks either directly or indirectly. To run its operations, bank has ultimate goal to achieve maximum level of profitability. Profitability is the bank’s ability to generate or obtain profit effectively and efficiently. The profitability of a bank will be able to demonstrate revenue generated by the company in one or each period. The high profitability of a bank can demonstrate that the majority of the bank's performance is good, because it is assumed that the bank has been operating effectively and efficiently and it is possible to allow it to expand its business. Financing becomes a source of revenue and profits of the banks. In addition, financing is also a type of fund investment activities which often become main cause of a bank in the face of major problems, e.g., the existence of a situation where the customer is not able to pay part or all of its obligations to the bank as its agreement. As a result, this financing becomes stuck or jammed.

According to Siamat (2005), financing jammed or it is known by non-performing finance (NPF) is a ratio that shows the repayment of loans that have difficulties due to gaps factors and external factors beyond the control of the debtor's ability. This ratio indicates the ability of bank management in managing the problem of financing provided by the bank. It means, the higher the ratio is, the worse the quality of bank financing will be, which led to the greater amount of possibility of financing problems of a bank, that is the greater loss resulting from financial returns jammed. If the bank is able to suppress the NPF ratio below 5%, the potential benefits to be obtained will be even greater, because the banks will save money that is needed to establish loss reserves financing problems or Allowance Assets (PPAP). With the smaller
PPAP in shape by banks, it will have a greater profitability so that the overall performance of the bank would be good.

For the banking industry, capital is crucial; the bank must be able to maintain customer confidence with the necessary capital for daily operations. Bank Indonesia (2003) regulates the Capital Adequacy Ratio (CAR), that is the minimum capital requirement that must be maintained by each bank as a certain proportion of total risk-weighted assets (RWA) amounted to 8%. With these provisions, banks are required to maintain the availability of capital for each bank; in particular, the increase in activity as a result of the increase of assets should be offset by the capital gain 100 to 8. The amount of financing problems can lead to the erosion of bank capital that can be seen from the Capital Adequacy Ratio (CAR). The decrease of CAR certainly results in decreased ability of banks to channel financing; the bank eventually loses its ability to produce optimum profit from the main activity. The low level of CAR also makes banks' ability to survive in times of loss is also low. In addition, the low CAR also causes a decline in customer confidence, which in turn, can reduce the profitability of banks. Financing to Deposit Ratio (FDR) is a ratio used to measure the level of bank liquidity that shows the bank's ability to meet the demand for credit by using the total assets of the bank (Dendawijaya, 2003). FDR stated how far the bank's ability to repay the withdrawal of funds by depositors to rely on loans as a source of liquidity. The greater the credit earned income rises, as income rises automatically earnings will also increase. This study aims to determine the extent to which the influence of risk financing financing deposit and capital adequacy toward profitability of Islamic banks in Indonesia.

2. Literature Review

Agency Theory: Agency theory is a concept which describes the contractual relationship between principals and agents. The principal is the party that gives a mandate to other party, namely the agent, to do all the activities on behalf of the principal in his capacity as a decision maker (Sinkey, 1992: 78; Jensen and Smith, 1994: 7). In an agency relationship, manager as a side having direct access to company information, has asymmetric information to external parties, such as creditors and investors. This information, obviously, is not disclosed by the company management to external parties, including investors. To reduce asymmetric of information, the management of company must be monitored and controlled to ensure that the management is run with full compliance to various rules and regulations. This effort results in what is known as agency costs, which according to this theory must be removed such that the cost to reduce losses due to non-compliance that is found to increase its enforcement costs. Agency cost includes costs for supervision by the shareholders; costs incurred by the management to produce transparent reports, including the cost of the independent audit and internal control; and costs due to the decreased value of shareholder ownership as a form of bonding expenditures which is given to management in the form of options and benefits for the purpose of aligning the interests of management with shareholders.

Agency theory predicts that a company with a higher CAR ratio will reveal more information, because the agency cost of companies with such capital structure is high (Jensen and Meckling, 1976: 354). Additional information is needed to dispel doubts of bondholders towards the fulfillment of their rights as creditors (Schipper in Marwata (2001: 18) and Meek, et. al in Fitriani (2001: 14)]. Therefore, companies with high CAR have obligation to undertake a wider exposure than the lower ones. With higher reported earnings, it will reduce the possibility of breaking the company's debt agreements. The manager will choose accounting methods that will maximize current profits. Debt contract usually contains the provision that the company must maintain a certain level of leverage (the ratio of debt/equity), interest coverage, working capital and shareholders' equity [Watts and Zimmerman in Scott (1997: 92)]. Therefore, the higher the level of leverage (the ratio of debt/equity) is, the more likely the company will violate the credit agreement, so that the company will strive to report the current higher profits [Belkaoui & Karpik in Marwata (2001: 25)]. To realize the high reported earnings, the manager should reduce costs (including costs to disclose information).

Financing Risk

The definition of Financing Risk: The term risk has been commonly used in everyday life, which is generally understood intuitively. However, the scientific understanding basis of risk until now is still varying, such as:

Risk in terms of result:
1. Speculative Risk is the possibility of a loss. Yet, there is a possibility of profit instead of loss possibilities.
2. Pure risk is the risk that there is only the possibility of loss.

Financing is a funding provided by one party to another to support the planned investment, either by personal or institutions. In other words, the financing is the cost incurred to support the planned investment. So the financing risk is the risk that a customer or debtor is unable to meet its financial obligations under the contract or agreement that has been agreed upon. The definition can be expanded that financing risk is the risk that arises due to the declining quality of financing. Financing risk arises if the bank cannot recover the installment of principal or interest on the loan or investment given. The main cause of the risk is how easy banks or financial institutions is, to lend or invest because of requirements to utilize excess liquidity. As a result, the less careful assessment on financing anticipation dealing with possible business risks that are financed occurs.

**The impact of Financing Risks:** Financing problems in large numbers will bring unfavorable impact both for the provision of financing to the economy of monetary of a State. Impact caused by financing problems is as the following:

**Impact on the smooth operation of the bank in providing the financing:** Banks which are encouraged by problems of financing in large quantities will experience operational difficulties. Poor financing quality requires the elimination of the greater reserves which cause costs to be borne to hold those reserves become high as well. This obviously affects the profitability of diminishing that will reduce the capital itself; and, the good value of operation will decrease. As a result, this will affect public confidence to the banks.

**The impact on the banking sector:** Financing problems in large quantities will reduce the bank’s operations. If the decline in the financing and profitability has been so severe, then, it affects the liquidity, solvency, and profitability of the bank, the people trust in bank will also decrease.

**Impact on the state of economic and monetary:** Banking system which is disrupted by financing problems will eliminate the chance of banks to finance its operations and expansion of other debtors because of cessation rotation and what to be lent. This will minimize the chance of other entrepreneurs to take advantage of business and investment opportunities that exist.

Dendawijaya (2005: 82) states that the financing problem is the failure of the debtor to fulfill its obligations to pay installments of financing principal and interest that has been agreed by both parties in the financing agreement. Meanwhile, according to Siamat (2004: 174), the definition of financing problem is as follows: “Financing problem or problem loans can be defined as a loan repayment experiencing difficulties due to the presence of gaps and factors or due to external factors beyond the control of the debtor.” According to the above understanding, meaning of financing problems is a loan that is experiencing delays in the payment of principal and interest arrears or even not paid at all, due to the inability of the debtor to pay, so the return on financing is not done in a timely and appropriate amount of the financing agreement. According to Dendawijaya (2009), financing problems is a financing in which its collectability categories is included in the jammed funding criteria or also known as non-performing Finance (NPF). This ratio indicates the ability of bank management in managing the problem of financing provided by the bank. That is, the higher the ratio is, the worse the quality of bank in financing which led to the greater amount of financing problems, that is the greater possibility of a bank to face problematic condition in the form of NPF on returns. One of the risks is the risk of non-payment of bank financing has been granted or which is often called by the financing risk.

Financing risk or default risk, generally, arises from various financing problems included in the category of Non Performing Finance. The existence of non-performing Finance in considerable amounts can cause difficulties, at the same time; it also diminishes the bank concerned. Therefore, banks are required to maintain the financing to be not in the non-performing Finance. The amount of NPLs that are allowed by Bank Indonesia at this time is a maximum of 5%, if it exceeds 5%, then; it will affect the assessment of the Bank concerned, which will reduce the value. Although it cannot avoid financing risk, it can minimize the risk faced and make it into a normal category. According to Taswan (2008) and Bank Indonesia Circular Letter No. 3/30/DPNP December 14, 2001, Non-Performing Finance calculation is as follows:

\[
NPF = \frac{\text{Financing Problems (KL, D, M)}}{\text{Total Finance}} \times 100\%
\]
Capital adequacy ratio: According to Hasibuan (2004: 61), it is generally argued that the bank's own capital or equity fund is the amount of cash that has been deposited by owners and other sources from within the bank itself which consists of core capital and supplementary capital. The bank's capital is also the funds invested by the owners in the framework of the establishment of a business entity that is intended to finance the bank's business activities in addition to meet the regulations set (Dahlan Siamat, 2000: 56). Therefore, it can be concluded that the bank's capital is funds invested by the owner to finance the business activities of banks whose numbers have been assigned at the time of the bank's business establishment. Capital is a very important factor for the development and progress of the bank, as well as efforts to maintain public confidence. As a business entity, bank capital should be used to keep the potential risk of loss resulting from the movement of bank assets that basically comes from a third party loan (public funds). Capital adequacy in this study is figured out through the Capital Adequacy Ratio (CAR). CAR indicates how much capital banks have been adequate to support the needs and as a basis for assessing the prospects of the relevant bank business continuity (Dendawijaya, 2005: 122). In accordance with Circular Letter No. 26/5/BPPP, May 29, 1993, the amount of the CAR to be achieved by a bank of at least 8% since the end of 1995, and since the end of 1997 CAR must achieve a minimum of 8%. The basic formula of calculating the Capital Adequacy Ratio, mathematically, according to Jumingan (2006: 243) is as follows:

\[ CAR = \frac{\text{Capital}}{\text{Total risk weighted assets (ATMR)}} \times 100\% \]

Capital component consists of core capital and supplementary capital by taking into account to the inclusion of the bank as a reduction of capital, so that the RWA of commercial banks is calculated based on the risk weighting of each post balance sheet assets and account administration. Bank Indonesia has set a policy for all banks to meet the minimum CAR ratio of 8%, if less than 8%, it will be sanctioned by Bank Indonesia. CAR provision, in principle, is adapted to the conditions of international agreement (BIS). CAR which is based on the standard of BIS (8%) is one way to calculate whether the existing capital in a bank is adequate or not. If the average capital of a bank is better than the other banks, the banks concerned would be better solvency.

Financinf to Deposit Raio (FDR): FDR in the world of Islamic banking did not use the system of financing with interest. FDR stated how far the bank’s ability to repay the withdrawal of funds by depositors to rely on loans as a source of liquidity. The greater the credit earned income rises, as income rises, the profits will increase automatically. In accordance with Bank Indonesia Circular Letter No. 6/23 / DPNP, the minimum value of good FDR was 80%.

Profitability: According to Sawir (2001), profitability is the end result of a variety of policy and management decisions. Profitability ratios will give final answer about the effectiveness of the company's managers and provide an overview of the effectiveness of the management of the company. Riyanto (1998: 36) states that Profitability is the ability of a bank to generate income from operations with its own capital and foreign capital that is used to produce such profits.

1) Profitability related to the sale: The first ratio is considered gross profit margin ratio. This ratio shows the profit of the company relative to sales after reducing cost of production. This ratio is a measure of the company's operating efficiency. The second ratio to consider is the net profit margin ratio as a ratio that measures the profitability of the company from the sale after calculating all the costs and income taxes. By considering these ratios simultaneously, then, it will give an assessment of the company's operations. If the gross profit margin decreased, it is known that the cost of production has increased relative to sales. This is due to lower prices or lower operating efficiency with respect to volume. Therefore, these factors should be analyzed to determine the actual cause.

2) Profitability related to investment: One measure of the profitability related to investment is the level of return on investment or return on assets (ROA). This ratio measures the effectiveness of the company; in this case the bank which uses all funds shows the effectiveness of management in using assets to obtain profitability. The ratio is also used to measure the ability of bank management to gain profit before tax generated from average total assets. Factors that affect the profitability of the bank can be sourced from the operating performance shown by some indicators. One of the main sources of indicators that form the basis of assessment is the bank's financial statements. Based on the financial statements of banks, it will be able to count a number of financial statement ratios that are commonly used as the basis of assessment of the bank including the capital ratio by measuring CAR, asset quality...
with NPL measurement. The high profitability of a company shows that most of the company’s financial performance is good, if the company’s financial performance in generating income increases, this will show the attraction of investors and prospective investors in making an investment to a company. For banks, the main advantage is obtained from the difference between the interest given to the storage savings with interest on the loan and financing disbursed.

Profitability of a company is measured by the success and the ability to use assets productively. Thus, the profitability of a company can be determined by comparing the profits earned in a period with total assets or total capital of the company. Profitability is often used to measure the efficiency of the use of capital in a company by comparing the income with capital employed in operations. Therefore, a high profit does not guarantee or is not a measure that the company is successful. Using profitability to measure the efficiency of a company is a good way, because the company will be difficult to improve profitability without increasing efficiency. Profitability is measured by Return on Assets (ROA). According to Munawir (2002: 269) ROA is to reflect how much the company has obtained the results of the financial resources invested by the firm. The calculation formula of Return on Assets, mathematically, by Syamsuddin (2004) are as follows: Net Income

\[
\text{ROA} = \frac{\text{Profit before taxes}}{\text{Total Assets}} \times 100 \%
\]

The Correlation of Risk Financing Variable and Profitability levels: Non Performing Finance or often called the financing problems can be defined as a loan repayment experiencing difficulties due to the gap factor or factors outside the control of the debtor’s ability. This ratio indicates the ability of bank management in managing the problem of financing provided by the bank. That is, the higher the ratio is, the worse the quality of bank financing will be, which led to the greater amount of financing problems as a result of NPF. Dendawijaya (2009) suggests the impact of unnatural non-performing Finance is the loss of opportunity to earn income (revenue) from financing provided, thus, it will reduce profits and adversely affects the profitability of banks. Research conducted by Hestina (2009) and Teddy (2009) on the effects of the variables on the profitability of non-performing Finance, shows that the non-performing Finance negatively impacts the profitability of banks. This suggests that the greater the financing problems that occur in a bank, it will result in the bank’s profitability to be poor. Non Performing Financing of the bank’s business risks resulting from not repay loans granted by the bank (Muhammad: 2005). So, the greater the NPF is, it will result in declining of ROA, which also means that the bank’s financial performance decline due to greater credit risk. Vice versa, if the NPF is low, the ROA will increase and the financial performance of banks can be said to be good. Moreover, it is also supported by the results of research conducted by Adi Setiawan (2009) which shows that the NPF negatively effects on ROA. Based on the description above, the hypothesis can be proposed is as follows: H1: financing risk (Non Performing Finance) significantly and negatively influences profitability.

The correlation of Capital Adequacy Ratio and Profitability: According to Dendawijaya (2005: 119), the effect of capital adequacy level on profitability can be expressed as follows; the level of capital adequacy used as an indicator of the health of a bank can be defined as the ability of a bank to conduct banking operations as normal and to be able to meet all its obligations in a manner that is in accordance with the applicable banking regulations. Profit or benefit is an indicator of the success of an enterprise. Information of firm performance, especially in terms of the ability of the company to make a profit (profitability) is required to assess potential changes in the economic resources that may be controlled in the future. Bank management is more concerned with valuation of ROA because it relates to the value of a bank’s profitability as measured by assets with funds which mostly come from public funds deposits. The capital adequacy ratio is a factor that essential for banks in order to accommodate the loss of business development and health; and reflects the bank aims to maintain public confidence in the banking, protect public funds in the bank in question and to meet the provisions of the BIS standards. With a strong capital, it will be able to maintain public confidence in the banks in question, so that the public trust to raise funds in the bank increases. As a result, funds collected are then channeled back by the bank to the community in the form of financing. In this form of financing, it can encourage interest income resulting from the interest, so that banks can gain profit. With this level of earnings or profitability, banks can increase the strong capital structure so as to form a sound financial condition. Research conducted by Anggriani (2011) shows that there is influence of the Capital Adequacy Ratio toward profitability, in which, the higher the CAR achieved by the bank is, the better the performance of the bank. Therefore, the bank’s profit increases. Furthermore, research conducted by
Proceedings of 4th International Conference on Management, Finance & Entrepreneurship (ICMFE-2015)

Teddy (2009) on the effect of CAR indicates that CAR has a positive influence on the bank's profitability. Based on the empirical results, the hypothesis can be formulated as follows:

H2: The level of capital adequacy ratio (CAR) positively and significantly influences profitability (ROA).

The correlation of Financing to Deposit Ratio (FDR) and Profitability: The amount of FDR in following the development of the Indonesian economy, considered healthy if the magnitude of the FDR of 80% to 110% (Ahmad Buyung, 2009). This is supported by the results of Adi Setiawan (2009) and Budi Poncho (2008) in his research stating that the variable FDR positive effect on ROA. From the description above can be formulated in the following hypothesis:

H3: FDR positively and Significantly influences profitability (ROA).

Population and Sampling Techniques: Population is the whole object that meets certain requirements and is related to the problems being studied. The populations which are observed in this study are all Islamic banking companies registered in Bank Indonesia (Indonesian Bank) in the period of 2008 to 2012. The sample selection is done by using census, where all data are extracted.

The Definition of Operational and Measurement of Variables

Dependent Variables (Y): The dependent variable (the bound variable) is the one in which its existence factors are influenced by the independent variables. The dependent variable in this study is the level of profitability, which shows the company's ability to generate profits or generally said that the company's ability to control risks arising from banking activities. The profitability is measured by using ratio of Return on Assets (ROA). The calculation uses the formula: Net income

\[ ROA = \frac{x \times 100 \%}{\text{Total Assets}} \]

Syamsudin (2004)

Independent variable (X)

Financial Risk (X1) is a financial ratio showing the amount of distributed finance which encounters problems on the failure of the debtor to meet its obligations to pay main installments and agreed margin. Therefore, the higher this ratio is, the worse the quality of bank loans which lead to the greater number of non-performing loans, putting the bank in trouble as well. So, the NPF ratio can be formulated as follows:

\[ NPF = \frac{\text{Finance \ (KLDM)}}{\text{Total of Finance}} \times 100\% \]

Note:
NPF : Non Performing Financing
Finance KL : Substandard finance
Finance D : Doubtful Finance
Finance M : Loss finance

Capital Adequacy Ratio (X2) is the capital ratio which shows the bank's ability to provide funds for the purposes of business development and accommodate the possible risk of loss which may occur in the bank's operational activities (Ahmad and Kusno, 2003). To measure capital adequacy ratio of Islamic banks is by using the ratio of Capital Adequacy Ratio (Muhammad, 2009). Below, the formula is shown:

\[ CAR = \frac{\text{Total capital (main capital + supplementary capital)}}{\text{Total Risk Weighted Assets (balance sheet assets + administration)}} \]

Financing to Deposit Ratio (X3) is The ratio is used to measure the liquidity of a bank by dividing the amount of credit granted by the bank to deposit. Improved FDR can mean the distribution of funds to finance the larger, so the profit will increase

\[ FDR = \frac{\text{(Total Credit Financing)}}{\text{(Total Third Party Funds)}} \]

3. Data Analysis and Discussion

The Multiple Regression Analysis Result: From the data obtained, then it is analyzed by using regression method and calculated by SPSS version 19.0. Based on SPSS output, partially, the effect of those three independent variables, those are the growth of the company, the size of the company, and profit toward CAR is shown in Table 4.6 as follows:
Table 1: The Calculation Results of Multiple Linear Regressions

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
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<td>.000</td>
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<td>NPF</td>
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<td>CAR</td>
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<tr>
<td>FDR</td>
<td>.009</td>
<td>.003</td>
<td>.260</td>
<td>2.817</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

Sumber: Data sekunder diolah 2013

By looking at Table 4.6 above, it can be composed of multiple linear regression equation as follows:

\[
ROA = 0.641 - 0.002NPF + 0.008CAR + e
\]

The regression equation has some meanings as follows:

1. The Constant value of 0.641; indicates that the value of ROA of Islamic banks in Indonesia is 0.641% if it isn’t influenced by the independent variables (CAR and NPF).
2. The Value of CAR variable regression coefficient is 0.008. Such Positive sign of the regression coefficient shows that every increasing of 100% CARs will lead to the increasing of ROA of 0.008% when the effect of other variables are constant.
3. The value of the regression coefficient of NPF variable is -0.002. This negative Regression coefficients sign indicates that if there is an increase of 100%, every NPF will cause the decline of ROA as much as 0.002% when the effect of the other variables are constant.
4. The Value of FDR variable regression coefficient is 0.009. Such Positive sign of the regression coefficient shows that every increasing of 100% FDRs will lead to the increasing of ROA of 0.009% when the effect of the other variables are constant.

Hypotheses Testing: Hypothesis 1. This study stated that NPF has negative effect on ROA. The result of multiple linear regression on the NPF variables on ROA produces t value as much as -0.134 with a significance of 0.894; because the significance level is more than 0.05, it is stated that the hypothesis 1 in this study is not supported in which NPF has no significant negative effect on ROA. Hypothesis 2 of this study states that CAR has positive effect on ROA. The result of multiple linear regression analysis of the variables on ROA CAR produces t value of 0.355 with a significance of 0.022; because the significance level below 0.05; it is stated that the second hypothesis in this study is supported, it means that CAR has significant and positive effect on ROA.

Analysis on coefficient of determination: The coefficient of determination (R2) mainly measures how far the ability of the model to explain variations of the dependent variable. R2 value which is close to one means that the independent variables provides almost all of the information needed to predict the variation of the dependent variable (Imam Ghoozali, 2005). The result of the coefficient calculation of research determination can be seen in Table 2. below:

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>R Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
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<td>.082</td>
<td>.10534</td>
<td>1.752</td>
</tr>
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</table>

a. Predictors: (Constant), lag_ROA, CAR, NPF
b. Dependent Variable: ROA

Based on SPSS Output, it seems that the data has determination coefficient value (adjusted R²) of 0.121. This means that the number of effecting independent variable, CAR Value, as the degree of capital sufficiency and NPF value as the risk of finance to profitability dependent variable (ROA) is 12.1%, while the rest, 87.9%, is influenced by other factors which are not included into this regression model.

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Discussion

The influence of Financing Risk (NPF) toward Profitability (ROA): This study shows that Financing Risk (NPF) does not affect profitability (ROA) of Islamic Banking. This means that the high or low value of NPF does not affect increasing or decreasing its profitability, or NPF condition which is higher on a particular period does not directly affect the decreasing of profit on the same period. The data obtained in this study shows that NPF tends to be decreasing, while ROA tends to be stable from time to time. According to Wibowo and Syaichu (2013), this happens because of the significant effect of NPF on ROA which is related to determining the level of stuck finance which is provided by a particular bank. In one side, this is because finance is the main source of Bank income. In another side, the high NPF will influence the rotation of bank's working capital. Thus, whenever a bank has a high number of stuck finance, so the banker then evaluates their work while declining the finance until the number of NPF is decreasing. The NPF average of Islamic Banking in Indonesia in this study is still low (3.86%) and under the standard value of BI (5%), so NPF of Islamic Banking has no significant effect on its profitability. The value of NPF is relatively low which indicates the number of stuck installment in conventional banking is also low, thus it has no effect on the profit of Islamic banking. The result of this study empirically does not meet the study of Adi Setiawan (2009) which states that NPF has negative effect on ROA. This difference may be due to the difference source of data used, Adi Setiawan (2009) used data taken from each Islamic bank, while this study uses data taken from Islamic banks which have been determined by Indonesian Bank.

The effect of Capital Adequacy Ratio (CAR) on Profitability (ROA): Capital Adequacy Ratio is a ratio which is used to measure the capability of bank in maintaining adequate capital, identifying, measuring, observing, and controlling risks which may occur and affect the number of its capital. The result of this study shows that CAR really affects ROA positively. This means if CAR is increasing, so is the profitability. This study is in line with Lisa and Suryani (2006) which state that the high value of CAR shows the capability of bank in financing its operational need; this condition is beneficial for the bank due to providing big contribution of profitability. Empirically, this study also supports some previous researches conducted by Yuliani (2007), Budi Ponco (2008), Adi Setiawan (2009), Muhammad dan Shama (2011), and Ghulam and Haroon (2010) which state that CAR has positive effect on the profitability of bank.

3. Conclusion

Generally, based on the discussion of the research findings done regarding the influence of NPF and Capital Adequacy Ratio toward The profitability of Islamic Banking in Indonesia – therefore, it can be drawn some conclusions as follows:

1. NPF does not contribute negative effects and significant toward ROA. Based on the results of multiple regression test, it is known that NPF β coefficient is negative of -0.002 and the value of t_{count} > t_{table} that is -0.134 > 0.284, with the significance of 0.894 < 0.05. Thus, if any risks increase in problematic Financing (NPF), it will not reduce the profit reflected in Corporate Income from ROA Value.

2. CAR contributes significant and positive effects toward ROA. Based on the results of multiple regression test, it is known that CAR β coefficient is positive to 0.008 and value of t_{count} > t_{table} that is 2.373 > 0.284, with significance 0.022 < 0.05. The higher CAR indicates that the Bank has the higher capital adequacy. With Higher Level of capital, then the bank can freely place the funds into profitable Investment. This will enable bank to increase customer confidence because the possibility of Bank to obtain profit is very high and chances to be liquidated is barely.

3. FDR contributes significant and positive effects toward ROA. Based on the results of multiple regression test, it is known that FDR β coefficient is positive to 0.009 and value of t_{count} > t_{table} that is 2.817 > 0.284, with significance 0.007 < 0.05. The higher CAR indicates that the Bank has the higher capital adequacy.

4. It is known that the value of F_{count} is 4.315 with significance level of 0.018. Therefore, the probability is smaller than 0.05 by using significance level of α = 5 %. Therefore, there is a significant influence of NPF ,FDR and the level of capital adequacy ratio (CAR) toward profitability (ROA) of Islamic bank in Indonesia.

Recommendation

1. It needs to conduct training to customers related to finance by using bank funds to reduce the amount of NPF.
2. It needs to improve the effective financial management capabilities to reduce financial problems by using the precautionary principle in the distribution of funding (Prudent bank), sensitivity in the early detection and protection against NPF.

References

Idris. 2006. Aplikasi SPSS dalam Analisis Data Kuantitatif. Padang: FE-UNP.
Yogyakarta: BPFE

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Model Summary^b^ |

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a. Predictors: (Constant), CAR, NPF
b. Dependent Variable: ROA

Coefficientsa

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a. Dependent Variable: ROA

Histogram
Dependent Variable: ROA

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: ROA
The Effect of Characteristics and Behavior, Socialization and Perception, and Financing System of SMEs on Financing Distribution of Islamic Banking

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Abstract: UKM or Small and medium enterprises (SMEs) are the engines of growth and innovation in the ASEAN region. SMEs contribute significantly to economic growth in Indonesia, with SMEs' share of GDP ranging from 50 percent to 53 percent in 2013. In general, the syariah financing is based on profit sharing and margin. The most common profit sharing in Syariah banking are musyarakah and mudharabah. The method of margin is done in the form of sales contract. The most developed in Syariah banking are murabahah, salam and istishna. This objectives of this research are to study the characteristics and behavior of SMEs, Socialization and Perception, along system of financing that influence the financing method of financial distribution. This is a quantitative research that used primary data. Population in this study based on all of the SMEs owner who received financial distribution by Muamalat Bank in Baubau City, Southeast Celebes. Data from this study was obtained from spreading questionnaire and procure 65 data which is processing to this study. The analysis was done by using validity and reliability test, and logistic regression analysis. The result of this study indicate that: (1) characteristics and behavior of SMEs significantly affect the Financial distribution with Murabahah as financing method, (2) Socialization and Perception does not significantly affect the Financial distribution, (3) system of financing significantly affect the Financial distribution with Murabahah as financing method. (4) macroeconomic condition significantly affect the Financial distribution with Murabahah as financing method.

Keywords: Islamic banking, Murabahah, Mudharabah, SMEs

1. Introduction

Prolonged monetary crisis has brought impact on the joints of the economic life of the Indonesian people. In such condition, Small and Medium Enterprises which is made as a safety valve with the performance of the economy tend to be relatively resistant to economic shocks. It is proven that during the crisis (1998-2001), based on data (2002) of Statistics Indonesia (BPS) Small and Medium Enterprises (SMEs) is more resilient to face the economic crisis. It is no doubt that SMEs is a savior, so that the process of economic recovery can be done. SMEs encourage economic growth and absorb employment which cannot be done by the big business. Seeing the SMEs number and their role in the economy is big enough, so it can be used as the pillar of the national economy of its potential (Kurniawan, 2000). Seeing the development of SMEs is quite good and not much affected by the economic and financial crisis, it also raises the spirit of the Indonesian banking industry to provide a greater contribution in increasing the productivity of SMEs nationwide. The SME sector is connoted with a number of negative traits, such as high risk of SME business, inefficient scale of business, lack of business administration systems, and the lack of business experience and the application of technology in the Small and Medium Enterprises (SME) (Pramod, 2004). It is negative traits that affect the low access of SMEs to finance the banking sector. In this context, it should be Islamic banking as part of the national banking system that can play an important role in order to empower SMEs with different patterns of distribution of financing to SMEs.

SMEs financing problem prevailing in conventional bank during this time is on the high interest rate charged and the absorption of SMEs loans which is not maximum. One alternative to the above problem is a pattern of SMEs financing with Islamic pattern. However, SMEs financing through Islamic Bank does not necessarily solve the problem. There are many things that must be fixed in the development of SME financing with Islamic pattern such as socialization, Islamic human resource development, public awareness of the process of interest-minded to the way the business for a mutually beneficial outcome (Ahmad Mujahid, 2001). Referring to the condition of SMEs in Indonesia, Islamic banking is demanded to cooperate with the government, private sector and the wider community in realizing the economic recovery through the generation and empowerment of the SME sector. In order to increase the portion of BNI Islamic and provide a greater contribution in empowering the SME sector, then the study is conducted on the various financing model that will be distributed in accordance with the characteristics of SMEs with concerning to the principles which are closely related to prudential banking system.
Therefore, the objectives of this study are (1) to study the characteristics and behavior of SME sectors which affect the pattern of financing, (2) to assess barriers to the adoption of the financing system for the pattern of results (Mudharaba and Musharaka), (3) to determine the most appropriate financing pattern with the characteristics of the SME sector among the various patterns of financing available on Islamic banking, and (4) to develop strategies of Islamic BNI in increasing market share and face competition in the Islamic banking industry.

2. Literature Review

Policies in Financing of SMEs and Development Efforts in SMEs: Policies to encourage small and medium industries with the policy after the amendment of Law No. 13 of 1968 into Law No. 23 of 1999, and was amended again into Law No. 6 of 2009, BI no longer gives credit program. BI plays a role in such policies, bank credit policies, institutional development and technical assistance. Assistance provided by BI are like training to banks, training the Bank Partner Financial Consultant (BPFC), research activity, providing information system (System of Debtor Information or SDI, and the Integrated Information System of Small Business Development or IISSBD)

SME Financing Concept: The concept of the SME financing issued by Bank Indonesia (BI) as a supervisor and policies maker for banking business in Indonesia through policy encourages small and medium industries with the policy after the amendment of Law No. 13 of 1968 into Law No. 23 of 1999 to Law No. 20 of 2008, and amended again into Law No. 6 of 2009 in which there is an explanation of the concept of SME financing.

Characteristics and Behavior of SMEs: Characteristics (Typical character) are a quality or characteristic that remains constant and eternal characteristic that can be used to identify a person, an object, or event (JP Chaplin: 85). According CFISEL (2010: 17-18) stated that the advantage of SMEs is possible due to some specific characteristics of SMEs, they are: first, the majority of SME business is intensive activities that use advantage of local resources. Second, the production time interval is relatively short, or production can be done quickly. Third, the value of ICOR (Incremental Capital Output Ratio) activities of SMEs is relatively low.

Socialization and Perception: Perception is defined as the process we use to interpret sensory data (Severin and Tankard Lahlry (2011: 83). In more details, Barelson and Steiner in Severin and Tankard (2011: 84) point out that the perception is a complex process in which people select, organize, and interpret the response to a stimulus into the situation of a world full of artists and logical. Mujahidin (2010) points out that socialization Islamic banking is needed in order to disseminate information and raise public awareness about Islamic banking. This can be done continuously by face to face meeting with the bankers, Ulama, community leaders, businessmen, academics and the public generally.

Financing system: Based on the Ministry of Cooperatives and Small and Medium Enterprises number 91 of 2004 on the instructions implementation of Islamic financial services cooperative effort Article 1 paragraph 8 the meaning of financing is the provision of funds for capital investment or cooperation among cooperatives with members, prospective members, other cooperatives, and or its members, which require recipients of financing to pay off the main financing to the appropriate cooperative agreement with a payment of remuneration or profit sharing and profit from financed activity or use of the financing fund. SMEs themselves can access / get finance / capital from several sources, including: private fund, pawn shops, loans without collateral (non-formal), suppliers, joint ventures, banking, government in the form of Credit (KUR) (Mubarok and Faqihudin 2011: 59).

Financing Distribution: Financing distribution can be said as finance. Finance based on Islamic principles is providing money or claim which can liken, based on the agreement or approval between bank and other party which makes those who get finance return the borrowed money after a particular period of time with interest or profit-sharing.

Hypotheses Development

The Effect of Characteristic and Behavior of SMEs on Financing Distribution of Islamic Banking: The study conducted by Purwanto et al., (2012) aims to find out the characteristic and behavior of SMEs which has effect on financing system. The study results that the characteristic and attitude of SMEs which
meet Islamic banking have more financing distribution to SMEs by implementing *murabahah* rule. Those can be proved by the result of Chi Square count. 

**H1:** The characteristic and Behavior of SMEs has positive effect on financing distribution of Islamic banking.

**The Effect of Socialization Perception on Financing Distribution of Islamic Banking:** The study conducted by Kurniaawati *et. al.*, (2007) points out that customers’ willingness to interact with Islamic banking is affected by three aspects, behavior toward behavior, subjective norm, and perceived control behavior. Therefore this finding needs real effort to follow up by banking institution, especially Islamic Banking. It is suggested to introduce more and make customers get interested so that they want to do transaction with Islamic Banking. Then it is also suggested that Islamic Banking widen their socialization about knowledge of Islamic banking.

**H2:** Socialization and Perception have positive effect on financing distribution of Islamic Banking.

**The Effect of SMEs Financing System on Financing Distribution of Syariah Banking:** The study of Susilo, Hubeis & Purwanto (2012) finds out that characteristics and behavior of SMEs are in line with the statement that Islamic Banking distributes their finance more under the principle of *Murabahah* even though it finds some difficulties in applying the system.

**H3:** Financing system of SMEs Has Positive Effect on Financing Distribution of Islamic Banking.

### 3. Methodology

Due to an analysis of discussing problems in financing of SMEs through Islamic Banking, it is needed to obtain and gather the related data, review related literatures and conduct library research on theories of various Islamic Banking system either primary or secondary data. Primary data is the main data which is used in this study. The data are obtained from questionnaire result distributed to 280 debtors of SMEs registered in Muamalat Bank Semarang branch. Beside the questionnaire result, the data also are obtained by interviewing bank clerks and customers. While the secondary data, it is used for additional support in the analysis. The data is included into quantitative data because it uses portfolio data of Muamalat Bank Semarang Branch. The portfolio is based on the type of financing which has been distributed, data of banking development and the segment of Islamic Banking in National Banking. Another data is obtained qualitatively from magazine / newspaper, literatures related to Islamic Banking and reviews of the experts in economics which are published on bulletins, scientific journals, or uploaded in the internet. The obtained data will then be analyzed by using the following method.

**Technique of Data Analysis:** The method of data analysis used in this study is by using an analysis of binary logistic regression. The hypothesis test by using this binary logistic regression is employed when the independent variables are a combination of Continue (Metric) and Categorical (Non-Metric). This technique of data analysis does not need a normality test on data of independent variables. (Ghozali, 2006:261). Regression model which is used in this study can be stated as follow:

\[
\ln \frac{P}{1-P} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3.
\]

Where:
- \( \ln \frac{P}{1-P} \) = Dummy Variable of Financing Distribution of Islamic Banking (Category 1 for those enterprises that employ *Murabahah* System while Category 0 for those that employ *Mudharabah* System)
- \( \alpha \) = Constanta
- \( \beta_1 \beta_2 \beta_3 \) = Regression Coefficient of logistic for each Independent Variable
- \( X_1 \) = Characteristics and Behavior of SMEs
- \( X_2 \) = Socialization and Perception
- \( X_3 \) = Financing system of Islamic Banking

**Hypothesis Test:** To answer the hypotheses that have been formulated, the following methods of analysis can be used:

**Matching Test /The Feasibility of Regression Model:** The feasibility of Regression models is assessed by using the Hosmer and Lemeshow’s Goodness of Fit Test. If the statistical value of Hosmer and Lemeshow’s Goodness of Fit is greater than 0.05 then the null hypothesis cannot be rejected and it means
that the model is able to predict the value of observation or can be said that the model is accepted because it fits the data observations (Ghozali, 2006: 269).

Model Fit Testing: In assessing the overall fit model, Cox and Snell’s R Square and Nagelkereke’s R square can be used. (Coefficient of determination)

Significance of Regression Coefficients Testing
1. The level of significance (α) which is used by 5% (0.05).
2. The Criteria for acceptance and rejection of the hypothesis are based on the significance of the p-value. If the p-value (significant) > α, then the alternative hypothesis is not supported. Conversely, if the p-value < α, then the alternative hypothesis is supported (Ghozali, 2006: 270).

4. Data Analysis and Discussion

The results of Regression Analysis: The results of the study found that all the independent variables have regression coefficient with positive direction. The hypothesis testing can be described as follows:

<table>
<thead>
<tr>
<th>Variables in the Equation</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1\a</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td>.321</td>
<td>.178</td>
<td>3.237</td>
<td>1</td>
<td>.042</td>
<td>1.378</td>
</tr>
<tr>
<td>X2</td>
<td>.038</td>
<td>.119</td>
<td>.102</td>
<td>1</td>
<td>.749</td>
<td>1.039</td>
</tr>
<tr>
<td>X3</td>
<td>.198</td>
<td>.096</td>
<td>4.231</td>
<td>1</td>
<td>.040</td>
<td>1.218</td>
</tr>
<tr>
<td>Constant</td>
<td>-10.295</td>
<td>4.807</td>
<td>4.588</td>
<td>1</td>
<td>.032</td>
<td>.000</td>
</tr>
</tbody>
</table>

\a Variable(s) entered on step 1: X1, X2, X3.

The Effects of the Company Characteristics on the Islamic Financing Choice: The test on the effects of the company characteristics variables on the types of Islamic finance partially results Wald test statistic value of 3.237 with a significance of 0.042. Based on the significant value, it shows that the value is lower than the significance level of 0.05. This means that on the level significant level of 5%, the characteristics and behavior of SMEs has significant effect on the distribution of Islamic finance, or in other words Hypothesis 1 is supported.

The Effect of Socialization and Perceptions on the Selection of Islamic Finance Types: The test on the effect of socialization and perception variables on the Islamic finance type selections is obtained partially in Wald test statistic value of 0.102, with a significance of 0.749. Based on the significance value, it indicates that the value is greater than the significance level of 0.05. This means that on the level significant level of 5%, the socialization and perception do not have significant effect on the distribution of Islamic banking finance or in other words Hypothesis 2 is not supported. There has been no significant effect due to the socialization given by the banks which has not been able to change the public perception of Islamic banking finance. The Islamic banking has not provided unceasing socialization about their products so that the public perception toward Islamic banking is still an Islamic bank, the one which is usury-free bank, and the profit-share bank. However, the socialization and the perception of reality do not match the distribution of funding that dominate the Islamic banking finance. The Islamic banking should also assert itself as a bank without usury, but not a bank with no load. In addition, the socialization and perceptions of Islamic finance is currently on the type of Islamic finance offered by Islamic banks, especially Muamalat Bank which indicates that both banking products in the forms of Islamic finance do not have different socialization, so that both are perceived the same way by the owners of SMEs. These results support the research done by Sadhana (2010), and Adawiyah (2010).

The Effect of “SMEs” Financing system on Islamic Financing Choice: The test on the effect of “SMEs” financing system on Islamic financing choice partially results Wald statistical value of 4.231 with significant value of 0.04. Based on this significant result, it shows that the value is lower than the significance level of 0.05. This means that on the level significant level of 5%, the financing system of “SMEs” has significant effect on distributing finance of Islamic Banking, or it can be said that the hypothesis 3 is supported. This means that the system of financing SMEs meet the financing distribution
by a simple murabahah system because the simple murabahah system is easy to understand, does not depend on cash flow or profit/loss encountered by SMEs, and is not effected by global economic conditions. The goods traded by the bank and the customers function as a collateral so that this financing does not another collateral, this absolutely makes easy the costumers who have SME. This result is in line with the study of Susilo, Hubeis, and Purwanto (2012) who point out that the financing system of SMEs is in line and has an effect on financing distribution of Islamic Banking.

**Suggestions:** It is suggested for further study to consider these followings:
1. Islamic Banking needs to do more socialization by promoting on the internet, mass media, electronic media, etc. dealing with the advantages and weakness of financing system of Islamic banking both murabahah and mudharabah, so that, the owner of SMEs do not have perception that mudharabah and murabahah equal to each and are different from any conventional banking.
2. Introducing Islamic banking to SMEs is more technical of approach which is suitable with kinds of work performed by SMEs.
3. Finance by profit-sharing needs to be optimized because it is a core product of Islamic banking, it is not a human-made system of economy but God’s system of economy because it has many verses about trading which contains profit-sharing.

**Limitations:** This study has been conducted at one branch of Muamalat Bank (Muamalat Bank of Baubau Branch, South East of Sulawesi) and the total of independent variables is three (The characteristic and the behavior of SMEs) by resulting Nagelkerke Square which is only 29.70%. Therefore, a further research can employ more Islamic banking and add some independent variables, so that, it is hoped that it can explain more about financing distribution of Islamic banking.

**References**


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Role of Commitment in the Relationship between Islamic Leadership and Islamic Work Ethic on Employee Performance

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Abstract: This study is aimed to analyze and show the influence of the leadership perception and Islamic work ethics toward the employee commitment in organization and employee performance. The samples of this study are 93 employees of PT. Telkom Indonesia Tbk and PT. PLN (Persero) Indonesia, who have joined ESQ training and management qalbu. The data are collected through open and close questionnaires. The results of quantitative test show that (1) Islamic leadership has positive and significant effect toward employee commitment in the organization; (2) Islamic leadership has positive and significant effect toward Islamic work ethics; (3) Islamic leadership has positive and significant effect toward employee performance; (4) Islamic work ethics has positive and significant effect toward employee commitment in organization; (5) Islamic work ethics has positive and significant effect toward employee performance; and (6) Employee commitment in organization has positive and significant effect toward employee performance. The functions of human as Khalifatu'llah fil ardhy and Abdullah stated in Koran Surah Al Baqarah (2): 30 and Surah Al Dzariyat (51): 56 have been well and appropriately implemented by the managers and employees.

Keywords: Islamic Leadership, Islamic work ethic, Employee commitment, employee performance, State owned enterprises

1. Introduction

The importance of spiritual values in improving organizational performance has been conducted by many researchers today (Chen & Yang, 2012; Lynton & Thogersen; Crossman, 2011; Fry et al., 2011, Pawar, 2008; Pin et al, 2010; Jurkiewicz & Gialalone, 2004; Gialalone & Jurkiewicz, 2003, Duchon & Płowman, 2005; Fry, 2003; Fry & Matherly, 2006, Ali, 2005). Spiritual leadership is part of the implementation of spiritual values in the workplace which is the development of the theory of the previous leadership. Concept and implementation of spiritual values in the workplace is still an issue and the relatively new field related to the individual and organizational (Sheep, 2006; Moor & Casper, 2006) including leadership and work ethic. The concept and measurement of spiritual leadership has been studied by Fry (2003, 2005); Fry, Vitucci, and Cedillo (2005); Malone and Fry (2003). While Islamic work ethics in the workplace has been developed by Ali (1985) and Yousef (2000). Study about the previous leadership has not been able to find leadership pattern which can accelerate organization member to be oriented to performance accompanied by ethics and religious moral totally. The recent leadership patterns still consider that the meaning of leadership is mandate from people (subordinate) and not consider leadership as mandate from God and people. Leadership approach is still dominated by authority and not by spirituality and deep inside. The follower in organization is supported by material and altruistic influence by neglecting moral values, inspiring, encouraging, empowering and humanizing.

Islamic work ethics is the life attitude and point of view toward work, work habit, the characteristics about the way of work owned by someone which is based on divine teachings and mind that cooperate one to another (Asifudin, 2004). Islamic work ethics reflected from belief system / Islamic belief related to work that is formed by divine and mind. Islamic work ethics can increase performance if work is the explanation of belief, work is based on science, work by applying the characteristics of Ilaahi. Oliver (1990) found that work ethics has significant relation with organizational commitment. Yousef (2000) found that organization commitment mediates the relation between Islamic work ethics and attitude toward the changing of organization. The purpose of this study was to investigate the influence of Islamic leadership, Islamic work ethic and commitment to the performance of employees.

2. Literature Review

Islamic Leadership: In Islam view, leadership is a mandate and responsibility that is not only accounted to his members he leads, but also will be accounted in front of Allah SWT. Leadership in al-Qur'an and hadits view is a mandate that must be done well, full of responsibility, sincere, and professional.
Consequently a leader must have the characteristics of trusteeship, professional and responsible. A leader must have bravery to maintain law and justice. Islamic leadership can be defined as a process to direct and to motivate other people and has cooperate business based on Al-Qur'an and Hadist to reach the purposes they wanted. Some of Islamic leadership indicators found based on conventional and Al-Qur'an and hadist leadership theories are the characteristics of *shiddiq, amanah, fathonah, tabligh*. Islamic leadership indicator consists of *shiddiq* based on QS. Al Baqarah (2): 177, QS. At Taubah (9): 119, QS. Al Ahzab (33):70, trusteeship indicator based on QS. Al Mukminun (23):8, QS. Al Anfal (8): 27, QS. Al Ahzab (33): 72 and hadist HR. Ahmad from Anas bin Malik., fathonah indicator based on QS. Al Baqarah (2):269, tabligh indicator based on QS. An Nuur (24):54. Fair indicator based on QS. Al Maidah (5): 8, QS. Shad (38): 26 and sincere indicator based on QS. Shad (38):83, QS. Al-Bayyinah (98):5, QS. Az-Zumar (39):3, QS. An-Nahl (16):66.

The research done by Mei (2003) about structural equality model of leadership behavior, organization's commitment concluded that there is direct influence between leadership practices toward work satisfaction and indirectly influence toward organization's commitment. The research done by Hennesey (1998) concluded that leadership influence significantly toward organization performance. The research done by Koene, et al., (2002), examined different leadership styles concluded that local leadership influences financial performance and organization atmosphere. The research done by Brodbeck, et al., (2002) about leadership in Germany concluded that leadership influences significantly toward employee's performance. The research result done by Chen (2004) concluded that leadership influence positively toward organization commitment. The research done by Daniel (2003) about the influence of leadership toward organization commitment in multinational telecommunication company showed the result that there is significant influence between leadership toward organization commitment.

**Islamic Work Ethics:** Rasulullah commanded: "working is an obligation for every moslem". According to Ali (2005) Islamic work ethics is an orientation that has great influence to Islam people and organization. Islamic work ethics is made of four elements namely effort, competition, transparancy, and moral behavior which have responsible in work. According to Yousef (2000) Islamic work ethics sees that work is a goodness, work done by cooperation and consultation is the way to overcome problem and lessen mistake in work. According to Asifudin (2004), Islamic work ethics has basic life attitude toward work, identical to belief system or Islam attitude concerning work based on understanding from divine and mind that cooperate each other proportionally. Yousef (2000) studied about the relation between Islamic work ethics and attitude toward organization changing mediated by organization commitment. Yousef found that Islamic work ethics has positive relationship toward commitment and attitude toward organization changing. Islamic work ethics such as cooperation principle, responsibility, social influence, and dedication proven positively produced commitment from organization members. The research done by Yousef (2001) concluded that Islamic work ethics directly related to organization's commitment. Islamic work ethics directly related to work satisfaction. Islamic work ethics moderates the relationship between work satisfaction and organization's commitment. The research done by Putti et al. (1989) about the relationship between work ethics and organization's commitment in Asia concluded that intrinsic work ethics has stronger relationship with organization's commitment than extrinsic work ethics. Oliver (1990) also examined the influence of employee's work ethics toward organization commitment of company concluded that work ethics influences significantly toward commitment. The research done by Yousef (2000) concluded that employee with high commitment to organization, is very satisfied with his work and his performance is high. Kumar and Rose (2008) concluded that there is relationship between Islamic work ethics and innovation capability. All innovation capability indicators have significant correlation toward Islamic work ethics.

**Hypotheses:** Based on thinking process framework and conceptual framework, study hypothesis is arranged as follow:

H1: Islamic leadership influence the employee’s commitment
H2: Islamic leadership influences Islamic work ethics of employees
H3: Islamic leadership influences employee’s performance
H4: Islamic work ethics influences employee’s commitment
H5: Islamic work ethics influences employee’s performance
H6: Employee’s commitment influences employee’s performance
3. Methodology

**Sample:** Population in this research are all employees of BUMN PT. Telecommunication Tbk and PT. State Electricity Company in Central Java Province and Special Region Yogyakarta who have joint ESQ or MQ training, as many as 1310 employees. Sample in this research is employees of PT. Telecommunication Indonesia Tbk and PT. State Electricity Company (Persero) in Central Java Province and Special Region Yogyakarta who have joint ESQ or MQ training. Sample took as many as 100 people using proportional technique sampling and purposive sampling, for PT. Telekomunikasi Indonesia Tbk as many as 66 people and PT. Perusahaan Listrik Negara (PLN) Persero as many as 27 people. Collecting data is done by using survey method that uses questionnaire instrument guided by interview. Questionnaire instrument is designed using combination between closed question and opened question.

**Measure:** Islamic leadership indicators measured multy item using instrument developed by Zainudin and Mustaqim (2005) as many as six indicators based on main characteristics of Rasulullah Muhammad saw. Islamic leadership indicators are Shiddiq, Amanah, Fathanah, Tabliq, Fair. Islamic work ethics indicators consists of six indicators developed based on research done by Ali (2008), cooperation, dedication, giving benefit in work, justice, creativity. All of the variables is measured using Likert scale 1 to 5. Organization commitment indicator is developed based on research done by Mowday, R.T., R.M. Steers, and L.W. Porter, (1979), is measured multy item using Likert scale with score 1 to 5. Employee's performance indicator is developed based on research done by Janseen, Onne (2001) and based on Al Qur'an and hadist. all variables were measured using a Likert scale, 1 = strongly disagree and 5 = strongly agree.

4. Result and discussion

**The Result of Outer Model:** Loading score indicator of shiddiq (X1.1) is 0.893, amanah (X1.2) is 0.735, fathanah (X1.3) is 0.839, tabliq (X1.4) is 0.879 and fair (X1.5) is 0.715. the result of convergent validity test, 5 Islamic leadership indicators have loading factor score of all indicators more than 0.5, and T statistic score of all indicators greater than T Table as many as 1,6711. Loading score indicator of cooperation is goodness in work (Y1.1) is 0.787, work dedication (Y1.2) is 0.821, work is useful for self and other people (Y1.3) is 0.876, justice and comfort in work place (Y1.4) is 0.865, work creativity (Y1.5) is 0.830. The result of convergent validity test, 5 Islamic Work Ethics indicators have loading factor score of all indicators more than 0.5 and T statistic score of all indicators greater than T Table is 1,6711. Loading score indicator of possessive of organization (Y2.1) is 0.838, bounded emotionally to organization (Y2.2) is 0.814, aware to organization fate (Y2.3) is 0.678, spending career in organization (Y2.4) is 0.745, proud of organization (Y2.5) is 0.741, organization’s problem is oneself problem (Y2.6) is 0.735. The result of convergent validity test, 6 indicators of employees' commitment have loading factor score of all indicators more than 0.5 and T statistic score of all indicators greater than T Table is 1,6711. so all employees' commitment indicators are valid. Based on composite reliability test from indicator block that measures construction, show satisfying result that is 0.891, means that employees' commitment construction can give relatively same result if remeasure is done to te same subject. Loading indicator score of work quantity (Y3.1) is 0.646, work quality (Y3.2) is 0.699, work efficiency (Y3.3) is 0.667, professional standard (Y3.4) is 0.737, punctuality (Y3.5) is 0.606, often do sunnah pray (Y3.6) is 0.712, the increasing of ZIS (Y3.7) is 0.603, the increasing of devotion (Y3.8) is 0.684. The result of convergent validity test, 8 indicators of employee's performance have loading factor score of all indicators more than 0.5 and T statistic of all indicators greater than T Table is 1,6711.

**The Result of Inner Model:** The first hypothesis, is the influence of Islamic leadership toward organization commitment, test result of t – statistic score is 2,167 and t=Table is 1,6711. While coefficient estimation (β) score is 0.324. So it can be concluded that there is significant positive influence from Islamic leadership variable toward employee's commitment to organization. The second hypothesis is the influence of Islamic leadership toward Islamic work ethics, the test result of t–statistic score is 16,428 and t=Table is 1,6711. While coefficient estimation (β) score is 0.826. So, it can be concluded that there is significant positive influence from Islamic leadership variable toward Islamic work ethics. The third hypothesis is the influence of Islamic leadership toward employee's performance, the test result of t – statistic is 2,330 and t=Table is 1,6711. While coefficient estimation (β) score is 0.182. So it can be concluded that there is significant positive influence from Islamic leadership variable toward employee's performance. The fourth hypothesis is the influence of Islamic work ethics toward employee's commitment to organization, the test result of t –statistic score is 3,082 and t=Table is 1,6711. While
Coefficient estimation (β) score is 0.607. So it can be concluded that there is significant positive influence from Islamic work ethics variable toward employee's commitment to organization. The fifth hypothesis is the influence of Islamic work ethics toward employee's performance, the test result of t-statistic score is 4.975 and t-Table is 1.6711. While coefficient estimation (β) score is 0.514. So, it can be concluded that there is significant positive influence from Islamic work ethics variable toward employee's performance. The sixth hypothesis is the influence of employee's commitment to organization toward employee's performance, the test result of t-statistic score is 2.875 and t-Table is 1.6711. While coefficient estimation (β) score is 0.319. So it can be concluded that there is significant positive influence from employee's commitment to organization variable toward employee's performance.

### Table 1: Result for inner weights

<table>
<thead>
<tr>
<th>Original sample estimate</th>
<th>Mean subsamples</th>
<th>Standard deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership &gt;&gt; Commitment</td>
<td>0.324</td>
<td>0.316</td>
<td>0.149</td>
</tr>
<tr>
<td>Leadership &gt;&gt; Islamic work Ethic</td>
<td>0.826</td>
<td>0.835</td>
<td>0.050</td>
</tr>
<tr>
<td>Leadership &gt;&gt; employee performance</td>
<td>0.182</td>
<td>0.171</td>
<td>0.078</td>
</tr>
<tr>
<td>Islamic work ethic &gt;&gt; Commitment</td>
<td>0.607</td>
<td>0.610</td>
<td>0.156</td>
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<tr>
<td>Islamic work ethic &gt;&gt; employee performance</td>
<td>0.514</td>
<td>0.481</td>
<td>0.103</td>
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<tr>
<td>Commitment &gt;&gt; employee performance</td>
<td>0.319</td>
<td>0.362</td>
<td>0.111</td>
</tr>
</tbody>
</table>

T-Table is 1.6711.

### Discussion:
Islamic leadership (X1) has significant and positive influence toward organization commitment (Y1), so the first hypothesis of this study is proven and accepted. The results support the findings of Fry et. al (2011) that the spiritual leadership to increase organizational outcomes. This result widen the research done by Nowack (2004) which concluded that employee who judges his superior has bad leadership practice make the employee has high intention to quit from organization, low work satisfaction, stress, and employee's commitment to organization is low. This research also widen research done by Fry, Vitucci, Cedillo (2005), about causal model of spiritual leadership theory. Research conclusion gives strong support toward spiritual leadership theory and the measurement. The research result also support Yousef finding (2000) which stated that a leader must be able to do managerial activities. The result of the research also widen Chen finding (2004) which concluded that leadership with innovation culture gives positive influence toward organization commitment. The result of the research also suit to theory given by Thobroni (2005) and Nawawi (1993) which stated that Islamic leadership is as something concerning with leading consists of directing, guiding, leading, showing the way, conducting and training to that people lead can do themselves to reach the decided goals. Islamic leadership in this research enrich conventional leadership model with main principle that the essential of leadership is as a test, mandate from Allah Swt and human so that should be beared to Allah Swt (vertical responsibility) and to human (horizontal responsibility).

Islamic leadership (X1) has significant and positive influence toward Islamic work ethics (Y1), so the first hypothesis of this study is proven and accepted. It means the better and more consistent the application of Islamic values in leadership will increase Islamic work ethics of the employee. The result of this research widen the research done by Howard and Wilson in Timpe (1999:358), leadership gives influence
to work ethics. It means if leadership is not well done, it will cause the decreasing work ethics of employee. Leadership process can influence organization outcomes, one of them is the higher work ethics of employee (Pierce and Newstrom, 2006:65). Islamic leadership (X1) has significant and positive influence toward employee's performance (Y1), so the first hypothesis of this study is proven and accepted. It means the better and more consistent the application of Islamic values in leadership will increase employee's performance.

Islamic work ethics (Y1) has significant and positive influence toward organizational commitment (Y1), so the first hypothesis of this study is proven and accepted. It means the better the implementation of Islamic values in work ethics will increase employee's commitment toward organization. The result of this research widen research finding done by Yousef (2000) which research about the relationship between Islamic work ethics and attitude toward organization changing which is mediated by organization commitment. By using Islamic work ethics identification developed by Ali (1996), Yousef found that Islamic work ethics has positive relationship toward commitment and attitude toward organization changing. Islamic work ethics such as cooperation principle, responsibility, social influence, and dedication is proven positively produces commitment from the member of organization. The result of research widen research done by Yousef (2001) which examine Islamic work ethics as moderator of relationship between organization commitment and work satisfaction and examine the impact of national culture as relationship moderating variable between Islamic work ethics and work satisfaction. The result of research also widen finding of Putti et al. (1989) about the relationship between work ethics and organization commitment in Asia concluded that there are two major dimensions of work ethics named intrinsic and extrinsic derived from Wollack et al. Scale analysis factor. The result of research is in line with Oliver finding (1990) which examine the influence of employee's work ethics toward organization commitment company in England concluded that work ethics influences significantly toward employee's commitment. Employee who has strong ethics relatively has high commitment.

The result of this research widen Meglino et al finding (1989), that work ethics can predict work outcomes. The result of research widen Furham et al finding (1990), that work ethics influences behavior such as employee's performance. The research finding is also in line with theory stated by Asifudin (2004) about Islamic work ethics. Identification about Islamic work ethics was firstly stated by Ali (1986). Then, research about Islamic work ethics is developed by Yousef (2000). Organization commitment (Y2) has significant and positive influence toward employee's performance (Y3). The result of research widens the research done by Yousef (2000) about organization commitment as relationship moderator between leadership behavior and work satisfaction and performance. The result of research also widen Suliman and Iles finding (2000) which examine the relationship between commitment characteristics on three companies in Yordania with employee's performance, concluded that there is significant influence between affective, continuance and normative commitment toward performance. The strong possessive to organization and always feel bound emotionally with organization will create strong employee's commitment to organization and will increase employee's professionalism in work and the increasing employee's spiritual performance in doing sunah worship which finally increase employee's performance wholly.

5. Conclusion

Based on the results of the study showed that the leadership of Islam and Islamic work ethic is very important in improving employee commitment and performance. Leadership and work ethic that is based on the spiritual values will encourage employees to commit to the organization and have a passion to improve performance.

Recommendations: The leaders need to master and to explain in practice of Islamic leadership concept based on Al Qur'an and As-Sunah and to be able to understand and explain Rasulullah Muhammad Saw leadership values to have honesty, can keep amanah, can communicate, smart in taking decision, fair and wisdom. Management should continuously do spiritual activities in order to understand and to master the content of Al-Qur’an and As-Sunnah especially that relate to the application of Islamic leadership, Islamic work ethics and implement and civilize the Islamic values in management of company. Government in this case states own enterprises ministry need to organize management by emphasizing spiritual values more, so that employees and organizational performance can increase significantly. Good company management and supported by the strengthening of spiritual values will increase organizational performance optimally more.
Limitation of the Study: Based on the result of this study, there are some things that have not been able to be finished, so there are some limitedness in this study. The less support theory and empiric in this research need further exploration study to find more satisfying indicators for each variables.

References

Kumar Naresh, Rose Raduan Che. (2008), Islamic Work Ethic and Innovation Capability in the Malaysian Public Sector, Research in Islamic Studies: Addressing Contemporary Challenges and Future Prospects, Academy of Islamic Studies, University of malaya, Kuala Lumpur


Fraudulent Financial Statement (Factors Analysis)

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Abstract: The purpose of this study is to analyze the factors that influence the fraudulent financial statement on manufactures company in Indonesia. The independent variables which used are audit quality as measured by audit size (Public Accounting Firm big four and non big four) and financial distress as measure by Z score Zmizewzky model, while the dependent variable which used is fraudulent financial statement as measured by F score model. As population in this study is manufacturing companies which were listing on the Indonesia stock exchange between 2010-2012 period. Sampling was conducted with a purposive sampling method and there were 61 as sample of the manufactures companies, so that there were 183 observations. The method of analyzes which used is multiple linear regression. Based on the result of the study show that audit quality as measure a Public Accounting Firm big four have the negative effect on fraudulent financial statement, while financial distress have the positive effect on fraudulent financial statement.

Keywords: fraudulent financial statement, audit quality, financial distress, F score

1. Introduction

Nowadays, many illegal cases are published and it indicates the seriousness of fraud occurring in financial statement. One of the fraudulences that exist in Indonesia happens at PT Kimia Farma Tbk in which its financial statements is audited on December 31, 2001 by Hans Tuanakotta and Mustafa (HTM), and based on the indications made by the Ministry of BUMN and BAPEPAM (2002), shows that the management of Kimia Farma is reported to have a net profit of Rp. 132 billion. Unfortunately, this net income is considered to be too high and indicated to possess elements of manipulation. Having held a re-audit on October, 03, 2002, the financial statement of Kimia Farma of 2001 is restated because it is found a very basic mistake in its financial report in which it only reports profit of Rp. 99.56 billion or lower than Rp32.6 billion or USD 24.7 billion from the beginning of the report. In addition, another case that shocked the world is conducted by Enron. The company suffers a loss and bankrupt of US $ 50 billion. Enron is suspected of practicing window dressing because management of Enron inflates (mark-up) its income of US $ 600 million and hide their debt by using off-balance amount of US $ 1.2 billion. The scandal has scratched the image of accounting profession. The cases presented are the result of Fraudulent Financial Statement practices.

According to Yustitia and Tarmidzi (2012) Fraudulent Financial Statement is a behavior of entity actors which is done intentionally, whether by action or omission, which results in financial statements bias. When a financial report contains elements of fraud, it can lead to the fall of the integrity of information in the financial statements (Ansar, 2011). According to Rezaee (2002), in the last period, the fraudulent financial statement has increased substantially due to the weak controls over financial reporting. Essentially, the financial report is a guide of stakeholders to make decisions related to the economic condition (Ghazali and Chariri, 2007). The financial statements must be presented fairly in accordance with generally accepted accounting principles (GAAP/PABU). According to FASB in Tjun Tjun, Et al (2012), there are two important characteristics that must be presented in the financial statements, they are relevance and reliability. The financial statements will lose its relevance and reliability when the financial statements presented have misstatement that would lead to a fraud (Aulia, 2013). In the fraud triangle theory developed by Cressey in Skousen (2009) and introduced in the Professional Literature on SAS 99 about Consideration of Fraud in a Financial Statement Audit, to detect the fraudulent financial statement, there are three conditions that must be paid attention on it, they are the pressure, opportunity and rationalization. Referring to the research conducted by Rahmawati (2013) which states that rationalization factor in the fraud triangle theory is so difficult to study, so that, the rationalization factor is not used in this research, it will only use the aspect of opportunities and pressures.

The first variable is taken from the opportunity factor of fraud triangle theory. This research uses the variables of audit quality that is reflected in the use of services by the big four and non-big four Public Accounting Firms (PAF/KAP). The audit quality is categorized as an opportunity factor of fraud Triangle
theory. According to research conducted by Yustitia and Tarmidzi (2012) which is in line with the Gerayli (2009), it states that companies that use the services of the big four have low level of fraud if compared with those who use non big four. Therefore, auditors of the big four PAF are considered to be able to limit fraud. The second variable is the financial distress. According to plat and plat (2002), financial distress is a condition where the company is experiencing financial difficulties to fulfill its obligations. According to the study by Ansar (2011), in the fraud triangle theory, financial distress is categorized as pressure, because theoretically when entity actors are confronted with the current state of the company which is suffering any financial distress, such entities will attempt to commit fraud in the financial statements in order to make it more favorable than the original one. The theory is supported by research conducted by Hansan et al (2006), Carcello and Nagy (2004) which states that the higher the financial distress experienced by a company is, the higher the likelihood of fraudulent financial statements in an enterprise will be.

In this study, financial distress is measured by a Z score proxy of Zmejewski models which is referred to the research conducted by Ansar (2011). In addition, the audit quality is proxified by big four and non-big four PAF by using dummy variables. Moreover, the fraudulent financial statements can be measured by various methods such as F score which is used as a proxy to oversee the presence of fraudulent financial statement. Actually, the F-Score is developed by Dechow in 2007, yet, this F-Score method has not been widely developed in Indonesia. In addition, the use of F-Score is used to predict the existence of fraud early in the financial statements. This research refers to the research conducted by Yustitia and Tarmidzi (2012) which states that the quality of the financial statements audited by the big four PAF is more eligible than audited by the non big four ones. The difference of this research with the previous one is on the use of financial distress and the techniques of analysis used. Although cases of fraud in the accounting world often occur, in Indonesia itself, the cases of fraud never stop to be discussed (Wilopo, 2006). In addition, in Indonesia, there is still less investigation of fraud by using the F-Score models, so, it becomes opportunity for the researcher to provide an overview for stakeholders, especially investors in decision making process.

**Theoretical Framework and Development of Hypotheses**

**The effect of quality audit toward the fraudulent financial statement:** Good financial statements are the financial statements which do not contain misstatements material, as well as relevant and reliable if disclosed to the public. Theoretically, companies with good financial statements are considered to use the services of a qualified public accounting services, because the better the quality of the audit of the financial statements is, the lower the level of fraud will be. According to Yustitia and Tarmidzi (2012), the level of risk of fraudulent financial statement in the company which uses the non-big four POF is greater than the big four ones, because the big four apply high standard criteria in auditing financial statements. In other words, if companies use the services of the big four, the trend of the company to commit fraud against the financial statements will decrease when compared to those who use the services of non big four. Moreover, this research is in line with the research conducted by De Angelo (1981) in Yustitia and Tarmidzi (2012) which analyze the correlation of audit quality and the size of the audit. The result concludes that the large-scale auditors (Big four) are better than the small ones (non-Big four) because the Big four have more technical ability to find fraud in client accounting system as they have more extensive experience and high reputation if compared with non-Big Four. From the explanation above, the hypothesis is formulated as follows:  

**H1: Quality audit with a proxy of the big four PAF has negative effect on the occurrence of fraudulent financial statement.**

**The effect of financial distress on the fraudulent financial statement:** According to Platt and Platt (2002), financial distress is a condition in which companies are not good in financial condition or are in crisis that results in companies struggle to meet its obligations. According to research conducted by Ansar (2011), based on the theory of fraud triangle, financial distress or financial difficulties can be categorized as pressure (pressure) faced by business entities related to businesses. Theoretically, if a company is experiencing financial distress, then the company will tend to make financial statements to look more favorable and stable, and the circumstances will motivate the management to commit fraud over financial report. According to research conducted by Hasnan, et al (2006) which is in line with research conducted by Carcello and Nagy (2004) in Subroto (2012), it states that financial distress positively influences fraud, because the higher the existing financial distress in a company is, the higher the likelihood of fraud in the financial statements will be. Based on the explanations above, the hypothesis is formulated as follows:
H2: financial distress positively affects the occurrence of fraudulent financial statement.

2. Methodology

Population and Sample: The population in this study is the financial report of companies listed in Indonesia Stock Exchange in 2010 - 2012. The sampling method used in this research is purposive sampling method (IDX 2010-2012). In purposive sampling, sampling is done with the aim of existing and already planned beforehand. The criteria for the sample used in the research are:

1. Manufacturing company which is listed on the Indonesia Stock Exchange (IDX) during the period of 2010 to 2012 and presents its financial statements in company website or IDX website and present a complete financial statement data for the entire year of observation.
2. Companies that are not delisted and do not change their PAF during the observation period, in other words during the years 2010 - 2012 the company do not change the use of the financial statement audit services from the big four to non big four or vice versa.

Types and Sources of Data: Data used in this research are secondary data obtained from the website of the Stock Exchange (www.idx.co.id) in the period of 2010-2012. In addition, the data obtained from various journals published and used as reference are related with the problem in this study, the data are also sourced from auditing books and other supporting books.

Operational Definition and Measurement of Variables: There are two variables, they are the independent and the dependent, the dependent variable is fraudulent financial statements (Y) and the independent variables consist of audit quality (X1) and financial difficulties (financial distress) (X2)

Dependent Variables: Definition of Fraudulent Financial Statement by the Association of Certified Fraud Examiners (ACFE) in Rezaee (2002) is:

"The intentional, deliberate, misstatement, or omission of material facts, or accounting data is the which is misleading and, when Considered with all the information made available, would case the reader to change or alter his or her judgment or decision."

The Regression Measurement of fraudulent financial statements uses F SCORE proxy. The F SCORE is developed by Dechow (2008) and Skousen et.al (2009) in Sukrisnadi (2010). Clearly, it can be presented as follows:

\[
F - Score = \frac{Predicted\ probability}{Unconditional\ probability}
\]

Predicted probability = \(\frac{e^{(PredictedValue)}}{1 + e^{(PredictedValue)}}\)

PredictedValue = \(a + \alpha_1RSST\ accrual + \alpha_2ch\_rec + \alpha_3ch\_inv + \alpha_4ch\_er + \alpha_5ch\_cs + \alpha_6ch\_roa + a7issue.\)

Unconditional probability = 0.0037

The formula of predicted value is as follows:

\[
RSST\ Accrual = \frac{(\Delta WC + \Delta NCO + \Delta FIN)}{Average\ Total\ Assets}
\]

\[
WC = (Current\ Assets - Cash\ and\ Short term\ Investments) - (Current\ Liabilities - Debt in\ Current\ Liabilities)
\]

\[
NCO = (Total\ Assets - Current\ Assets - Investment\ and\ Advances) - (Total\ Liabilities - Current\ Liabilities - Long\ Term\ Debt)
\]

\[
FIN = (Short\ Term\ Investments + Long\ Term\ Investments) - (Long\ Term\ Debt + Debt in\ Current\ Liabilities + Preferred\ Stock)
\]

\[
ATS = \frac{(Beginning\ total\ assets + end\ total\ assets)}{2}
\]

Change in receivable: \(\Delta \text{Receivable} / \text{Average total assets}\)

Change in inventory: \(\Delta \text{Inventory} / \text{Average total assets}\)

Change in cash sales: \([\Delta \text{Sales} / sales(t)] - (\Delta \text{Receivable} / \text{receivable (t)})\]

Change in earnings: \([\text{Earnings (t) / Average total Assets (t)}] - (\text{Earnings (t-1) /Average total assets (t-1)})\]

Change in ROA = change in return on assets

Issue = variable indicating whether the company issues securities in that period.

Independent Variable

Quality Audit: De Angelo (1981) in Yustitia and Tarmidzi (2012) defines quality audit as a probability in which an auditor discovers and reports on the existence of a fraud in its audit accounting system, audit
quality here is measured by a dummy variable with the number of 0 for company of non big four users and the number 1 for the company of big four users.

**Financial Distress (financial difficulties):** Platt and Platt (2002) define financial distress as a condition in which financial companies are not in good condition or are in crisis. Financial distress cannot be directly calculated but using a proxy Z score, where Z score models Zmijewski, because the Z score can be used to detect bankruptcy appropriately (Komang and Lely 2014). The formula is as follows:

\[ ZFC = -4.3 - 4.5X1 + 5.7X2 - 0.0043X3 \]

\[ X1 = \text{ROA} \text{ (net income/total assets)} \]

\[ X2 = \text{LEVERAGE} \text{ (Rate Debt/Total Assets)} \]

\[ X3 = \text{liquidity} \text{ (Current Assets / Current liabilities)} \]

**Data Analysis Method:** The analysis technique used for this study is multiple regression analysis with the following equation:

\[ \text{Fraud} = \beta0 + \beta1\text{PAF} + \beta2 \text{financial distress} + \epsilon \]

### 3. Findings

**Descriptive Statistics:** In this study, qualitative data is analyzed by the elaboration of the descriptive statistics of the variables of research. The purpose of this test is to measure descriptive statistics (mean, maximum, minimum, and standard deviation) of all variables used in this research. Under Annex 1, the minimum value of financial distress condition variables of company is -5.2290, while the maximum value of the ZFC ratio is equal to 0.1263 with average value (mean) of -2.2715, the average negative value indicates that the company does not have the potential of bankruptcy while standard deviation is 1.1573. Fraud variables measured by F-score of the whole sample during the study shows a minimum value of 0.0556, while the maximum value of F score is equal to 5.5280, the average value of F score is equal to 0.2703, the low average value of the F-score shows little acts of fraud committed by the sampled companies. From these results, it can be concluded that the distribution of data variable of financial distress and fraudulent is quite good. Meanwhile, the audit quality as measured from the big four or non Big Four PAF of the sampled companies indicate that as many as 94 companies or 49.18% of the company sample is audited by the Big Four and the rest is audited by non-Big Four Public Accounting Firms.

**Data Analysis**

**Classical Assumption Test:** Classical assumption test aims to determine whether the regression model obtained can produce a good linear estimator prior to testing the hypothesis by using multiple regression analysis.

**Multiple Linear Regression Testing:** A statistical calculation in multiple linear regression analysis in this research is assisted by SPSS for Windows version 16. The use of multiple linear regression equation is to test the effect of independent variables (quality audits and financial distress) on the dependent variable (fraudulent financial statement)

**Tabel 1: Result of Multiple Linear Regression Testing**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>.236</td>
<td>.0122</td>
</tr>
<tr>
<td></td>
<td>KAP</td>
<td>.018</td>
</tr>
<tr>
<td></td>
<td>ZFC</td>
<td>.013</td>
</tr>
</tbody>
</table>

Fraud = 0.236 + 0.018 PAF + 0.013 ZFC + \epsilon

**Discussion**

**The Effect of Audit Quality on the Occurrence of Fraudulent Financial Statement:** Hipothesis 1 states that auditor quality which is reflected from the size of the big four Public Accounting Firms has no effect.
on the occurrence of fraudulent financial statement. Based on the data analysis, the hypothesis is not supported. The result of linear multiple regression on the table shows that the size of Public Accounting Firms (big four) has significance higher than 0.05. This variable significance level of the size of big four Public Accounting Firms which is higher than 0.05, means that the size of big four Public Accounting Firms has no effect on the possibility of occurring fraudulent financial statement. This result is in line with Wisnu’s research (2013) which states that either big four auditor or non big four auditor who has audited financial report, has no significant different from one to another on their financial report. The financial report audited by the big four auditor, does not guarantee that the result is better than those audited by non big four auditor. Another reason is proposed by Veronica (2005) in Luhgianto (2010) which states that the quality of audit which is projected with the size of PAF of either big four or non big four, is unable to limit the occurrence of fraud. This is because the management still wants to show good performance to those who want to be their investors. However, this study does not meet the theory which states that the big four PAF is able to decrease the occurrence of fraud, and not in line with the research conducted by Yustitia and Tarmidzi (2012) which state that audit quality reflected by the use of the big four PAF will decrease the presence of fraud than those who use the non big four PAF. Only a few of enterprises in Indonesia does use big public accounting firms like KPMG, Ernst and Young, PWC, and Deloitte. This is due to the ability of enterprise in paying the fee of audit service conducted. The service of Public Accounting Firms of big four is used by big companies in order to keep their image on people’s opinion of good and competent audit used by them. The result of this study finds out that the enterprises audited by the Big four PAF has an increase rate of fraud. This means that the image of Big four PAF in Indonesia is lack of ability to detect early accounting fraud done by management.

The effect of Financial Distress on the Occurrence of Fraudulent Financial Statement: Hypothesis 2 states that Financial Distress has positive effect on the occurrence of Fraudulent Financial Statement. Based on the data analysis, the hypothesis is supported. The result of regression on the table shows that Financial Distress ZFC has significant value of 0.006. This significant value is smaller than 0.05 which means that there is inability of company in meeting their obligations and their continuously loss condition. Such kind of loss pressures management because they are considered to be unable to carry out their duties. The pressure has effected much enough on their career in maintaining financial. By this, it is proven that the higher financial distress occured in a particular company is, the higher the fraud (AICPA) indicated to them will be. The result of the research above is in line with the research conducted by Hasnan et al. (2006) which states that Financial Distress has positive effect on Fraudulent Financial Statement. This also meets the research conducted by Kinney dan McDaniel in Ansar (2011) which stated that financial report which is stated false is correlated to companies who are in a Financial Distress, and the management who know that the enterprise is in their way to get down, will motivate their employers to do unethically by making up the content of financial report which has been made before. In other words, Financial Distress has positive effect on Fraudulent Financial Statement.

4. Conclusion, Limitations and Suggestions

This study is conducted to find empirical evidence on factors which can affect Fraudulent Financial Statement, consisting of PAF and Financial Distress. Based on the discussion of tested hypotheses, it can be inferred that the effects of the independent variable in this study can be concluded as follows:

- **a.** Based on the result of hypothesis 1 test, it is proven that PAF variable has no significant effect on the occurrence of Fraudulent Financial Statement. So, the hypothesis 1 (H1) is not supported.
- **b.** Based on the result of hypothesis 2 test, it is proven that Financial Distress variable has significant positive effect on the occurrence of Fraudulent Financial Statement. So, Hypothesis 2 (H2) is supported.

**Limitations of the research:** This research has some limitations as follows:

- **a.** This research is conducted in a short period. The period is only 3 years of observation. Thus, this research can not give a maximum result. Beside, this research only uses manufacturing companies, so that, it has no variation and the result can not give a comparison of Fraudulent Financial Statement occurred.
- **b.** This research uses a few number of sample, so that, it is used SPSS. Beside that, this research only has two variables, so that it is lack to give description of externals and internals who are in charge of this to take decision on any economic policy.

**Suggestions:** Based on the discussion of data analysis, it is suggested that:
a. Further research is suggested to add research period so that the sample of research which will be employed is bigger and widen the field of subject so that it will be not only on manufacturing company but also other sector such as bank, as a result, it will give information about fraud clearly.

b. If the further research uses a huge sample, so SAS can be used to test the hypotheses proposed. Further researcher can add and change independent variables which have effect on fraud such as profitability, leverage etc.

References


APPENDICES

Appendix 1: Result of Descriptive Statistic 1

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZFC</td>
<td>183</td>
<td>-5.2290</td>
<td>0.1263</td>
<td>-2.2715</td>
<td>1.1573</td>
</tr>
<tr>
<td>Fraud</td>
<td>183</td>
<td>0.0556</td>
<td>5.5280</td>
<td>0.2703</td>
<td>0.4130</td>
</tr>
</tbody>
</table>

Valid N (listwise) 183

Source: tabulation of secondary data, 2014

Appendix 2: Result of Descriptive Statistic 2

Auditor’s Quality

<table>
<thead>
<tr>
<th>Keterangan</th>
<th>Jumlah</th>
<th>Persentase</th>
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<tbody>
<tr>
<td>Non Big 4</td>
<td>93</td>
<td>50.82</td>
</tr>
<tr>
<td>Big 4</td>
<td>90</td>
<td>49.18</td>
</tr>
<tr>
<td>Total</td>
<td>183</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: tabulation of secondary data, 2014

Appendix 3

Research framework

\[
\begin{align*}
&KUALITAS AUDIT \\
&\text{FINANCIAL DISTRESS} \\
\end{align*}
\]

Fraudulent financial statement

Appendix 4: Normality test

One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
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<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>170</td>
</tr>
<tr>
<td>Normal Parameters(^a)</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td></td>
</tr>
</tbody>
</table>

Test distribution is Normal.
Source: tabulation of secondary data, 2014

Appendix 5: Multicollinearity Test

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>KAP</td>
<td>0.951</td>
<td>1.052</td>
</tr>
<tr>
<td>ZFC</td>
<td>0.951</td>
<td>1.052</td>
</tr>
</tbody>
</table>

Source: tabulation of secondary data, 2014

Appendix 6: Autocorrelation test
Appendix 7: Heteroskedasticity test

Appendix 8: F-Test

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.043</td>
<td>2</td>
<td>.022</td>
<td>4.488</td>
<td>.013</td>
</tr>
<tr>
<td>Residual</td>
<td>.804</td>
<td>167</td>
<td>.005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.848</td>
<td>169</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ZFC, KAP

b. Dependent Variable: Fraud

Appendix 9: Result of Coefficient of Determination

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.226</td>
<td>.051</td>
<td>.040</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ZFC, KAP

b. Dependent Variable: Fraud
Acceptance Analysis of Smart Transport Application Using Technology Acceptance Model Approach

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*sinaguzuni100@gmail.com

Abstract: This study purposed to prove some constructs of the Technology Acceptance Model in influencing intentions applications use GPS-based products for public transport in Bandung city. This study used that personal innovativeness moderator variables to analyze the impact on attitude toward using variable influence on behavioral intention to use variables. The data used in this study are primary data obtained through questionnaires to 100 peoples sampled using Likert type and analyzed quantitatively with the program Statistical Product and Service Solutions. Based on the results of the regression analysis, concluded that (1) perceived ease of use has a significant positive effect on perceived usefulness (2) perceived usefulness, perceived enjoyment and perceived ease of use has a significant positive effect on attitude toward using (3) perceived usefulness, perceived enjoyment and attitude toward using has a significant positive effect on behavioral intention to use (4) and a moderator variable, personal innovativeness has a significant negative of moderate relationship influence attitude toward using on behavioral intention to use.

Keywords: technology acceptance model, personal innovativeness, GPS application, public transportation, regression

1. Introduction

Along with the development of information and communication technology in the era after 2000, the use of technology increasingly soar. Information and communication technology also took part in the mobile phone function that we use (Pranata, 2014). Landscape of the mobile industry is undergoing a rapid change in Indonesia. eMarketer estimates that penetration of smartphones among mobile phone users in Indonesia will rise to 47 percent by 2016 with a total of 87.4 million users (Kurniawan, 2013). Asia led to the affairs of adoption and intensity of use of smartphones. Trends ‘mobile-first’ is very common in Asian countries, especially in South East Asia (Rachmatunisa, 2014). Based on the results of research conducted by Nielsen as the organization administrator of information global, Google Maps, which is one of the navigation applications on the smartphone is ranked 5 (Shukla, 2013). In Indonesia, several applications for transport solutions that have been used include Sygic, WisePilot, Waze, Google Maps, Nokia Here and Lewatmana.com (Mahardy, 2013). Public transport is ideally used by most of the people of the city. The willingness of people to use public transport is driven by the information that offers several alternative modes of transportation routes along which can be chosen so that people know what mode of transportation available and they can use (Devi, 2013). Advances in information technology to the GPS technology, some of the findings of advanced technology has been applied widely for commercial purposes, including the navigation function for vehicles (Chen & Chen, 2011). Bandung is one of the major cities in Indonesia, but has not yet adopted the ITS to support transportation. In the city, there are several kinds of transportation serving the route both in the city, and across cities around the area of Bandung Raya. For land transportation, there is public transportation (public transportation), bus, car, travel Bandung, trains, and taxis (Cempaka, 2013).

Based on the above conditions, this study tries to find the relationship between the use of public transport information in Bandung, PT. X found a solution for the community to facilitate travel in the city, namely the application of Smart Transport products. Based on some of the phenomena that have been described above, it will be carried out research to identify the success of Smart Transport products can be accepted and used by potential users. The study was conducted by analyzing the constructs contained in the Technology Acceptance Model (TAM). Based on TAM approach, formulation of research problems related to the application of Smart Transport products are: Is the perceived ease of use, perceived usefulness, attitude towards using, perceived enjoyment, personal innovativeness, effect on behavioral intention to use the application of Smart Transport product?

The purpose of this study is to ascertain the effect of perceived ease of use, perceived usefulness, attitude toward using, perceived enjoyment, and personal innovativeness on behavioral intention to use the Smart Transport product application usage in Bandung. Advantages of this research is the object under study
the latest navigation applications that are used for public transportation. So that the results can describe the trend of consumer perceptions that need to be received of new technology.

2. Literature Review

Name: Ching-Fu Chen and Pei-Chun Chen  
Title: Applying the TAM to travelers' usage intentions of GPS devices  
Description: The results were obtained from the hierarchical regression that is perceived ease of use has a significant positive effect on perceived usefulness, perceived usefulness, perceived enjoyment, and perceived ease of use has a significant positive effect on the attitude towards usage, attitude towards age has a significant positive influence on behavior intention, and personal innovativeness build relationships between attitude and behavior intention.

Name: Sanny  
Title: Analysis of Effect Subjective Norm and Technology Trust in Technology Acceptance Model on Intention To Use E-Ticketing Transjakarta  
Description: The results stated by using TAM obtained that factor perception and perceived ease of use to trigger the behavior to adopt the technology. While other factors such as attraction and familiarity is also a positive influence on the intention to use e-ticketing Transjakarta.

Name: Abraham Theodorus, Alfons Natanael, Kidsein  
Title: Metrotrans A Crowd-Sourced Public Transportation Application In Jakarta on Android Platform for PT. Lintas Karya Integrasi  
Description: The study states that Metro Trans uses useful Android apps to discover information and navigation routes in public transportation. Web applications and Android Metro also assessed user-friendly so it will not be difficult during use.

Name: Arif Surachman  
Title: Analysis of Effect Perceived Usefulness, Perceived Ease of Use, Subjective Norm, Mobility, and Use Situation on Individual's Intention of Using Mobile Library  
Description: Hypothesis test results indicate that the use of mobile library intention is caused by the need to support the smooth rational study, not because there is a command or influence from the environment.

Name: Abraham Septa Creado Munthe  
Title: Analysis of Factors that Affecting Users on Adopting Cloud Computing Using Technology Acceptance Model Approach  
Description: The results showed that the attitude toward using cloud computing is positively and significantly influenced by the perceived ease of use and perceived usefulness. Perception of ease of use of cloud computing is positively and significantly influenced by personal innovativeness. Intention to use cloud computing is positively and significantly influenced by personal innovativeness and attitude toward using, and the quality of the internet connection does not significantly influence the intention to use cloud computing.

Name: Nooa Qotrun Nada  
Title: Acceptance Analysis of IPTV Technology (Case Study Groovia TV in Semarang)  
Description: The results showed that the Attitude Toward IPTV (ATT) and perceived usefulness (PU) effect on Intention To Use (IU). Perceived ease of use (PEU), perceived enjoyment, and perceived quality (PQ) effect on ATT. Customer intention to use the TV Groovia influenced by perceptions of service quality, perceived preferences, ease of use, and the benefits that can be obtained.

Name: David Kurniawan, Prof. Dr. Hatane Semuel. S.E., M.Si, and Edwin Japarianto, S.E., M.M.  
Title: Acceptance Analysis Customers of Mobile Banking Service Using Technology Acceptance Model and Theory of Reasoned Action  
Description: Based on the analysis of data it can be concluded that the direct and indirect variable of perceived usefulness of mobile banking has a significant influence on the attitude toward the use of variables by means of the variable perceived usefulness. Attitude toward such that have influence on behavior intention.

Name: Andreas Pardyanto and Tengku Ezni Balqiah
Title: Intention Adoption of Mobile Commerce Garuda Indonesia Perspective
Theory of Planned Behavior and Technology Acceptance Model

Description: The results showed that the Perceived Usefulness and Perceived Behavioral Control provide a positive and significant effect on the intention to use (Intention to Use), while the Subjective Norm and Attitude do not significantly affect the usage intention (Intention to Use).

Name: Ni Luh Nyoman Sherina Devi and I Wayan Suartana
Title: Technology Acceptance Model Analysis on Information System usage in Nusa Dua Beach Hotel & Spa

Description: The results showed that computer self-efficacy and trust have a positive and significant impact on the perceived usefulness and perceived ease of use, while personalization has no effect on them.

Name: Lambertus P. Wairisal and Nur Khusniyah I
Title: Behavioral Analysis of Information Technology (Study on Universitas Pattimura Ambon Lecturers)

Description: Cultural perceptions of the ease of use of information technology significantly influence the perception of the benefits and interest in using information technology. Perceptions of the benefits of information technology significantly influence the interest in using information technology. Interest in using information technology significantly influence the behavior of the use of information technology.

Name: Dr. Ya-Wen Yu and Kanlaya Buhon
Title: Exploring Factors Influencing Consumer Adoption on Mobile Commerce Services

Description: The study states that the adoption of mobile commerce is affected by how the mobile commerce company or set up a website selling focuses on online users.

Name: Cheng-Kiang Farn, Yi-Wen Fan and Chun-Der Chen
Title: The Study of Electronic Toll Collection Service Adoption: An Integrated Model

Description: Perceived usefulness and perceived ease of use, tested positive for the riders raises attitude towards the adoption of the e-toll card. In addition, the results also indicate that attitude, subjective norms, and perceived behavioral control positively affect the intention of adopting the e-toll card.

Name: Chin-Chao Lin
Title: Exploring The Relationship Between Technology Acceptance Model and Usability Test

Description: The results of the study showed that the PEUTAM has a significant effect on PU and attitude toward using technology. Among the hypotheses are rejected, PU does not have a direct influence on behavioral intention. The difference of this study with previous research is the research object is a GPS application for smartphones as a smart city support for public transport in a big city.

Framework: Applications of Smart Transport product will be investigated by analysis Technology Adoption Model involving multiple constructs. Figure 2.1 shows the framework that has been used in studies of Chen and Chen in 2011 and applied to the research for product applications SmartTransport. To consider the existence of the unique features (functions entertainment offered), then the perceived enjoyment are also involved. Meanwhile, individuals have highlighted the innate innovation and become a hypothesis in TAM to explain the influence of individual differences in the intention of adopting the technology innovation of technology in today’s information technology research.

Based on the framework, the generated several hypotheses as below:

H1: Perceived ease of use has a positive effect on perceived usefulness on the use of product applications SmartTransport
H2: Perceived usefulness has a positive effect on attitude toward using on the use of product applications SmartTransport
H3: Perceived ease of use has a positive effect on attitude toward using on the use of product applications SmartTransport
H4: Perceived usefulness has a positive effect on behavioral intention to use on the use of product applications SmartTransport
H5: Attitude towards using has a positive effect on behavioral intention to use the use of product applications SmartTransport
H6: Perceived enjoyment has a positive effect on attitude towards using the use of product applications SmartTransport
H7: Perceived enjoyment has a positive effect on behavioral intention to use the use of product applications SmartTransport
H8: Personal innovativeness positively moderate the relationship between attitude towards using and behavioral intention to use the use of product applications SmartTransport.

Figure 1: Framework

3. Methodology

The research method in this study is quantitative in which data collection was conducted through questionnaires. There are 6 operational variables used, consisting of several items in the form of a statement to the respondents. The variables are perceived ease of use, perceived usefulness, perceived enjoyment, attitude toward using, personal innovativeness, and behavioral intention to use. The population for the study of product applications SmartTransport is unknown because it cannot be determined the number of people who will use the product. The sampling technique used is non-probability sampling by convenience sampling method. The sample size used was based on the Bernoulli formula because the population is not known (Siregar, 2013: 37). With a confidence level of 95%, the obtained sample of 100 people. Then, data were analyzed statistically with the aim of testing the hypothesis that has been set. Descriptively will explain the characteristics of the variables used. The hypothesis was tested by using simple linear regression analysis. T-test was used as a reference for acceptance or rejection of the hypothesis because of the influence between variables occurs partially. Under the terms in the statistical analysis using the t test, then the rejection of $H_0$ is done when the value of $t> t$ on the table.

4. Result and Discussion

Hypothesis Testing Result: With a confidence level of 95% or alpha of 0.05, the results of the analysis of each hypothesis is stated in the following table:

Table 1: T-test Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>t-table</th>
<th>PU</th>
<th>ATT</th>
<th>BI</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEOU</td>
<td>1,98422</td>
<td>11</td>
<td>9,088</td>
<td></td>
</tr>
<tr>
<td>PU</td>
<td>1,98422</td>
<td>11,46</td>
<td>5,688</td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>1,98422</td>
<td>9,070</td>
<td>7,709</td>
<td></td>
</tr>
<tr>
<td>PI (M)</td>
<td>1,98422</td>
<td>-</td>
<td>1,581</td>
<td></td>
</tr>
</tbody>
</table>
Based on the above table it can be concluded that:

1. **Perceived ease of use** has a positive effect on perceived usefulness on the use of **product applications SmartTransport**
2. **Perceived usefulness** has a positive effect on attitude toward using on the use of **product applications SmartTransport**
3. **Perceived ease of use** has a positive effect on attitude toward using on the use of **product applications SmartTransport**
4. **Perceived usefulness** has a positive effect on behavioral intention on the use of **product applications SmartTransport**
5. **Attitude toward using** has a positive effect on behavioral intention on the use of **product applications SmartTransport**
6. **Perceived enjoyment** has a positive effect on attitude toward using on the use of **product applications SmartTransport**
7. **Perceived enjoyment** has a positive effect on behavioral intention on the use of **product applications SmartTransport**
8. **Personal innovativeness** negatively moderates the relationship between attitude toward using and behavioral intention on the use of **product application SmartTransport**.

**Percentage Effect Between Variables**: Based on the results of the above hypotheses, it can be seen that the percentage of influence between variables was analyzed from the value of $R^2$ square. Comparison of $R^2$-square values between variables are described in Table 2.

<table>
<thead>
<tr>
<th>Variable</th>
<th>PU</th>
<th>ATT</th>
<th>BI</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEOU</td>
<td>55.4%</td>
<td>45.7%</td>
<td></td>
</tr>
<tr>
<td>PU</td>
<td>57.3%</td>
<td>24.87%</td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>45.6%</td>
<td>37.7%</td>
<td></td>
</tr>
<tr>
<td>PI (M)</td>
<td>30.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATT</td>
<td>29.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the table it can be concluded that:

1. Percentage influence of perceived ease of use to the perceived usefulness is about 55.4% while the rest is influenced by other variables outside the scope of the study.
2. Percentage influence of perceived usefulness to the attitude toward using is about 57.3% while the rest is influenced by other variables outside the scope of the study.
3. Percentage influence of perceived ease of use to the attitude toward using is about 45.7% while the rest is influenced by other variables outside the scope of the study.
4. Percentage influence of perceived usefulness to the behavioral intention to use is about 24.87% while the rest is influenced by other variables outside the scope of the study.
5. Percentage influence of attitude toward using to the behavioral intention to use is about 29.8% while the rest is influenced by other variables outside the scope of the study.
6. Percentage influence of perceived enjoyment to the behavioral intention to use is about 45.6% while the rest is influenced by other variables outside the scope of the study.
7. Percentage influence of perceived enjoyment to the behavioral intention to use is about 37.7% while the rest is influenced by other variables outside the scope of the study.
8. Percentage influence of attitude toward using to the behavioral intention to use is about -30.6% as a result moderated by variables personal innovativeness. The rest is influenced by other variables outside the scope of the study.

The percentage result can also be described in the following framework:
Discussion: Research has much in common with previous studies. Results of hypothesis that relationships between variables impact a positive effect. Diverse to the results of hypothesis, moderator variables that personal innovativeness showed a negative effect in relation of attitude towards using on behavioral intention to use. While research conducted by Ching-Fu Chen and Pei-Chun Chen, personal innovativeness showed a positive effect. So it is assumed that the culture of the people in each country is different in adopting technology that is the difference in terms of the individual's willingness to try out new information technology (personal innovativeness).

4. Conclusion

The results of this study demonstrate that the appropriate framework used, perceived usefulness of user affect perceived usefulness by 55.4%, perceived usefulness affect attitude towards using by 57.3%, perceived usefulness affect behavioral intention to use by 24.87%, attitude towards using affect behavioral intention to use by 29.8%, perceived enjoyment affect attitude towards using by 45.6%, perceived enjoyment affect behavioral intention to use by 37.7% and personal innovativeness negatively moderate the relationship in influence attitude towards using into the behavioral intention to use at 30.6%. So it can be concluded that the variables contained in the TAM constructs indirectly influencing behavioral intention to use submitted by the variables that directly influence perceived usefulness, attitude toward using, and perceived enjoyment. While personal innovativeness variables proved to negatively moderate the relationship variables attitude toward using the means to lessen the influence of the variable attitude toward using behavioral intention to use.

Recommendations: PT. X should perform improvement on aspects that support the customer's perception in the element of usefulness, easy to use, and enjoyment of the Smart Transport application such as adding other functions are still within the scope of public transport so that the attitude can encourage intention (interest) use of the product the customer is increased. Suggested that next research should analyze TAM with the addition of external variables that have been carried out by several previous studies to prove whether other variables outside the constructs of TAM having enough influence on the intention to adopt technology.

References


Nada, N. (2014), Acceptance Analysis of IPTV Technology (Case Study Groovia Tv In Semarang)


Sanny (2014), Analysis of Effect Subjective Norm and Technology Trust in Technology Acceptance Model on Intention To Use E-Ticketing Transjakarta


Surachman, A. (2013), Analysis of Effect Perceived Usefulness, Perceived Ease of Use, Subjective Norm, Mobility, and Use Situation on Individual’s Intention of Using M-Library


Wairisal, L. and I, N. (2012), Behavioral Analysis of Information Technology (Study on Universitas Pattimura Ambon Lecturers)

Dampak Tekanan Organisasional Terhadap Stres Kerja Pada Perawat Rumah Sakit Islam (RSI) Di Kota Semarang
Ardian Adhiatma, Yuka Windyaningtyas
MM Unissula Semarang
ardian.greenoase@yahoo.com

Abstract: This article was design to investigate the relations between organizational stressors and job stress with gender as a moderate variable. Population in this research are all the employee at islamic hospital in Semarang municipality, and the number of samples are 235 nurse. The independent variabel is organizational stressor that have five dimensions: conflict, block career, alienation, work overload, and unfavorable work environment. So the dependent variable is job stress. In this article, we use gender as a moderating variable. All dimensions at organizational stressors were measure with 5 point Likert-scale, and for the job stress was measure with five point (never – always). The result indicate that the hypotheses were partially supported. The variable that influence and have significant impact on job stress are block career, alienation, and work overload. And the other result indicate that gender moderate the relation between unfavorable work overload and job stress. Job experience as a moderating variable for the relationship between work overload and job stress, smart working as a moderating at relationship between conflict and job stress. Finally, smart working as a moderating effect for relationship between block career with job stress.

Keywords: organizational stressors, job stress, smart working, gender, Islamic hospital

1. Pendahuluan


Variabel organisasional disinyalir dapat menciptakan stres pada karyawan (Greenhaus dan Beutell, 1985), melalui berbagai variabel, antara lain conflict, block career, alienation, work overload dan unfavourable work environment. Disamping itu berbagai sifat individual (personality traits) juga merupakan sumber stres. Goldberg, (1993), dalam studinya telah mengindikasikan bahwa sifat personal merupakan sumber utama terjadinya stres. Berbagai sifat individual antara lain neuriticism, extraversion, openness, agreeableness dan conscientiousness. Pengaruh stres dalam kelompok gender memberikan

Mendasarkan pada latar belakang, maka identifikasi terhadap faktor stressor organisasional yang dominan terhadap penyebab stress menjadi masalah yang menarik dan penting untuk diteliti. Disamping itu penelitian ini juga menguji apakah faktor gender dan masa kerja memoderasi hubungan antara faktor organisational stressor dengan stress pekerjaan (job stress).


**Efek Moderasi: Gender, Masa Kerja dan Kerja Cerdas:** Sudah banyak dijadwalkan bahwa perempuan sebagai kelompok yang memiliki stres yang lebih tinggi dibandingkan kelompok laki-laki (Miller & Ellis, 1990). Frekwensi stres yang tercermin dari tingkat depresi, emosional lebih tinggi dibanding laki-laki. Terborg (1977), menemukan bahwa pekerja wanita cenderung memiliki peran yang overload dan tingkat konflik yang tinggi akan menghasilkan tingkat stres yang tinggi. Penelitian yang dilakukan oleh Nasrudin dkk (2004), hasilnya mengindikasikan bahwa gender memoderasi hubungan antara prediktor variabel...


**Kerangka Penelitian**

**Gambar 2.2: Kerangka Penelitian**

Mendasarkan pada kerangka penelitian (Gambar 2.2), dapat dijelaskan bahwa variabel independen dalam penelitian ini adalah Tekanan Organisasional, dan variabel dependennya adalah stres kerja, serta moderating variabel yang digunakan antara lain: gender, masa kerja, dan kerja cerdas. Pada variabel independen tekanan organizasional ini merupakan konstruk yang memiliki lima dimensi, yaitu: conflict, block career, alienation, work overload, dan unfavorable work environmental.
**Jenis Penelitian**: Jenis penelitian yang digunakan adalah "explanatory research" atau penelitian yang bersifat menjelaskan, artinya penelitian ini menekankan pada hubungan antar variabel penelitian dengan menguji hipotesis uraianya mengandung deskripsi tetapi fokusnya terletak pada hubungan antar variabel (Singarimbun, 2009). Pengujian hipotesis dimaksudkan untuk membentuk atau memperkuat hipotesis dengan harapan, yang pada akhirnya dapat memperkuat teori yang dijadikan sebagai pujian.

**Populasi dan Sampel**: Populasi dalam penelitian ini adalah semua perawat pada Rumah Sakit Islam di Semarang, yaitu: Rumah Sakit Islam Sultan Agung (RISA) dan Rumah Sakit Roemani. Populasi keseluruhan adalah 481 perawat. Adapun jumlah sampel yang diambil berdasarkan pada rumus Slovin dengan tingkat kesalahan yang ditoleransi sebesar 5% adalah sebanyak 235 responden, dengan teknik sampling proportional random sampling. Secara terperinci jumlah sample yang diambil dapat dihitung sebagai berikut:

<table>
<thead>
<tr>
<th>Institusi</th>
<th>Populasi</th>
<th>Sampel</th>
</tr>
</thead>
<tbody>
<tr>
<td>RISA</td>
<td>Laki-laki 64 orang</td>
<td>Perempuan 215 orang</td>
</tr>
<tr>
<td>Rumah Sakit</td>
<td>Laki-laki 70 orang</td>
<td>Perempuan 132 orang</td>
</tr>
<tr>
<td>Jumlah</td>
<td>134 orang</td>
<td>347 orang</td>
</tr>
</tbody>
</table>

**Hasil Penelitian Dan Pembahasan**: Hasil jawaban responden menunjukkan bahwa jenis kelamin responden para perawat di rumah sakit Islam Kota Semarang didominasi oleh perawat perempuan, yaitu sebesar 81,7%. Sementara itu jumlah perawat laki-laki sebanyak 18,3%. Hasil ini mengindikasikan bahwa di rumah sakit Islam lebih banyak menggunakan perawat perempuan, yang didasari pada sifat kesabaran, ketelitian, dan keuletannya. Sementara dilihat dari usia responden, maka keberadaan perawat di rumah sakit Islam Kota Semarang didominasi oleh perawat yang usianya masih muda, yaitu usia 21-31 tahun dengan jumlah perawat mencapai 144 orang atau 61,3%. Disusul oleh perawat dengan usia antara 32 – 42 tahun berjumlah 66 orang atau 28,1%, dan terakhir perawat dengan usia 43 tahun ke atas sebanyak 10,6%. Keberadaan perawat usia muda tentunya akan lebih energik dalam membantu para dokter terkait dengan perawatan kepada pasienya. Dilihat dari status responden, maka sebagian besar responden, yaitu sebanyak 77% sudah menikah, sementara yang belum menikah sebanyak 23%. Sedangkan ditinjau dari masa kerja perawat, hasilnya menunjukkan bahwa masa kerja paling lama didominasi masa kerja 1 sampai dengan 9 tahun (74%), sementara itu masa kerja perawat antara 10 – 18 tahun sebanyak 17,2%, masa kerja perawat 19 – 27 tahun sebanyak 6,3%, dan masih terdapat perawat yang masa kerjanya lebih dari 28 tahun, yaitu sebanyak 2,5%.

**Stres Pekerjaan**: Variabel stres pekerjaan memiliki rata-rata sebesar 1,64. Hasil ini menunjukkan bahwa tingkat stres responden berada pada tingkat rendah (Skor stres rendah antara 1,00 -1,80) (Davis, 2000). Artinya bahwa tingkat stres pada perawat di RS Islam di Kota Semarang menunjukkan pada tingkat stres yang paling rendah. Namun demikian dari seputih indikator stres pekerjaan, terdapat beberapa indikator yang menggambarkan tingkat stres yang dikelompokkan pada tingkat cukup stres. Indikator-indikator tersebut antara lain: frekwensi sakit, penurunan kepuasan kerja, hambatan-hambatan tugas, sulit tidur, dan depresi. Indikator ini tentunya perlu diperhatikan oleh manajemen rumah sakit Islam di Semarang, mengingat memiliki dampak terhadap stres pekerjaan yang lebih tinggi. Sementara itu beberapa indikator yang memiliki indikasi rendah dalam kaitannya dengan stres pekerjaan antara lain: tekanan darah dan kecelakaan kerja. Sementara itu variabel kerja cerdas yang merupakan variabel moderating memiliki nilai rata-rata sebesar 3,98. Nilai ini masih dalam kelompok skor tinggi (3,67 – 5,00), artinya berdasarkan persepsi jawaban responden dapat diulai bahwa responden perawat dalam bekerja memiliki konsep penerapan kerja cerdas. Indikator yang memiliki nilai rata-rata tinggi kaitannya dengan kerja cerdas para perawat, antara lain; mereka memiliki waktu perencanaan kerja,
rekor terhadap pekerjaan yang baik, memiliki prioritas kerja dan menilai bahwa perencanaan dalam bekerja sebagai perawat sangatlah penting.

**Tekanan Organisasi**: Tekanan organisasi merupakan konstruk yang meliputi terdiri dari 5 variabel, yaitu: conflict, block career, alienation, work overload, dan unfavorable work environment. Adapun nilai mean dan standar deviasi untuk semua indikato dari masing-masing variabel disajikan dalam tabel berikut ini. Persepsi responden mengenai variabel yang diteliti, studi ini menggunakan kriteria rentang sebesar 1,33 yang dipeoreh dari hasil perhitungan nilai tertinggi dalam skala Likert yaitu 5 (lima) dikurangi nilai terendah yaitu 1 (satu) kemudian dibagi 3 jenis kriteria nilai (Ghozali, 2005) sebagai berikut : 1,00 – 2,33 = rendah; 2,34 – 3,66=sedang; dan 3,67 – 5,00=tenggi

Variabel conflict menunjukkan bahwa rata-rata jawaban sebesar 2,31. Hasil ini mengindikasikan bahwa tingkat konflik yang terjadi pada responden perawat di rumah sakit Islam di Semarang pada tingkatan yang rendah. Adapun indikator yang memiliki nilai mean yang sangat rendah yaitu indikator pertentangan keyakinan dengan tindakan (mean=1,92) dan jawaban sangat tidak setuju ditambah dengan nilai 2,39. Sementara itu untuk indikator tuntutan yang berbeda memiliki nilai jawabah rendah, dengan jawaban sangat tidak setuju dan tidak setuju sebesar 56%. Dan indikator pertentangan pendapat memiliki nilai mean 2,64, dengan jawaban sangat tidak setuju ditambah tidak setuju sebesar 45%. Variabel block career hasilnya menunjukkan bahwa rata-rata jawaban responden perawat adalah 2,3. Hasil ini mengindikasikan bahwa tingkat block career atau pembatasan terhadap karir seorang perawat di rumah sakit Islam di Semarang rendah, atau dengan kata lain responden merasa bahwa tingkat pembatasan atau pemblokiran terhadap karir tidak terlalu dominan. Namun demikian dari tiga indikator yang ada dalam block career, indikator peluang karir kecil memiliki nilai rata-rata yang menurut persepsi responden sedang (2,44) dengan jumlah jawaban sangat tidak setuju dan sangat setuju sebesar 60%. Sementara itu indikator halangan karir semakin banyak memiliki nilai rata-rata sebesar 2,32 (rendah), dengan jumlah jawaban STS dan TS sebesar 63%. Dan terakhir adalah indikator karir yang terhalang dengan nilai mean 2,14 (rendah), dengan jumlah jawaban STS dan TS sebanyak 68%.

Berdasarkan pada tanggapan responden untuk variabel alienation yang merupakan perasaan seseorang merasa terasing dengan lingkungannya, menunjukkan nilai rata-rata jawaban responden sebesar 2,07. Hasil ini mengindikasikan bahwa tingkat alienation atau keterasingan responden perawat di rumah sakit Islam di Semarang rendah, atau dengan kata lain responden merasa bahwa mereka tidak merasakan adanya keterasingan dalam menjalani pekerjaan sebagai perawat. Indikator yang memiliki nilai rendah cenderung bahwa kondisi para responden akan lebih baik. Misalnya untuk indikator bekerja sendiri (mean = 1,99), dengan jumlah jawaban STS dan TS sebesar 79%. Sementara itu indikator kurang adanya dukungan memiliki nilai mean 2,08, dan jumlah jawaban STS dan TS sebesar 77%. Dan terakhir adalah indikator tentang persepsi adanya sedikit teman memiliki nilai rata-rata sebesar 2,13 (rendah), artinya bahwa responden merasa sebagian besar tidak bekerja sendiri. Sedangkan untuk indikator ini, nilai jawaban responden STS dan TS sebesar 73%.

Variabel work overload memiliki nilai rata-rata jawaban responden sebesar 2,37. Hasil ini mengindikasikan bahwa tingkat work overload atau beban kerja yang berlebihan seorang perawat di rumah sakit Islam di kota Semarang adalah sedang, atau dengan kata lain responden merasa bahwa tingkat beban kerja yang berlebihan tidak benar, atau mereka merasa tidak ada beban kerja yang berlebihan. Namun demikian dari tiga indikator yang ada dalam work overload, terdapat indikator yang memiliki nilai mean agak tinggi, yaitu kelebihan beban kerja (mean = 2,40) dengan jumlah jawaban STS dan TS sebesar 62%. Sementara itu indikator waktu untuk keluarga kurang memiliki nilai rata-rata sebesar 2,35 dengan jumlah jawaban STS dan TS sebesar 61%. Dan terakhir adalah indikator beban dan kualitas kerja yang memiliki nilai rata-rata sebesar 2,35 dengan jumlah jawaban STS dan TS sebesar 67%. Variabel unfavorable work environment (UWE) memiliki nilai rata-rata 2,30. Nilai rata-rata ini mengindikasikan bahwa variabel lingkungan yang tidak mendukung menurut persepsi responden dinilai rendah, artinya nilai rendah menunjukkan para responden merasa lingkungan kerjanya justru mendukung karir mereka sebagai perawat. Nilai rata-rata indikator yang masih agak tinggi terdapat pada indikator interaksi kurang (mean 2,4) dengan jumlah jawaban STS dan TS sebesar 61%, maksudnya interaksi dengan atasan, rekan kerja dan bawahan dari sebagian responden masih dirasa kurang. Sementara itu indikator sumberdaya kurang memiliki nilai mean sebesar 3,1 dan jumlah jawaban STS dan TS sebesar 67%. Dan indikator terakhir yang memiliki tidak menjamin prilasi memiliki nilai rata-rata 2,2 dengan jumlah jawaban STS dan TS sebesar 71%.
Hasil Uji Kualitas Kuesioner: Hasil pengujian validitas dengan mengkorelasikan antara masing-masing indikator dan totalnya menunjukkan bahwa semua hasil korelasi tersebut (lampiran 4) memiliki nilai signifikansi 0,000 atau dibawah 0,05. Hasil ini menunjukkan bahwa semua indikator dari konstru konflik organisasional (conflict, blocked career, alienation, work overload, and unfavorable work environment) dan indikator dari variabel stres pekerjaan (10 indikator) memenuhi syarat validitas. Untuk menguji tingkat reliabilitas variabel penelitian, maka digunakan standar nilai cronbach Alpha, dengan ketentuan nilai cronbach alpha minimal 0,6 (Ghozali, 2011). Dari hasil perhitungan cronbach alpha untuk konstru konflik organisasional dan variabel stress pekerjaan, maka diperoleh nilai antara 0,603 sampai dengan 0,800. Hal ini mengindikasikan bahwa semua variabel penelitian memenuhi syarat reliabilitas berdasarkan pada level penerimaan minimum yakni sebesar 0,6 (Nunnally, 1978).

Hasil Pengujian Hipotesis: Dalam pengujian hipotesis digunakan analisis regresi hirarki dengan tiga tahapan, yaitu: (1) regresi variabel kontrol terhadap stres pekerjaan, (2) regresi variabel independen terhadap stres pekerjaan, dan (3) regresi variabel interaksi (independen dengan moderating variabel) dengan stres pekerjaan. Hasil regresi antara variabel kontrol terhadap stres pekerjaan (dependen variabel) menunjukkan bahwa tidak satupun variabel kontrol memiliki pengaruh yang signifikan terhadap stres pekerjaan. Namun demikian salah satu variabel yaitu variabel kerja cerdas memiliki pengaruh yang negatif dan signifikan (beta = -0,142, sign = 0,043). Temuan ini menunjukkan bahwa perawat wanita lebih mementingkan tindakan, bukan menekankan pada pekerjaan yang harus direncanakan secara mendetail. Disisi lain, nilai R² adalah sebesar 0,043 yang merupakan nilai R² yang sangat rendah, artinya variabel demografi memiliki kontribusi yang sangat kecil (4,3%) dan tingkat signifikasi sebesar 0,070 dalam mempengaruhi stres pekerjaan.

Hasil regresi antara variabel kontrol terhadap stres pekerjaan (dependen variabel) menunjukkan bahwa tidak satupun variabel kontrol memiliki pengaruh yang signifikan terhadap stres pekerjaan (beta = 0,039, dan sign = 0,545), artinya bahwa variabel konflik tidak memiliki pengaruh terhadap stres pekerjaan pada rumah sakit Islam di Kota Semarang. Variabel blocked career memiliki pengaruh positif dan signifikan terhadap stres pekerjaan (beta = 0,274, dan sign = 0,000), artinya bahwa semakin dihambat karir seorang perawat akan meningkatkan stres pekerjanyaan. Variabel alienation memiliki pengaruh positif dan signifikan terhadap stres pekerjaan (beta = 0,291, dan sign = 0,000), artinya semakin merasa terisolir atau menyendiri bagi perawat, maka akan semakin meningkatkan stres pekerjaan. Variabel work overload memiliki pengaruh yang tidak signifikan terhadap stres pekerjaan (beta = -0,113, dan sign = 0,148), artinya bahwa variabel work overload tidak berpengaruh terhadap pembentukan stres pekerjaan pada perawat di rumah sakit Islam di Semarang. Variabel unfavorable work environment memiliki pengaruh positif dan signifikan terhadap stres pekerjaan (beta = 0,339, dan sign = 0,000), artinya bahwa lingkungan kerja yang semakin tidak mendukung bagi para perawat akan berdampak pada peningkatan stres pekerjaan pada rumah sakit Islam di Semarang. Nilai R² pada persamaan kedua adalah sebesar 0,613, artinya ada peningkatan nilai R² dari persamaan pertama sebesar 0,570 (0,613 – 0,043). Besarnya R² (determinasi) sebesar 0,613 mengandung arti bahwa variabel independen memiliki kontribusi sebesar 61,3% terhadap variabel dependennya, sementara selebihnya (38,7%) dipengaruhi oleh variabel lain yang tidak diteliti.

Berbagai temuan satu sampai lima mengindikasikan bahwa temuan tersebut mendukung hipotesis 1 yang berbunyi: Semakin meningkat tekanan organisasional akan meningkatkan pula stress kerja secara parsial. Terdapat tiga temuan yang mendukung hipotesis pertama, yaitu block career, alienation, dan unfavorable work environment memiliki pengaruh positif dan signifikan terhadap stres pekerjaan. Sementara itu variabel konflik dan kelebihan beban kerja tidak memiliki pengaruh terhadap stres pekerjaan. Sebaliknya untuk menguji hipotesis kedua yang berbunyi: Variabel Gender, masa kerja, dan kerja cedera memoderasi hubungan antara organisasional stressor dengan stress kerja, maka digunakan persamaan regresi interaksi yang dikahtikan dengan stres pekerjaan sebagai variabel dependen. Dari hasil persamaan regresi interaksi diperoleh hasil sebagai berikut: Interaksi antara jenis kelamin dengan lima variabel independen (Conflict, Blocked career, Alienation, Work overload, and Unfavorable work environment) hasilnya menunjukkan bahwa terdapat satu variabel interaksi yang memiliki pengaruh positif dan signifikan terhadap stres pekerjaan, yaitu variabel jenis kelamin x unfavorable work environment (JK*UWE). Artinya bahwa perawat wanita memiliki kecenderungan bahwa kalau lingkungan kerjanya semakin tidak mendukung, maka akan berdampak pada stres pekerjaan yang semakin meningkat. Sebaliknya kalau lingkungan pekerjaannya semakin mendukung bagi perawat wanita, maka
akan menurunkan stres pekerjaan. Sementara itu beberapa interaksi yang memiliki pengeruh negatif antara lain: jenis kelamin x konflik (JK*K), jenis kelamin x block career (JK*BK), dan jenis kelamin x work overload (JK*WO). Interaksi ketiga variabel ini memiliki pengeruh negatif terhadap stres pekerjaan, sehingga hasilnya tidak mendukung hipotesis bahwa tekanan organisasi berpengaruh positif terhadap stres pekerjaan. Selain itu juga terdapat satu variabel interaksi yang memiliki pengeruh positif tetapi tidak signifikan (JK*A), artinya walaupun variabel interaksi jenis kelamin dengan alienation memiliki pengeruh terhadap stres pekerjaan, namun pengaruhnya tidak penting.

Interaksi antara masa kerja dengan lima variabel independen (Conflict, Blocked career, Alienation, Work overload, dan Unfavorable work environment) hasilnya menunjukkan bahwa terdapat satu variabel interaksi yang memiliki pengeruh positif dan signifikan terhadap stres pekerjaan, yaitu variabel masa kerja x work overload (MK*WO). Artinya bahwa masa kerja memoderni hubungan antara work overload dengan stres pekerjaan berlaku bagi perawat yang masa kerjanya tergolong belum lama, yaitu masa kerja 1-9 tahun dan 10-18 tahun. Sementara itu terdapat variabel interaksi yang memiliki pengeruh positif terhadap stres pekerjaan namun tidak signifikan, yaitu: masa kerja x konflik, dan masa kerja x alienation. Selain itu juga terdapat variabel interaksi yang memiliki pengeruh negatif terhadap stres pekerjaan, yaitu: masa kerja x block career, dan masa kerja x lingkungan kerja yang tidak diinginkan. Interaksi antara kerja cerdas dengan lima variabel independen (Conflict, Blocked career, Alienation, Work overload, dan Unfavorable work environment) hasilnya menunjukkan bahwa terdapat dua variabel interaksi yang memiliki pengeruh positif dan signifikan terhadap stres pekerjaan, yaitu variabel kerja cerdas x konflik (KC*K), dan variabel kerja cerdas x block career (KC*BK). Temuan ini menunjukkan bahwa konflik dapat mempengaruhi stres pekerjaan dan terjadi pada perawat yang dapat menerapkan kerja cerdas pada setiap tindakannya. Sementara itu juga temuan kedua mengindikasikan bahwa block career memiliki pengeruh positif dan signifikan terhadap stres pekerjaan khususnya pada perawat yang menerapkan kerja cerdas pada setiap tindakannya. Terdapat tiga variabel interaksi yang justru memiliki koefisien negatif terhadap stres pekerjaan, yaitu: kerja cerdas x alienation, kerja cerdas x work overload, dan kerja cerdas x lingkungan kerja yang tidak diinginkan. Nilai R² pada persamaan ketiga adalah sebesar 0,663, artinya ada peningkatan nilai R² dari persamaan pertama sebesar 0,050 (0,663 – 0,613). Besarnya R² (determinasi) sebesar 0,663 mengandung arti bahwa variabel independen (variabel interaksi antara independen dikali dengan moderating variabel) memiliki kontribusi sebesar 66,3% terhadap variabel dependennya (stres pekerjaan), sementara selebihnya (33,7%) dipengaruhi oleh variabel lain yang tidak diteliti.

Pembahasan: Hasil perhitungan regresi untuk mengetahui pengeruh antara variabel independen dalam konstruk tekanan organisasi (Conflict, Blocked career, Alienation, Work overload, dan Unfavorable work environment) terhadap dependen variabel (stres pekerjaan), mengindikasikan bahwa dari lima variabel independen terdapat tiga variabel yang memiliki pengeruh positif dan signifikan terhadap stres pekerjaan. Ketiga variabel tersebut adalah block career, alienation, dan unfavorable work environment. Block career memiliki pengeruh signifikan terhadap stres pekerjaan, mengandung makna bahwa walaupun menurut persepsi responden nilai mean block career termasuk rendah (mean=2,30), namun kejadian jenjang karir bagi perawat merupakan sebuah tahapan yang ingin ditempuh oleh para perawat dalam melaksanakan profesi mereka. Penahanan terhadap karir para perawat akan memiliki dampak yang serius bagi tingkat stres pekerjaan mereka. Mendasarkan pada uraian tugas keperawatan, maka seorang perawat dengan pendidikan dan pengalaman tertentu dapat memiliki peluang untuk meningkatkan karirnya, baik sebagai manajer perawatan, kepala bagian keperawatan, kepala ruang, ketua tim perawat, kepala shift keperawatan, dan pelaksana keperawatan.

Alienation juga memiliki pengeruh signifikan terhadap job stres. Alienation merupakan kondisi keterasingan seseorang dalam organisasi dalam penelitian ini memiliki dampak penting dalam menciptakan stres pekerjaan. Walaupun rata-rata indikator variabel alienation rendah (mean=2,07), namun perlu adanya perhatian yang serius terhadap para perawat kaitannya dengan dampak yang ditimbulkan, yaitu stres pekerjaan. Indikator lain yang memiliki pengeruh signifikan terhadap stres kerja adalah unfavorable work environment (UWE). Walaupun nilai mean variabel UWE tergolong rendah (mean = 2,30), namun manajemen rumah sakit perlu memperhatikan berbagai indikator UWE, mengingat dari hasil kajian ditemukan adanya dampak penting dalam membentuk stres pekerjaan. Jaminan prifasi para perawat perlu mendapatkan tanggapan oleh manajemen rumah sakit, selain itu juga tingkat interaksi antar perawat dengan perawat, perawat dengan dokter juga perlu dipertahankan. Tingkat rata-rata tekanan organisasi yang cukup rendah pada rumah sakit Islam di Semarang (mean=2,30), baik dari variabel konflik, blok karir, alienation, beban kerja yang berlebihan, dan lingkungan kerja yang tidak


Variabel organisasional disinyalir dapat menciptakan stres pada karyawan (Greenhaus dan Beuttel, 1985), melalui berbagai variabel, antara lain conflict, block career, alienation, work overload dan unfavourable work environment. Vijay and Vazirani (2012) dalam penelitiannya di Rumah sakit India, menyatakan bahwa perawat memiliki potensi stres di tempat kerja, mengingat profesi perawat membutuhkan level keahlian yang tinggi, kerja tim dalam berbagai situasi selama 24-jam dalam memberikan pelayanan. Tiga penyebab stres para perawat yang bekerja di rumah sakit swasta, antara lain; perilaku teman dan saudara pasien, hubungan interpersonal, dan tingkat gaji yang rendah. Sementara itu di rumah sakit milik pemerintah, tiga penyebab stress terdiri dari: infrastruktur yang kualitasnya jelek, jumlah pasien yang ditangani setiap hari, dan jumlah jam kerja dalam sehari yang sangat banyak. Sementara itu Robbin (2006) menekankan pada dua pendekatan untuk menangani stres. Pertama pendekatan individu, dimana seorang karyawan dapat menyelesaikan tanggung jawab personal untuk mengurangi tingkat stresnya. Strategi individual yang telah terbukti efektif mencakup pelaksanaan...
teknik-teknik manajemen waktu, meningkatkan latihan fisik, pelatihan pengenduran atau relaksasi, dan perluasan jaringan dukungan sosial. Kedua, pendekatan organisasional yang muncul sebagai dampak tuntutan peran dan tugas, struktur organisasi.


Sementara itu Tytthereigh, Ricketts, and Cooper (2007), dalam penelitiannya menunjukkan bahwa terdapat perbedaan antara usia, kategori karyawan, tingkat gaji, jam kerja per minggu, terhadap stres kerja. Karyawan pria dan wanita memiliki kesamaan stress dalam hubungan pekerjaan, keseimbangan kerja dan hidup, kelebihan beban kerja, keamanan kerja, pengawasan, sumberdaya dan komunikasi, dan pekerjaan secara keseluruhan. Banyak penelitian telah membuktikan bahwa berdasarkan pengalaman pekerja wanita memiliki tingkat stres pekerjaan yang lebih tinggi dan memiliki dampak negatif psikologis yang lebih tinggi dibanding dengan laki-laki (McInnis, 1999). Jika kerja cerdas (working smart) merupakan sebuah pencapaian kinerja yang tinggi dengan memfokuskan pada tujuan dan selalu menciptakan cara-cara yang efisien untuk memecahkan setiap masalah yang berhubungan dengan pekerjaan (Jaramillo, Mulki, and Boles, 2011). Sementara itu Sujan dkk (1994), mendefinisikan kerja
cerdas sebagai sebuah perilaku yang diarahkan untuk mengembangkan pengetahuan tentang situasi tertentu dan memanfaatkan pengetahuan tersebut dalam situasi tertentu pula. Kedua definisi ini menggambarkan bahwa secara kontekstual, kerja cerdas memerlukan perencanaan atau persiapan mental dari karyawan, keyakinan penuh dengan mendasarkan pada kemampuan sesorang untuk memiliki perilaku yang diinginkan, dan kemudian membuat penyesuaian perilakunya dalam berbagai situasi yang terjadi.


Simpulan: Hasil penelitian ini dapat disimpulkan secara umum bahwa stres pekerjaan dipengaruhi oleh berbagai tekanan organisasi (organizational stressors). Sehingga dari hasil penelitian ini dapat diidentifikasi berbagai tekanan organisasi yang berpengaruh terhadap stres pekerjaan khususnya bagi para perawat di rumah sakit Islam di Kota Semarang. Selain itu juga dari hasil regresi interaksi dengan memasukkan tiga variabel moderating (gender, masa kerja, dan kerja cerdas), hubungan antara independen variabel dengan dependen variabel dapat menghasilkan hubungan yang lebih jelas. Dari kelima variabel tekanan organisasi (conflict, block career, alienation, work overload and unfavourable work environment), terdapat tiga variabel yang memiliki pengaruh signifikan terhadap stres pekerjaan, yaitu block career, alienation, and unfavourable work environment. Stres pekerjaan pada perawat di Rumah Sakit Islam di Kota Semarang akan semakin meningkat kalau ditunjang oleh kebijakan-kebijakan yang mengarah pada penghambatan karir sebagai perawat. Disamping itu juga stres pekerjaan akan semakin meningkat karena munculnya gejala perasaan keterasingan di antara perawat, dan juga lingkungan kerja yang tidak mendukung.

Gender memoderasi hubungan antara lingkungan kerja yang tidak mendukung dengan stres pekerjaan. Bagi perawat wanita yang mendominasi jumlah perawat di RSI di Kota Semarang (81,7%) keberadaan lingkungan kerja yang baik sangat memperkuat hubungan antara tekanan organisasi dengan stres pekerjaan. Temuan lain mengindikasikan bahwa masa kerja memoderasi hubungan antara variabel beban kerja yang berlebihan dengan stres kerja. Beban kerja akan memiliki pengaruh signifikan terhadap stres pekerjaan hanya berlaku bagi perawat yang masa kerjanya masih kecil. Kerja cerdas memoderasi hubungan antara variabel konflik dengan stres pekerjaan. Disamping itu kerja cerdas juga memoderasi hubungan antara variabel beban kerja dengan stres pekerjaan. Temuan ini mengindikasikan bahwa hubungan konflik dan stres pekerjaan akan terjadi pada karyawan yang mengaplikasikan kerja cerdas dengan baik.

Berkaitan dengan block career perlu dikembangkan sistem perencanaan karir bagi perawat yang dapat memberikan harapan karirnya sebagai perawat. Demikian juga perlu sistem yang mengatur kejelasan karir bagi perawat. Variabel alienation perlu lebih dikembangkan lagi kedekatan hubungan antara perawat yang satu dengan yang lain melalui kegiatan yang terencana dan berkesinambungan, yang didukung juga adanya jaminan bagi perawat untuk mudah berinteraksi satu sama lainnya dalam rangka mendukung lingkungan kerja yang lebih baik. Sementara itu berkaitan dengan peran variabel moderating, perluinya mendapatkan perhatian bagi perawat wanita yang berhubungan dengan lingkungan kerja yang tidak nyaman, karena kaitannya dengan stres pekerjaan sangat signifikan. Selanjutnya perlu kebijakan yang lebih baik lagi dalam kaitannya dengan beban kerja bagi perawat yang tergolong muda, mengingat adanya efek moderasi dalam hubungan antara beban kerja yang berlebihan dengan stres pekerjaan. Terakhir perlu adanya pemahaman dan penerapan kerja cerdas bagi perawat, mengingat adanya hubungan signifikan antara konflik dan block career dengan stres pekerjaan.
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Environmental Management Practices in Small Batik Industry in Kelantan, Malaysia

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Abstract: Small businesses form a backbone of economy in developed countries as well as in developing countries. However, at the same time, small businesses significantly contributed to environmental degradations because they are preoccupied with matters pertaining to business as well their limitation in resources to look after the environment. In Malaysia, batik industry is one of handicraft products that contributed significant to the country economy, but the industry has poor environmental record. Yet until recently, not many researchers in Malaysia conducted in research pertaining to environmental management practices of SMEs entrepreneurs by using batik as a case. This paper examines environmental practices adopted by entrepreneurs in their business activities. This study utilized in-depth interviews with three entrepreneurs in the industry in Kelantan. The results of the study found that the level of implementation of environmental-friendly practices among batik entrepreneurs were low.

Keywords: Environmental management practices, SMEs, batik industry

1. Introduction

Since the late 1980s, the business impact on the environment has become an issue of increasing concern, particularly in western economies (Gerrans and Hutchinson, 2000; Robbins, 2001). Usually big businesses are getting more attention when it comes to their impacts on the environment relatively due sheer size of their business. In the context of small business, surely it has very limited operations, but it has the potential impact to the environment. Stakeholders and many small business owners believed that they have little impact on the environment (Lee, 2000; Rowe and Hollingsworth, 1996). Similar to its medium and big business counterparts, small businesses’ activities have also contributed to environmental problems. Although an individual contribution towards environmental problem compare to big businesses, taking together, they have a very large impact to such problems (Welford, 1994; Tilley, 1999a). In this regard, special attention should also be given to small businesses in order to address environmental degradation in the country. But, one must bear in mind that small businesses is not a little version of big business, in regard of their limitations in terms of resources – finance, human and technology. They need different approaches in addressing the problems.

Sustainable development in business should have its unique position which balancing both sustainable production and sustainable consumption ((Weerasiri & Zhengang, 2012). Its responsibility should be start with pollution prevention then expand into control and environmental design (Chavan, 2005). Sustainable business practices in a company are characterized by environmentally-friendly practices initiated by a company for the purposes of becoming a more sustainable organization in the future. Entrepreneurs or the owner managers may first recognize the importance of sustainable practices in their business activities to ensure environmentally-friendly business. In the case of batik industry, batik entrepreneurs quite difficult to practise environmental management in production of Batik because of their equipments and tools in the production of Batik is traditionally inherited from generation to generation (Ahmad, Harris, & Seng, 2007). Low phase of technology advancement of this industry add to this predicament. In Malaysia Batik is classified as handicraft industry because it involves the use of traditional materials for industry relief from customs duties. Batik premises are built along the river because owners intended to use water from rivers as water sources and then discharge Batik effluence into the river. Batik industries generate a huge contribution to Malaysia’s economic development. However, Batik activities also produce large amounts of effluents with a high concentration of pollutants which required extensive treatment before discharging into the environment.

Amongst various cottage industries, Batik industry is chosen as a case because a number of reasons. First, the said industry is responsible for water pollution and according to the latest report by department of the state of Kelantan compliant rate of the industry relatively low compared with other industries-65% (DOE Kelantan Report, 2011). This industry produces wastewater or discharge which contributes to water pollution since it utilizes heavy chemicals. Wastewater from Batik industry contains grease, wax,
heavy metal suspended solids, and dyes (in painting and coloring processes) (McClatchy, 2011). Second, Batik industry is a significant industry in Malaysia. It is a cottage industry which is run by Malay entrepreneurs, largely in the two Malay belts state of Kelantan and Terengganu. This industry not only provides income for entrepreneurs but at the same time employs thousands workforces in both downstream and upstream of the industry. The future of Malay craft relies on the survival of the very industry. So, it comes as no surprise to see why this industry has given more priority by government. Within the Batik industry, the areas of concern pertaining to the environment include premise housekeeping such as detached wet and dry areas, space for Batik styling, fabric dyeing space, color stabilization space, remove candle (boil) and melting wax space and rinsing and immersion space. Then, managerial raw materials like providing proper storage of colors and waxes. Next, water, fuel, and electricity usage management and comfortable workspace for employees in Batik premise. A proper waste management can include the establishment of drainage system and compliance with occupational health and safety. This qualitative research study was designed to explore the current level of implementation of environmentally sustainable practices in the Batik industry in Kelantan area. The hope is to generate a more in-depth understanding of what each batik entrepreneur is doing to address this issue, and also create baseline information on the environmental practices as a whole among Batik entrepreneurs.

**Batik Industry Issues:** According to Department of Environment in 2011, Batik manufacturing industries in Kelantan achieved the lowest percentage of environmental compliance (62.50%), and other manufacturing industries like metal fabrication, leather, electric and electronic, food and drink, rubber based, Batik handicraft and textile recorded 100% compliance. Low-compliance by Batik manufacturing was identified due to contributed to the highest carbon emissions per year among Small and Medium Enterprises (SMEs) in the country. In the same year, there are 47 premises not specified under the Regulations Environmental Quality (Industrial Effluents) Regulations 2009. 40 of these premises are Batik industry and 7 other manufacturing premises. Compliance with Regulations Environmental Quality (Industrial Effluents) Regulations 2009 by non-designated premises is 95.31%. Hence, the compliance with environmental law by these manufacturing industries could be improved significantly.

As an alternative, firms are obligated to adopt new ways in managing the production process by adding the environmental factor in the management that is an environmental management and measuring environmental performance of their industry. This method had already been adopted mostly in European countries. In the past, most businesses and industries measured only aspects directly related to legal requirements or financial costs. Towards sustainable development, firms and industries have begun to manage environmental aspects of their business more systematically. Measuring environmental performance of the industry is an option to overcome the pollution problem in Malaysia. It shows that the cooperation from the industrial sector is also vital to implement the plans and strategies to reduce the pollution. Realizing the negative actions taken by Batik entrepreneurs for implementing environmental management, Faizahet, Al, 2014 have developed a green model focusing on the Batik industry by highlighting three options for green strategy such as premiselayout, consumption of raw materials and waste management option. The implementation of green industry practices is very profitable for every part of earth system components. Overall, most research pertaining to small business and environmental performance was conducted in developed countries (Welford, 1993, Shaper, 2002, Tilley, 1999a, 1999b, Debby, 2008; Groundwork, 1995; Friedman & Miles, 2001; and Hillary, 2004). A number of related studies were also conducted in developing countries (Sonnenfeld, 2000; Frijns, Phuong and Arthur 2000; Rao et al., 2009). However, only a few researchers have delved into this particular research area in Malaysia (Yaacob, Mahmood & Nik Ismail, 2007, Yaacob, 2010).

**Environment In The Context Of Sustainability:** An increasing human populations may cause declination of natural ecosystems and changes in the balance of natural cycles which lead to negative impact on both humans and other living systems. So that, an initiative called Local Agenda 21 (LA21) was proposed at the United Nations Conference on Environment and Development (UNDEC) in 1992 (Tonami and Mori, 2007) for creating the integration balance soon. Sustainable development requires the integration and balance of three parts such as environmental, social and economic benefits in the decisions of any development (Atkinson, 2004). The starting point of sustainable development is the idea that the long-term preservation of our environment, our habitat as well as its biodiversity and natural resources and the environment will only be possible if combined simultaneously with economic, social and political development particularly geared to the benefit of the poorest members of society. It finds expression in the integrated concept of environment and development.
Environmental Management Practices: The improvements in environmental management practices can affect a multitude of benefits to SMEs including reduction in waste, cost savings, increased customer satisfaction, higher employee commitment, improved products, better public relations and competitive advantage (Simpson et al., 2004). There nine typical benefits of implementing an EMS pointed out by Shen & Tam in 2002 such as; fewer fines associated with violations, improved corporate image due to environmental performance; (3) contribution to the improvement of public environmental standards; (4) contribution to environmental protection; (5) better overall business competitiveness; (6) fewer environmental complaints; (7) improved work environment that boosts morale; (8) reduction in environment-related sickness and injuries; and (9) less environmental risk in air, land and water pollution. In 2013, Altmets have combined the adoption of two members of Scandinavian and Estonian environmental practices. The result found that although there have high environmental awareness among Scandanavian members but they are not persistent in following that on the actual practice. He prove that Scandinavian members society have more environmentally conscious than Estonia. On the other hand, small businesses have therefore been often found to have limited ability and willingness to engage with the best environmental practices for the issues (Hamann et al., 2009; Spence, 2007; Biondi et al., 2000; Gerrans and Hutchinson, 2000; Hillary, 2000) and they are often highly dependent on a small number of customers and are thought to suffer from greater constraints in financial and managerial resources (Williams & Schaefer, 2013).

2. Research Methods

This research drawn samples from population of Batik entrepreneurs provided by Perbadanan Kemajuan Krafangan Malaysia Kelantan State (PKKM, 2014). Informants of study consisted of Batik entrepreneurs who have premises in Kota Bharu and Bachok. All the interviews were conducted in September 2014. An interview protocol was used to facilitate interviews. In the early part of the interview protocol consisted of questions regarding to entrepreneurs background and premise profiles. In the second part consists of environmental practices adopted by entrepreneurs in producing Batik. Questions related to five options such as premise housekeeping, the use of raw materials, water and electricity usage, good and comfortable work space and waste material management. The interview protocol were constructed based on Green Batik practices provided by the Department of Environment guidelines which aims to sustainable development in the future prospects. The interviews were conducted between 30 minutes to 1 hour at the Batik premises. All the interviews were audio-taped with the consent of Batik entrepreneurs. The data obtained through interviews with the entrepreneurs were then transferred to word processor verbatim. The analysis of data was done manually. Coding the questions was based on interview protocol construct. The respondents were namely Informant X, Informant Y and Informant Z. The results of the analysis of interview data presented in the form of a narrative form.

3. Research Findings

Demography: Out of three informants, X and Y are male, and Z is female. As far as the highest educational level is concerned, informants education varies, informant A earned diploma, whereas informants Y and Z respectively SPM and SRP. The informant A was the youngest, age 27 years old, both informants Y and Z were in the middle ages – mid forties. Informant A quite new in Batik industry, only 6 years compared with informant Y and Z who involved in the industry for almost 2 decades. Both informants X and Y yet to have any children, informants Z had 5 children. In terms of number of employees, both informants X and Y had 5 employees and informant Z had 10 employees. Judging from the number of employees, it can be said all of them were in the category of small business. Start-up capital amongst informants varies, the lowest one was informant Z who parlayed on RM200 almost 20 years ago. This is followed by informant Y who spent RM2,500 and informant A who spent 4 times higher than informant B. When one of the researchers asked all the informants of the last reconstruction of their premises, all the informants admitted that they did not. Table 1 shows a background of informants and their batik premises.

Table 1: Background of informants and their businesses

<table>
<thead>
<tr>
<th>Informant</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
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<tbody>
<tr>
<td>Gender</td>
<td>Female</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>Highest education</td>
<td>Diploma</td>
<td>SPM</td>
<td>PMR</td>
</tr>
<tr>
<td>Age</td>
<td>27 years old</td>
<td>43 years old</td>
<td>47 years old</td>
</tr>
</tbody>
</table>
Environmental Management Practices

**Premise Housekeeping:** In response to environmental initiatives taken by their premises, all the key informants said that they have adopted separate wet and dry areas. The former for chemical storage, rinsing and immersion space, column for drying fabric. The latter for Batik design color stability, drying space and office. Then, two of the informants mentioned that their premise did not have space for Batik styling (menerap) but only informant Y had that. Informant Z explained that he used a space for styling Batik and fabric dyeing. The same goes to Informant Y, her premise did not separate space for fabric dyeing because of the small space of her premise whereas Informant X provided a space for fabric dyeing which the basin of melting wax is located close to the styling space (menerap), the good ventilation space, and the spaces were labeled. Informant X and Y confirmed that their premise did not have a space for color stabilization. The good space for fabric dyeing means the space provide close to coloring mixes space, the premise have special shelves to organize dyes. In contrast, Informant Z uses a special space for color stability and a space to wash the fabric after stabilized the color. The space for color stability shall provide a place for drying fabric. After that, two of the informants have two separate spaces to remove waxes (boiling) waxes. Only Informant Y used the same space for remove waxes (boil) and melting wax. In response to the space for rinsing and immersion fabric, only one of informant, which Informant Y did not spare a space for rinsing and immersion, but Informant X and Informant Z provides two different spaces for rinsing and immersion fabric while produce Batik.

<table>
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<tr>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Detach wet and dry areas</td>
<td>/</td>
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<tr>
<td>Space for Batik styling (menerap)</td>
<td>/</td>
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<tr>
<td>Fabric dyeing space</td>
<td>/</td>
</tr>
<tr>
<td>Color stabilization space</td>
<td>X</td>
</tr>
<tr>
<td>Remove waxes (boil) and melting wax space</td>
<td>/</td>
</tr>
<tr>
<td>Rinsing and immersion space</td>
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</table>

*(/)= Yes  
*(X)= No

**Use of raw materials:** Informant XY and Z were asked to explain the environmental initiatives adopted in managing raw materials, two of the informants have a good environmental implementation in providing colors. The good two informants said that they kept the dye in a closed container and they used scales to measure the dyes. Agreed with that statement, informant Z said that he kept the dye in the suitable storage shelves but not labeled. Only informant Y not have good environmental adoption, her practice have proven by the following statement:

"...There are no scales used for measuring the dyes. I have produced over the years since my first time using the dye powder. The right measure was found after color the fabric repeatedly through my own observation. It takes long time to see the stabilize color...." (Informant Y)

In providing fabric area, all of the informants’ response for good adoption in implementing green business. They cut the fabrics as needed, used the excess fabric to light a fire and take the initiatives to make products such as blouses, pajamas, shawl and pillow. When they were asked about the use of waxes, all of them confirmed that they recycled the used waxes. Informant Z said that he recycled the waxes by using the wax to light the fire apart from the use of wood.
Use of raw materials

<table>
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<td></td>
<td>X</td>
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<tr>
<td>Providing colors</td>
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<tr>
<td>Providing fabric</td>
<td>/</td>
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<td>Providing waxes</td>
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</tbody>
</table>

*(/)=Yes  
*(X)=No

Water and Electricity Usage: When the entrepreneurs were asked what the initiative have taken to reduce the water usage, only Informant Z has used the water effectively, which soaking the fabric in a bundle, use rubber pipe to drain the water, use the floats to control water levels and the pipe have valve cover, however, the water tank do not comply with the size set by government stakeholders. Informant Z agreed that the float is very important for blocking the water flow from flowing out. Informant Y decided to soak the fabric one by one and it caused waste water. In the response of electricity usage options, two of the informants (Informant X and Informant Y) have least practices for reducing the electricity usage. The environment in Batik premises was constructed in the poor lighting. Most of the premises were built in the closed area and it caused the workers to use the lamp while produce Batik. Only Informant Z installed the transparent roof to have good lighting practice.

Water and Electricity Usage

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<tbody>
<tr>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Reduce of : Water Usage</td>
<td>X</td>
</tr>
<tr>
<td>Reduce of : Electricity Usage</td>
<td>X</td>
</tr>
</tbody>
</table>

*(/)=Yes  
*(X)=No

Comfortable work place: When all the informants were asked in response about the comfortable work space while working on the Batik premise, all the informants do not have good ventilation in their premise. According to Informant X and Y, they need more space to adopt the greening aspects. Informant X said:

"I built premises on a small scale and still not able to take the initiative to green Batik. It is good if there was more space. Now, there is no place to store the chemicals and others".

Good and comfortable work space

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<td>X</td>
</tr>
<tr>
<td>Good and comfortable work space</td>
<td>X</td>
</tr>
</tbody>
</table>

*(/)=Yes  
*(X)=No

Waste Material Management

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<th>OPTIONS</th>
<th>INFORMANTS</th>
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<tbody>
<tr>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Drainage system</td>
<td>X</td>
</tr>
<tr>
<td>Recycle</td>
<td>X</td>
</tr>
<tr>
<td>Occupational Health and Safety</td>
<td>X</td>
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</tbody>
</table>

*(/)=Yes  
*(X)=No

When all the informants were asked about their waste material management, Informant X and Y confirmed that they do not have a drainage system to be discharged into an Effluent Treatment System. Only Informant Z said that his premise has small drains to discharge the wastewater into the river and drainage system is in good condition (no rubbish in the drain). Both Informant X and Informant Y did not built a gradient and cement flooring in their premise. In the response of recycling option, all key informants mentioned a type of practice that not adopted in environmental practices. This involved a variety of recycling efforts, including waxes, plastic bag, water recycle and excess fabric. In occupational
health and safety options, all the informants (Informant X, Informant Y, Informant Z) said that their premise did not have motivation to encourage the employee for using appropriate clothing such as mask, apron, glove and shoes while control the chemical, dyes, waxes and so on. In addition, all the informants’ premise did not provide a fire extinguisher in the premise and kept in the right place and trained the employees to use the fire extinguisher. Then, all the informants did not provide the nail cover on the pemidangbesi.

4. Discussion and Conclusion

This research has generated some interesting findings and contributed to inherent knowledge about how Batik entrepreneurs adopt environmentally friendly practices in their businesses. First, among three Batik entrepreneurs, Informant X and Informant Z have good practices for housekeeping. They established separate spaces for various activities such as styling (Menerap) space, fabric dyeing, color stability, space for remove waxes (boil) and melting wax space and rinsing and immersing space. Second, practice was proper section to store usage of raw materials such as fabric and wax. In this option, all the informants adopted highest practice for those raw materials except proper storing colors. The entrepreneurs did not keep the dyes in a closed container and did not use scales to measure and weight dyes accordingly. Third practice related to usage of utilities - water and electricity usage. The informants have least practice of minimizing water and electricity usage. As far as research is concerned excessive usage of water was common practice. For example like soaking fabric, was done piece by piece. Rubber pipe did not use to control excessive flow of water. Water float switch for water level controller and faucet did not have valve cover. As far as electricity is concerned, Batik premises were constructed near entrepreneurs' houses or extension of their houses. As a result of not properly designed, electric light needs to be apply all the time during production of Batik, this will increase consumption of electricity. Little efforts had been done to reduce usage of electricity. Fourth, most of the informants did not establish good and comfortable work space. Perhaps informants did not perceived size of workplace space of premise and good ventilation in their premises as crucial, or lack of capital prevent them to provide better working environment.

Last, all the informants seem not to manage their waste materials either solid or liquid. They did not have a proper drainage system to discharge Batik effluent. If they have drainage system it was not in good condition (rubbish choked drain), floor of the premises were not properly covered with concrete. Furthermore, a variety of recycling efforts including plastic bag, water recycle and excess fabric recycling were least observed. None of the entrepreneurs complied with occupational safety and health requirement. They did not prepare safety equipments and let alone motivate their employees to use appropriate clothing such as mask, apron, glove and safety shoes when dealing with chemicals, dyes, waxes and so on. None of the informants had kept and trained their workers to use the fire extinguishers. As a conclusion, Batik entrepreneurs in Kelantan showed low environmentally friendly practices. Understanding this situation is crucial to develop a proper mechanism to increase awareness of entrepreneurs on the importance environmental management in Batik industry. Exposing entrepreneurs on negative sides of the industry to the surrounding is also helpful, realising this effect can change their mindsets and in turn motivate them to address the problem. Listening to their predicaments is also helpful to address the problem. As far as result of this finding is concerned, low environmentally friendly Batik practices required long and hard way to push them to the next level. Sustainability of this industry requires proactive efforts from entrepreneurs.

References


New Straits Times, 12 July 2013.


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Abstract: Studies on entrepreneurs as one of the main components contributing to entrepreneurship particularly for new venture creation processes, has been widely highlighted by previous researchers. An entrepreneur is the main actor in entrepreneurship based on how they think and make decisions. Most previous researchers studying the cognitive aspects of the entrepreneur have looked at the process of creating new ventures in general, but research focusing on creating e-commerce businesses has not been investigated much at all. The aim of this study is to identify how the role of cognitive characteristics of e-commerce entrepreneurs has contributed to the creation of new e-commerce businesses in Malaysia. This research uses a case studies approach in which data was collected by interviewing a total of twelve e-commerce entrepreneurs from May 2013 until December 2014. The findings of this study have found the contribution to the creation of new businesses by cognitive entrepreneurs in e-commerce in Malaysia is based on personal background (i.e. education, family) and experience in a previous work/business that facilitates their creation of new businesses. Therefore, the government’s role in encouraging entrepreneurial activity in the country needs to emphasize elements of entrepreneurs' cognitive ability in order to enhance the economic development of the country through the emergence of new business in e-commerce in the future.

Keyword: Entrepreneurship, psychology and e-commerce

1. Introduction

The research of entrepreneurship has begun debated since some issues that have been highlighted by different perspectives and definitions of the new venture creation. Per Davidsson (2005, p. 1) referred to several definitions by previous researchers regarding the phenomenon of entrepreneurship amongst others as new entry (Lumpkin & Dress, 1996), the creation of new enterprise (Low & MacMillan, 1988), the creation of organizations (Gartner, 1988), a process of creating something different with value (Hirsch & Peters, 1989). However, all these definitions highlighted creation of organisations, therefore, this study looksthe definition of the term entrepreneurship as referring to the creation of new organization based on the William B. Gartner (1988) to answer the question "How does an organization come into existence" which involves a complex process through the interaction of the various components. Referring to R. A. Baron (1998), cognitive and reasoning of thinking are the mechanisms in entrepreneurship which in many aspects answer questions why and when entrepreneurs think differently than other people to pursue opportunities for creating new business?. The different human cognition processes are caused of information they are received from previous experiences and/or personal background which greatly influence their personal judgment and decision to start new creation. The study of cognitive perspective is a valuable tool for answering entrepreneurship's basic question “why” (R. A. Baron, 2004). The basic question in entrepreneurship according to R. A. Baron (2004) is why do some choose to become entrepreneurs and why some can recognize opportunities to create the new organization and other do not. The capability of cognitive process between entrepreneurs compare with others leads to decision to start new venture creation.

Studies on entrepreneurship particularly regarding the new venture creation in e-commerce is still less investigated by many previous studies to find out the question how does an organization come into existence? Therefore, the aim of this study is to identify how the role of cognitive domain of e-commerce entrepreneurs as one element in the individual components that have contributed to the new venture creation in Malaysia. Generally speaking Dheeriya (2009) describes the e-commerce as any venture conducted solely on the Internet or the World Wide Web. E-commerce business is different compared to the brick-and-mortar business because its nature of business uses mainly on internet and technology-based computer systems. According to him, the conceptual framework concerning online entrepreneurship has yet to formally developed to date compared with regular entrepreneurship often debated by many previous researchers. William B. Gartner (1985) explains that the process of new
venture creation is likely to vary according to the type of business, industry or specific entrepreneurs which affected the emergence of new business. Therefore, there is a crucial important to know regarding how the role of the entrepreneur's cognitive can be related to the creation of new venture - e-commerce. Based on previous studies, entrepreneurship can be explained as a factor that contributes to economic development in a country (Carree & Thurik, 2005; Wennekers & Thurik, 1999). The phenomenon of entrepreneurship has been recognized as an impact on market activity and economic system (P. Davidsson, 2008, p. 10) through the creation of wealth and the creation of something of value (Drucker, 1985; Morris, 1998) and has encouraged the creation of entrepreneurial activity for products and services (Shane, 2003). Although entrepreneurship does not include as part of resources of a country, many scholars agree that entrepreneurs and entrepreneurship are the engine of economic growth.

Until later, with the advance of ICT and telecommunication e-commerce and related business co-existed with it started flourishing and many have embraced on e-commerce due to its advantages. This is evident as contribution of e-commerce entrepreneurship keeps increasing and at the same time manages to reap billions of dollars and at the same time eradicates traditional business chain. Indeed it now has become a significant component of the global sales revenue growth firms (Dheeriya, 2009). Reported by vernacular Sinar Harian newspaper on July 30, 2013 by interview with Mr. Azisan Mohd Firdaus Hashim, the General Secretariat of Planning and Coordination Commission has clarified that the e-commerce in Malaysia 10 until 2011, counting for almost two billion dollars and an increase to three billion dollars in 2012 (Mohd Firdaus Hashim, 2013). Although no accurate figures for explaining the number of businesses that conducted e-commerce business in Malaysia, but the numbers of three billion Ringgit contributed to the country's trade in 2012 clearly showed the emergence of new business - e-commerce in Malaysia are very encouraging. Since then entrepreneurship is the engine of economic growth in a country (R. A. Baron, Shane, S. 2008, p. 8; William B Gartner & Bellamy, 2009, p. 34) through the creation of new businesses, job creation and innovation, many researchers have been interested in exploring issues why an entrepreneur decided to start a new business which is not others (David M. Townsend, 2010). Therefore, raise of interest of many researchers on entrepreneurship domain looks at the role of cognitive process that has influenced the new venture creation.

2. Methodology

Altogether, twelve successful entrepreneurs who were highlighted by the Communication Commission (MCMC) 2013 were interviewed using purposive sampling as method of sampling. Entrepreneurs who were interviewed varied, involved a variety of sectors such as business involvement, gender, location and historical background in e-commerce business. All the twelve entrepreneurs interviewed are in small and micro enterprises (MSE) which has anumber of employees not exceeding 30 or total sales not exceeding RM30 million a year. They are active in e-commerce business, running full-time business and their businesses have been operating between one to six years. Interviews were based on semi-structured questions. Each interview was audio-recorded and transcribed verbatim immediately and Analysis of the interviews produced tentative categories. Researchers tentatively discovered tentative themes based on research questions. After the theme built, researchers made comparative analysis of the data that emerged among in formats in categories. According to Merriam (Merriam, 2009, pp. 178-193), there are several steps to analyze the data inductively (category construction) which began with open coding and analysis of the interview transcript data that are related to answer the research questions. After that, the coding inserts to one category (the grouping of open codes) or called axial coding by Corbin and Strauss (2008). The early stage of developing themes involved three stages processes: open coding, axial coding and selective coding. This is the same with the grounded theory method by Corbin and Strauss (2008). Referring to approach by Corbin and Strauss (2008) tentative themes began when researchers start to analyze the data with open coding to identify the passage in the transcript of the interview. The interview transcripts line-by-line from each informant for the themes construction to answer the research questions. Then, after refining of the transcript of interview, open coding would be replaced under axial coding "coding that comes from reflection on interpretation and meaning." In another words, axial coding is derived from several open coding that has been constructed and has almost the same meaning reflects a particular theme. Next, a third process was to build selective coding of the main categories, comprising several axial coding, which supported the construction of the themain categories.
3. Finding

The findings of the study based on fifteen interviewees identified four among twelve entrepreneurs associated with their previous education contributed to the new venture creation in e-commerce. Education they received played very important roles as the basic guideline before they made the decision to start a new business. Previous education gave them basic ideas to create new business and how to manage their businesses with good strategies. For example, according to informant nine (P9), her previous study at MMU was a good platform to get knowledge about graphic multimedia and digital media skills. Basic abilities to start a new venture in e-commerce

“yes (previous study). My previous study at Malaysia Multimedia University (MMU) helped me a lot in this business. I am very... like the computer. It is highly impactful because during my studies, I was taught about graphics, multimedia and digital media. So, I can create graphics, take pictures, edit the pictures. I can do it. So, during the early stages of starting my business, that knowledge really helps me. All about graphics. All about image”

That basic knowledge received from previous study at Malaysia Multimedia University (MMU) refers to P9; was applied during startup duration in the e-commerce business. She did all the basic requirements needed in e-commerce business based on basic knowledge that she acquired beforehand.

“Just expertise, means the knowledge I acquired during my previous study. I applied that knowledge to start my business online. In terms, got a platform, update the image. Then have to find information on internet. That knowledge indeed helps me”

Sharing same opinion with P9, referring to informant eleven (P11) she also learned a little-bit about marketing strategy and branding. That knowledge was applied in order to help her in starting her new business.

“My previous study can be used to create my business now. So, know a little-bit about marketing and branding. When I want to start my business, I can recall back the things I learned before. Oo, I learned about this before. I learned about the target marketing, market reach. I learned about branding, word of mouth. Like that. So, can use that back to my business”.

Degree in Hospitality at UITM gives her an advantage to starting a new business because she knows the basic knowledge of marketing strategy.

“Yes. That is influence (previous education). It maybe an advantage to me. Maybe not all people learned about branding right? So is an advantage actually. How am I going to make customers remember and know about our business”.

This pattern was clearly discerned, according to informant number three (P3) she also degree holder from Malaysia Multimedia University (MMU) in computer digital art (same college with P9). She was exposed in e-commerce as compulsory subjects at the said university. She also claimed almost all MMU students involved in e-commerce business after graduated because they already exposed with basic knowledge of e-commerce

“I have a degree in Computer Digital Art at Malaysia Multimedia University. I was studying at Multimedia University. Before that, I was supposed to study in United Kingdom in the architecture. But the economic crisis pada 1997/1 think. When I finished SP Min 1996, I entered for A level in 1997. So, because of got the JPAscholarship. So we should not be in UK. So they offered me to MultiMedia University. So I study the Computer Digital Art till graduation in MMU”.

“I exposed since study of the Malaysia MultiMedia University. So, if you know many students from Malaysia Multimedia University (MMU) starting the business online. We are already exposed to doing the business online since at university. That is a good advantage we are studied MMU”

Difference situation with informant number two (P2), He is not a degree holder but only had high proficiency certificate in technical designer at IKBM—training institute. During his stint at the institution, he learned a lot of things about how to design the product based on steel material. The basic skills can be applied for wood-based product what he had done in the current business. His expertise in parang (machete) maker, selling the product via e-commerce starting year 2009. Recalling the memories when he first started business based on wood-based product, he had no any experience to make “parang” because he never see before how people do it. With basic skills as steel-based designer he tried to make parang from learning from other who is an expert. After that, he able to make parang altogether with its casework with good quality, surpassing customers’ expectation. After 5 years operated the business he
gained confident to penetrate potential market via e-commerce after realized the huge opportunities through e-commerce business in 2009. In another case, he is also ex-student Islamic religious school in Seremban Negeri Sembilan. While in school he used to learn about the importance of Muslims doing business to change their lives. Therefore, he wanted to be a successful entrepreneur in the future. Technological changes especially in internet hitherto has encouraged him to pursue his dream and seized opportunities by establishing a new firm in e-commerce to tap untapped market due to burgeoning industry.

Second cognitive factor related to personal background also contributes to the new venture creation among e-commerce entrepreneurs because of family life history involved in business. Tacit knowledge that they acquired and accumulated within their mindset strongly embedded due to such entrepreneurship environment. Conscious and subconscious mind about early exposure to business that sparked during the early venture creation could be considered as their advantages that not easily gained by others. Seven out of twelve entrepreneurs were interviewed, concurred that their entrepreneurship much related with family history as a significant factor in business startup. Referring to informant number one (P1); he has a sister and brother who also involved in business. His mother was the founder of kapok pillow more than 20 years ago in his hometown. After his mother retired in 2006, that company was taken over by him until year 2011, where he first year his business via e-commerce was started. Having a great mother as the founder of the company, he produced kapok pillow in the village; his late grandfather is the pioneer who started business in rice processing plant in Alor Star, Kedah. In year 2011 where internet infrastructure accessible in his hometown, he started to realize the potential of e-commerce and interested in exploring more details how to expand the market share.

“...When we have an own product to sell the customer, the main focus is how are we going to make the product? That's influence my decision to do the business online”

“...Now times change, people now are using broadband internet facilities to make their life easier. So from there I took the opportunity to market online”

Referring to informant number twelve (P12), his wife family is from family business background which motivated him to participate to join them in the business. As for informant number ten (P10), his father was small business entrepreneur who used to sell traditional cakes around their village. Although his father not so successful businessman but that situation does not prevent him to be an entrepreneur, but always motivates him to be a successful businessman. Family background plays an important factor for ones to be an entrepreneur because ones familiar with such situations and become part and parcel of their life. In other words such as a candle flame that burns inside just waiting to burst to become entrepreneurs, sooner or later. According to informant number five (P5), he likely born to be a businessman because almost all his family have owned businesses.

“What I said earlier I was born to be a businessman ... my bloodflow ... is an entrepreneur, because most of my family is a businessman”

He informed the researchers that while he was a child he always helped his mother business during school break. Later, that experience gave him more confident and brave enough to embark on his business on his own.

“It basically teaches me... brave, more confident with yourself”

Informant number eleven (P11) mentioned in those days she always helped her mother to sell traditional biscuits especially during hariraya. That situation that she experienced in early life has caused great interest in her to be an entrepreneur. During study in one of many UITM campuses, she polished her entrepreneurship capabilities, unlike other students she was very active in business.

“...It was effective family background). Yes, my mother is very active to make the biscuits especially during hariraya celebration. She makes the biscuits from my village tradition. Not at hariraya celebration only but my mother also received a large quantity of demand with sold a thousand of peiciesto matedoorgifts and so on. So it’s maybe about the blood flowing (spirit of business). But what I noticed is actually from standard six, was kind of person excited to sell goods. Even before creating this business, I was sold cookies that I have made myself during my study in UITM. Although I am not got a lot of money but I enjoyed it. Actually it is more about the interests and not just to be a business follower or I want to make more money...”

Out of twelve entrepreneurs were interviewed, only three entrepreneurs reiterated that failing to get job that they applied pushed them into the world of entrepreneurship. According to informant number twelve (P12), he started his new business because of job opportunities in Malaysia were very limited based on his qualification.
“One reason I started this business because of unemployment opportunities in Malaysia is limited. I looked at the limited job because of what? When I’m done my master tried to find work, very difficult. So, I see why I am having a master is difficult to get work. The reason I was freshie and no experience. I think there is indeed difficult to get work. So I applied for myself, I had too choose my own work by doing business”. Similarly, informant number ten (P10) was unemployed about a few years before he started his new venture.

“So when I finish my study, I was unemployed. I tried all kinds of jobs. I was worked as canteens school assistant and helped my father at market night. I also work as sales man walk home by home sell to the product. The work like people say there is no real meaning of life. I did not meet the true meaning of life. After unemployment my age 21 until age 25, I have done all kind of work while stay in my village. People talk no real life. There is no sometimes”.

Previous working experience of informant number two (P2) had contributed very significantly for the new venture creation in e-commerce. His last previous work as a technical assistant, he work as designer and foreman in the factory that he was exposed with computer skills since a monochrome computer to done the routine work. The basic knowledge of computer skills gave him an advantage to start new business especially in e-commerce that much dealing with computer.

“I realize my previous work is the greatest experience to start new business in e-commerce. I already know a computer since my office used computer as black and white (monochrom). So we use monochrome. All the same, it’s hard. Since DOS to the monochrom we already use computers. After I resign my job, I was started the new business in my village without involved in the computer anymore. Suddenly my village had reached to excess the internet; I was bought a new computer because I know the potential of e-commerce in my business. I already know and used the computer before although the software is so different. I learn a lot a computer because I know that I can get a lot of benefits from that. I spent the money to learn back about the computer. I realize my previous work as factor to start e-commerce compare with those did not have basic experience in computer and did not realize the potential of e-commerce. So maybe he felt confused whether it can generate the money, facilitated or worth to do investment. At the time there is no internet coverage in my village and maybe I am staying in town my business father. So, I spent money learn and bought computer. At that time I was subscribe the broadband by telco provider”

“Just my experienced, I am worked in factory and design need to use the computer. It waste the biggest contributing”

An experience of entrepreneurs in previous business is one of basic elements contributing a new venture creation via e-commerce in Malaysia. Some of e-commerce entrepreneurs started with other business before establishing a new e-commerce enterprise. In this case, the first informant (P1) has experienced in brick and mortar business since year 2006 and emphasized the most important aspect in business is how to market the product. Viable marketing strategy he realized to sell product is via e-commerce

“I had experience (business)... The first time what I see, what I said at the beginning is about the marketing. Marketing is very important. My experience (brick and mortar business), if we have product, we need to sell that product. How are we going to sell? For whom are we going to sell? That question we needs to be answer. That is issue we need to think

Base on his experience in business, he argued that if entrepreneurs interested to sell products beyond local market, they need to explore in detail about business online because such platform able to reach huge number of potential customers.

“Based on my experience what I had said, e-commerce can able to market the product to outside. So through the internet, we can sell the product to the outside. So if before we are only at local market like a Pahang, Perak. But by doing business online we just only shipment the product to customer via post nationwide. Thus it greatly simplifies”

Informant number twelve (P12) also involved in other business before establishing new e-commerce business in year 2012. He started the business in KL

“Before existing my business online I am always joint business in bazaar. I was going to everywhere. But before I am to the bazaar, I always used the online to tell the customer that I went to open small shop in bazaar at everywhere in Kuala Lumpur. At that time I am still a single, all the stock was store in my house. If I went to open small shop in bazaar, I will handle alone in cars, moving alone. It’s very hard at early stage of my business”

The same situation was observed with informant number ten (P10), who had many experiences in others
businesses before deciding to establish a new business based on cosmetic products. He involved in consultancy and trading business for 7 years, started in year 2006 and end in 2013, he established current company in 2014

"Before this I was in trading (business). I am also an consultant, business consultant. I was a trainer in IPTA (public university) and IPTS (private university). Many universities call me to talk about entrepreneurship issues. Before I am creating my own product, I was sold product others people too. I was started to sell from other people's products before I created my own product. I was involved in this business since from year 2006 but seriously in year 2008. So, I resign my job. Because at the moment I still worked, I sold stop worked. In year 2008 I sold freelances full time business from my home. Operate in home. So, last year I was setup my new office"

He also experience e-commerce when he manage to sell his product via online through ebay.com to for international market before establishing new company based on cosmetic product during last year. He already knowledgeable about how to market his products via online

"A lot of kind of business I had tried. I had sold all kind of things involved the consumer products, household and accessories. I start my first product by selling to overseas market. I sold in e-bay. So from that experience and then start with training what I mention earlier. I teach people how to e-bay business. I encouraged people to sell their product in overseas market. It is so many platforms in business online. Platform what I am explained that almost 95% percent for online business. So, many platform such as bay, mudah.my, facebook, blogs, website, and also e-commerce"

Informant number five (P5) has started business since he studied at a local university when he identified opportunities to solve students problem. He realized the opportunities to sell the printing t-shirt for student which is stock ready to made from outsourcing suppliers. After that he also tried to involve in other business such contractor and training before he established e-commerce printing company in year 2011/2012. The same situation with informant five (P5), informant number two (P2) tried all kind of businesses after he resigned the job in 1998. He involved in many businesses such as fixing machinery, plumbing, and welding workshop but all fail. According to him experiences were helpful in business, especially how to manage and treat customers with respect. His earlier experience can be also applied in e-commerce business.

"But the experience in terms of business principles. That meaning it more contributed to the business principles, we can also apply it to online business. Business online is easier because we do not directly deal with customers. We are not talking directly face to the peoples. So we just wrote, if the word are not properly used we can delete it. That is difference. We can read what we want to posting. Readour used word nicely before to post to the customer. So compared to brick and mortar business if we've mistakenly talk, it hard to backwards. It has nothing to do, right? So more comfortable"

In the same vein, informant number four (P4) started in business since she a single when received the order to sew traditional clothes for customers in her village. At that time the interest in the business start when she was thinking of the future. So she started business in traditional bakery in year 2005. She realized the potential market by selling traditional biscuit via online market and planned to establish the e-commerce company in year 2011. As for informant number eleven (P11) and eight (P8), they had the business experience since their studies at universities a few years ago. Informant eight (P8) started business online during last semester of her study at UniversitiTeknologi MARA (UiTM), she realized the opportunities of online business at the time.

From started of business (business history)? Ok, I actually start from the time that I was study in a degree of tourism at UiTM Shah Alam, last semester. I see at the time business online still not established. So I tried to start at that time people did not know about online business. I only sell produk via blogs. Offer by blogs. But at the time no customer but just to try see how the business online. I only that time started the business online because many people still do not know about business online. At that time Yuna (celebrities) selling the product via online but she has not become an artist. She was selling clothes like that. Sugarscarfs also the pioneer in business online. So she starts first. I did not sell the hijab at time but one drop perfume, clothes. After that in year 2009 my friend told me try to sell the scarves because it had lot of potential. Some people are not wearing a scarf yet. After that, I try to sell. Alhamdulillah the response was ok; a lot of people are bought it. At the time I had no capital, one week I can make a profit 500 or more like that. At the time also I saw business online had good opportunities for the future. I was determined after finish the study I will continue to do business online."
**Discussion:** Human cognition processes are caused by information they are received from previous experiences and/or personal background which greatly influence their personal judgment and decision to start new creation. The findings of this study clearly demonstrated that cognition in which very much related with cognitive perspective of thinking and reasoning of an entrepreneur has a great influence on the new venture creation in e-commerce in Malaysia. The cognitive roles such as personal background due to family involvement in business and personal experiences pertaining to information, computer and technology have been recognised as important elements to influence the creation of new businesses by e-commerce entrepreneurs in Malaysia. The framework of cognitive perspective which is paramount for early new venture creation in e-commerce is shown in Table 1.

**Figure 1:** Cognitive as an individual component that contributes to the new venture-e-commerce entrepreneurs in Malaysia

<table>
<thead>
<tr>
<th>INDIVIDUAL PSYCHOLOGY</th>
<th>The roles of Cognitive Perspective</th>
</tr>
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<tbody>
<tr>
<td>Personal Background:</td>
<td>1. Education 2. Family</td>
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</table>

Based on the figure 1, it shows the roles of cognitive perspective emerge from two main factors that related to new venture creation in e-commerce in Malaysia. First main factor related to the roles of cognitive entrepreneur is personal background such as previous education they are received and family background. Second factor refer to cognitive entrepreneur's are related with previous work and business experience of entrepreneurs before decision to start e-commerce business in Malaysia. The personal historical background such as education where they are received before started their business play very an important factor to lead their decision for creating the new business in e-commerce. Education gives them information to generate basic ideas and awareness on how to start the new business in e-commerce. The families background also an important in business as influential factor to the new venture creation among entrepreneurs. Family background in business gave them the information and exposure about the business experience since they are young especially about how to create the product and manage the business.

The work experiences also play significant factor leading ones on the new venture creation among e-commerce entrepreneurs in Malaysia. Their previous work experienced gave them the knowledge especially in computer; it is a basic to establish the e-commerce business. There were also entrepreneurs who have had experience of other businesses before starting an e-commerce. They already had strong foundation in the businesses such as basic knowledge from other businesses experienced as basic ideas to create new e-commerce businesses. In the conclusion, the personal background such as education and family background and also the work and business experience play important roles in cognitive perspective because it provides a useful source of information for entrepreneurs to start the new business in the future compared who those do not have any information about the business.

**Reference**


The Weak of Control Systems Result in the Emergence of a Number of Problems within the Organization

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Abstract: The weak of control systems result in the emergence of a number of problems within the organization. In contrast, the control system that is too tight cause the appearance of action that it is counter-productive, such as increasing of cost of control systems design and decreasing of flexibility and innovation. The control system is able to reduce the risk of management by identifying problems and provide the best chance for corrective actions. Thus the control system is closely related to the organizational performance. Previous studies have shown that the impact of the control system on organizational performance is not directly so, but there is a contextual variables that affect the relationship between control system and performance. Unfortunately, commonly some previous studies use a non-systemic approach, so that the effect of all contextual variables on the relationship between control system and performance does not describe the real conditions. This study was done to examine the effect of contextual variables on the relationship between control system and performance by using system approach. Compared with the selection and interaction approach, the system approach is better in providing solutions to the complexity of multidimensional relationship problems. The model in this study is built on three main variables, namely Contextual Variables, Management Control Systems (MCS, Organizational Variable), and Organizational Performance. Contextual variables consist of Perceived Environment Uncertainty (PEU), Job Uncertainty (JU) and Company size (Size). Sample suddenly stand up of a number of medium and large manufacturing companies in Central Java, and the sampling is done by using purposive proportional sampling. The hypotheses are tested using multiple regression. The results showed that the PEU, JU and Size are moderating variables on the relationship between MCS and organizational performance. The relationship among contextual variables, organizational variable, and organizational performance is not simple, but there is complex and systemic relationship.

Keywords: Perceived Environment Uncertainty, Job Uncertainty, Company Size, Management Control System, Organizational Performance, System Approach
Factors Influencing Trends Against Fraud (Fraud): Employee Perceptions of District Kendal

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Abstract: Government agencies is one of service to the community to realize the achievement of good governance in Indonesia. However, in reality many of the staff members who commit fraud. This research is aimed to explore the perceptions of employees in government agencies about factors that impact fraud such as the effectiveness of internal control, information asymmetry, the suitability of compensation, organizational commitment, leadership style, organizational ethical culture compliance to accounting rules, and law enforcement. The sample in this research were 166 employees of government agencies in the Kendal Regency. Data collection using questionnaires. Data analysis in this study using a model full analysis Structural Equation Modeling (SEM) with smartPLS analysis tools. The results showed that internal control effectiveness, information asymmetry, the suitability of compensation, organizational ethical culture, compliance to accounting rules, law enforcement affected with fraud significantly. But the research showed that organization’s commitment and leadership styles did not affect with fraud. The advice given in this research to government service in Kendal that is expected to be more transparent about financial statements to the public, giving the reward employees for their work, the leader explain to more clearly convince the direction and purpose to the goal of organization. It is also suggested to next studies for making research in bank, private sector, trading and manufacturing company, another finance company are trend with fraud.

Keywords: Fraud, Perception, Government Sector

1. Introduction

We often hear and read articles and news about the indications of fraud or fraud / irregularities in a company or government agency that is committed by the employee / employees. The rise of the news about the investigation of the indications of irregularities (fraud) in the state management of the Company and also of going to press and television increasingly made aware that we have to do something to correct the irregularities. Fraud or cheating itself is an act against the law by people from within or outside the organization, with a view to personal gain and or group that directly harm others. Laymen often narrowly interpreted that fraud is a criminal act or acts of corruption. The tendency of accounting fraud (KKA) include various forms such as the tendency for corruption, the tendency to misuse of assets, and the tendency to deceive financial statement (Thoyibatun, 2009). In the public sector, forms of fraud (fraud) in this case is a corruption such as leakage. In this case it is the case with regard to local government Kendal. In the news reported by www.tabloidlidik.com mention the findings of the Indonesian Forum for Budget Transparency (Fitra) said, that the Kendal district ranks first in Central Java, the most common irregularities during the 2013 budget of 35 Regency / City in Central Java, Allegations of misappropriation of state funds in Kendal is estimated at 200 billion over the 94 cases.

For example, according www.beritakendal.com, occurring within a deviation of local budgets (budget) involving a civil servant (PNS) Department of Highways, the SDA and the ESDM Kendal and two contractors in fiscal year 2012 which led to loss of 200 countries million dollars. Another case was conducted by the former marketing manager of Kendal Town PD BKK mode with embezzling clients and fictitious credit application. The total losses suffered by PD BKK Kendal reached Rp 1.2 billion City. As well as cases of corruption Social Assistance (Bansos) conducted by legislative candidates (candidates) House of Representatives from the Golkar Party and former Regent of Kendal and corruption cases equity participation company-owned Enterprises in Various Regions 2004-2011 by the Director of PD Aneka Business, Director Finance and Operations Director. Many things can be the reason for someone to commit fraud such as pressure, opportunity and justification happens to actors, but the real fraud (fraud) that occur in the environment of government agencies not only tour of duty and corruption, there are many other modes. Almost in all the business processes and services run by government agencies, central and local levels are still fraught with fraud and corruption. In addition fictitious business travel mode, deviations that have been uncovered include: engineering procurement of goods / services, reception
deviations country / region, the cost of licensing, illegal charges and others. Several studies have shown that factors mem¬pe¬ngaruhi tendency fraud (fraud). Wilopo research (2006) shows that the internal control, compliance, accounting rules, accounting and information asymmetry affect the morality management of unethical behavior and tendencies of accounting fraud, while compensation does not affect the suitability of unethical behavior and tendencies of accounting fraud and unethical behavior affect the tendency of accounting fraud. Najahningrum (2013) conducted a study on employees of government agencies DIY. The results indicate that there are significant between the enforcement of regulations, the effectiveness of internal control, asymmetry infor¬masi, distributive justice, procedural justice, organizational commitment and ke¬cenderung¬¬a fraud (fraud), while the ethical culture of the organization does not ber¬pengaruh cheating tendencies (fraud).

Theoretical Framework and Hypotheses Development

Theoretical Basis

Theory of Perception: This theory includes the psychological theory of behavior, that perception is a psychological factor that has an important role in influencing behavior. The difference in perception is strongly influenced by the different interpretations on any individual or group (Mahmud, 1990 in Rukmawati, 2011). Perception according to Robbins (2008) is the process by which individuals organize and interpret their sensory impressions in order memberi¬kan meaning to their environment. However, what is received by a person can essentially differ from objective reality. The behavior of individuals based on their perception of reality, not kenyatan itself.

Attribution theory: Attribution theory developed by Kelley (1967), and Green and Mitchell (1979). They argued that leadership behavior is caused by attributes cause. The theory explains why the leadership attributes leadership behavior occurs. So leadership is inseparable from the way of thinking feeling, acting, act, and behave in a job in an organization with subordinates or others (Waworuntu, 2003). The tendency Fraud (Fraud) Definition of fraud according to Black's Law Dictionary in Rukmawati (2011) are: "A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment, a tort is usual, but in some cases (esp. When the conduct is willful) it may be a crime."

The above definition means that, cheating is kesengaja¬an on one statement of a truth or disembunyi¬kan state of a material fact which may influence others to commit acts which harm him, usually an error but in some cases (especially when taken intentional) allows a crime.

Internal Control Systems: Internal control is a management tool used to monitor the implementation of the powers and responsibilities given to subordinates. In addition, internal controls can also be used as a tool to control the operation of the company in order to operate more effectively and efficiently. Understanding Internal Control itself according to PP 60 of 2008 is a process that is integral to the actions and activities that are carried out continuously by management and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient, the reliability of financial reporting, safeguarding of state assets, and compliance with laws invitation.

Information asymmetry: The most important thing is the information from the real world. Asymmetric Information or inequality of information is a situation where the manager has different information (better) on the condition or prospects of the companies owned by investors (Brigham, 1999: 35 in Susetyo, 2006). This information asymmetry occurs because the management has more information than the investors (Husnan, 1996: 325 in Susetyo, 2001).

Suitability Compensation: Compensation or remuneration are all forms of payments made by the company to employees as remuneration for the performance of duties or the employee’s contribution to the company, both of which are given on a regular basis as well as situational. Reward or compensation is an important factor affecting how and why people work in an organization and not on the other organization.

Organizational Commitment: Organizational commitment is defined as the degree to which employees are involved in the organization and intends to remain a member, where it contains the loyalty and the willingness of employees to work optimally for the organization in which the employee works (Greenberg and Baron, 2003).
Leadership Style: The style of leadership is how a leader carry out the functions of leadership and how it is seen by those who seek leads or those who may be observing from the outside (Robert, 1992). Significant leadership role to the success and failure of an organization.

Organizational Ethical Culture: Organizational culture is a pattern that are shared within an organization that is not written to be obeyed by all persons involved in the organization. The existence of organizational culture in any organization tend to be the result of interaction between the founders’ biases and assumptions on the one hand, with what is learned by the first member of the organization, which dipekerja-kan by the founders of the organization, from their own experience.

Obedience Accounting Rules: Theoretically, accounting obedience is also an obligation. Therefore, if the financial statements are made without following the applicable accounting rules, the state declared as a form of failure and will lead to a tendency of cheating or unethical behavior that can not be or is difficult to trace the auditor. Adherence to accounting rules is viewed as the degree of conformity procedures asset management organization, implementation of accounting procedures, and presentation of financial statements and all supporting evidence, the rules established by the CPC and / or SAP (PP RI No. 24/2005).

Law Enforcement: Law enforcement is a process for the enforcement of remedies, or the functioning of legal norms to guide behavior in real traffic or legal relations in society and state. (Shidique, Jimly A, 2006).

Hypotheses Development

Relationship Effectiveness of Internal Control and Fraud Trends (Fraud): The tendency of fraud (fraud) is influenced by the presence or absence of an opportunity to do so. Great Opportunity makes the tendency of cheating (fraud) is more common. These opportunities can be reduced by good internal control system. Good internal control can reduce or even shut down opportunities for cheating tendencies.

H1: Internal Control Effectiveness negatively affect tendency fraud (fraud).

Relationship of Information Asymmetry and Trends Fraud (Fraud): If there is asymmetry of information on the scope of government, users, especially people who do not know information about the use and management of budget funds the possibility of financial reports will be manipulated by the preparers of financial statements that would open up opportunities to commit fraud (fraud). Wilopo study (2006) showed that the positive effect of information asymmetry on the trend of cheating. Thus, the higher the asymmetry that occurs between the manager and the users of financial statements, the likelihood of fraud (fraud) will be higher.

H2: Information Asymmetry positive effect on the tendency of cheating (fraud)

Relations Compensation Compliance and Fraud Trends (Fraud): To reduce fraud committed someone in the company, the company usually give rewards or gifts to employees in the form of a bonus or something. It is expected that employee perceptions of the compensation awarded company in accordance with the capabilities that it provides for the company. Due to reward or prize, is expected to raise the motivation of employees to be more passionate in their work and will forget to do acts of fraud.

H3: Compliance Compensation negatively affect the propensity fraud (fraud)

Relationships and Organizational Commitment Fraud Trends (Fraud): Organizational commitment is defined as the degree to which employees are involved in the organization and intends to remain a member, where it contains the loyalty and the willingness of employees to work optimally for the organization in which the employee works (Greenberg and Baron, 2003). Employees with a high degree of organizational commitment would involve himself in the organization and work on behalf of the organization. If an employee in an organization has a high organizational commitment to the organization this can reduce the occurrence of acts of fraud (fraud).

H4: Organizational Commitment negative effect on the propensity fraud

Relationship of Leadership Style and Trends Fraud: Person's leadership style will greatly affect the performance of subordinates, in this case if a leader has a style of leadership that is respected by his subordinates are expected to reduce acts of fraud within the organization. Otherwise, if the person's
perception of his boss’s leadership style is not respected tend to do things that will hurt the company as an act of fraud.  

**H5: Leadership style negatively affect the tendency of cheating**

**Ethical Culture and Relations Organization Trends Fraud:** The founder of the organization have a positive impact for the survival of the organization, which is why the founders of the organization often becomes a legend in every organization. If the institution has an ethical organizational culture is low it will encourage employees to perform acts of fraud, but on the contrary, if in an agency has instilled the values that a fraud is an act that is not good and detrimental to many parties, the staff members will be less likely to commit fraud. It can be concluded that the better the organization's ethical culture of an agency, the lower the tendency of employees to commit fraud.  

**H6: organizational ethical culture negative effect on the propensity fraud**

**Obedience relationships and tendency Fraud Accounting Rules:** Disclosure requirements explained that each accounting entity within the government is expected to present the financial report comprising the financial statements and performance reports. These reports are made in a form and content according to SAP so that the organization's performance between periods can be compared. So the obedience of an agency or company in the preparation of financial statements in conformity accounting rules would reduce the likelihood of fraud because it is easier to detect Auditor.  

**H7: Obedience accounting rules negatively affect the propensity fraud**

**Relations Law Enforcement and Fraud Trends:** Cheating in general is an unlawful act committed by persons from within or outside the organization, with a view to personal gain and or group that directly harm others. Most people know about the law, but did not stick with it. So in this case the required awareness. Public awareness of law enforcement can arise when running properly. Good law enforcement is expected to reduce fraud (fraud).  

**H8: Law enforcement negatively affect the tendency of cheating**

2. Methodology

**Types and Sources of Data:** Data used in this study are primary data obtained through filling a questionnaire conducted by the respondent. Data sources are the characteristics and perceptions of civil servants working in Kendal subsections that deal with financial or finance.

**Population and Sample:** The population in this study were all civil servants working in the Department of Local Government Kendal with a total of as many as 1,114 employees. Research conducted the study population but not the study sample, which examines some of the populations represented. The sample of this study is a regional secretariat, one Bappeda and 16 district offices in Kendal, the author assumes that employees working in finance or financial handling as many as 10 employees for each department, but the authors gave questionnaires to several agencies with the reason for having the possibility of cheating high tendency in that agency. So the sample size is 195 employees.

**Method of Data Collection:** The collection of the data required in this study a data collection conducted from questionnaires. The questionnaire consists of questions with explanations given for each question in order to facilitate the respondents in answering. The questionnaire in this study were prepared using a Likert scale. This study will use a Likert scale of 1-5, with details as follows: (1) Strongly Disagree (STS), (2) Disagree (TS), (3) Undecided (R), (4) Agree (S) and (5) Strongly Agree (SS)

**Measurement of Variables**

**Effectiveness of Internal Control (KPI):** The instrument used to measure the tendency of fraud consists of five items were developed from the PP question number 60 of 2008 on the Internal Control System of the Government. The response of the respondents was measured with a Likert scale 1 strongly disagree to 5 strongly agree.

**Information asymmetry (AI):** The instrument used to measure the asymmetry of information consists of six items dikembang-kan question by researchers Dunk (1993) in Wilopo (2006). The response of the respondents was measured with a Likert scale 1 strongly disagree to 5 strongly agree.
Suitability Compensation (KK): The instrument used to measure the suitability of compensation (Gibson, 1997 in Wilopo, 2006) regarding the reward and consists of six items question. The response of the respondents was measured with a Likert scale 1 strongly disagree to 5 strongly agree.

Organizational Commitment (KO): The instrument used to measure organizational commitment was developed from research Pingka (2013) consists of seven items of questions. Likert scale of 1 strongly disagree to 5 strongly agree was used to measure the response of the respondents.

Leadership Style (GK): The instrument used to measure the leadership style developed by Fiedler’s theory (Stoner et al, 1996 in Pramudita 2013) consists of five items the question. Likert scale, 1 strongly disagree to 5 strongly agree was used to measure the response of the respondents.

Organizational Ethical Culture (BEO): The instrument used to measure the ethical culture of the organization (Robbins, 2008 in Pramudita, 2013) consists of five items the question. The measurement using a Likert scale, a scale of 1 strongly disagree to 5 strongly agree.

Obedience Accounting Rules (KKA): The instrument used to measure adherence to accounting rules developed from (IAI, 1998 in Wilopo (2006)) consists of seven items concerning the code of ethics questions accountant. Likert scale, 1 strongly disagree to 5 strongly agree was used to measure the response of the respondents.

Law Enforcement (FH): The instrument used to measure the law enforcement consists of five items were developed from the research questions Pramudita (2013). The response of the respondents was measured with a Likert scale, 1 strongly disagree to 5 strongly agree.

The tendency of cheating (FO): The instrument used to measure the tendency of fraud consists of five items of questions developed from (IAI, 2001 in research Pramudita, 2013). Measurement of this variable using a Likert scale, 1 strongly disagree to 5 strongly agree.

Method of Data Analysis: This study methods of data analysis using structural equation modeling (SEM) is a statistical technique that analyzes the relationship patterns and indicators of latent constructs, the latent constructs to each other, as well as measurement error directly. The analytical tool used is SmartPLS. Method of analysis undertaken include descriptive statistics, testing the model outer, inner test models, and hypothesis testing.

3. Results and Discussion

Descriptive Statistics: Data analysis was based on respondents’ answers collected as many as 166 respondents. From the descriptive statistics it can be seen that all the variables are the average values are different.

Tabel 1: Descriptive Statistic

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Sum</th>
<th>Mode</th>
<th>Mean</th>
<th>Std.Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
<td>166</td>
<td>15</td>
<td>25</td>
<td>3471</td>
<td>20</td>
<td>21</td>
<td>2,5246</td>
</tr>
<tr>
<td>A I</td>
<td>166</td>
<td>6</td>
<td>29</td>
<td>3001</td>
<td>24</td>
<td>18,078</td>
<td>6,11307</td>
</tr>
<tr>
<td>K K</td>
<td>166</td>
<td>8</td>
<td>30</td>
<td>3893</td>
<td>24</td>
<td>23,451</td>
<td>4,01747</td>
</tr>
<tr>
<td>K O</td>
<td>166</td>
<td>10</td>
<td>35</td>
<td>4471</td>
<td>28</td>
<td>26,933</td>
<td>4,91644</td>
</tr>
<tr>
<td>G K</td>
<td>166</td>
<td>7</td>
<td>25</td>
<td>3277</td>
<td>20</td>
<td>19,741</td>
<td>3,15447</td>
</tr>
<tr>
<td>B E O</td>
<td>166</td>
<td>8</td>
<td>25</td>
<td>3177</td>
<td>20</td>
<td>19,136</td>
<td>3,25093</td>
</tr>
<tr>
<td>K A A</td>
<td>166</td>
<td>12</td>
<td>35</td>
<td>4598</td>
<td>28</td>
<td>27,698</td>
<td>3,89323</td>
</tr>
<tr>
<td>P H</td>
<td>166</td>
<td>8</td>
<td>25</td>
<td>3292</td>
<td>20</td>
<td>19,831</td>
<td>3,0164</td>
</tr>
<tr>
<td>F R</td>
<td>166</td>
<td>5</td>
<td>25</td>
<td>1574</td>
<td>10</td>
<td>9,48193</td>
<td>3,82293</td>
</tr>
</tbody>
</table>

Source: Data processed, 2014

From the descriptive statistics in Table 1 it can be concluded that the mean value of the KPI by 21 which means that the effectiveness of internal control into the category of very effective. AI mode value of 24,
which means that the asymmetry of information into categories of high information asymmetry. KK mean value of 23.45 which means that appropriate compensation entered into the appropriate category. The mean value of 26.93 KO which means that organizational commitment into committed category. GK The mean value of 19.74, which means that the leadership style into either category. BEO mean value of 19.13, which means that the ethical culture of the organization into the ethical category. KAA mean value of 27.69, which means that the accounting rules into obedience obedient category. The mean value of pH of 19.83, which means that the rule of law into an effective category. FR mean value of 9.48, which means that the tendency of fraud (fraud) into the rare category.

Model Test Banks

Convergent Validity Test: In this study there were nine variables: the effectiveness of internal control, information asymmetry, the suitability of compensation, organizational commitment, leadership styles, ethical culture of the organization and law enforcement against the tendency of cheating (fraud). Test of the validity of research using tools which SmartPLS count. Based on the PLS outputs which can be seen in Table 2, it can be concluded that of all the results are valid questions.

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Tabel Outer Weights} & \text{Uji Convergent Validity} \\
\hline
\text{KPI1 -> KPI} & 0.276 & 0.276 & 0.024 & 11.474 \\
\text{KPI2 -> KPI} & 0.281 & 0.286 & 0.036 & 7.752 \\
\text{KPI3 -> KPI} & 0.268 & 0.263 & 0.028 & 9.524 \\
\text{KPI4 -> KPI} & 0.204 & 0.200 & 0.031 & 6.618 \\
\text{KPI5 -> KPI} & 0.199 & 0.196 & 0.043 & 4.660 \\
\hline
\end{array}
\]

\text{source: Output PLS, 2014}

Test Composite Reliability: From a reliability test in table 3 it can be seen that all the variables in this study revealed reliable since the composite reliability of each variable is greater than the value established common standards, namely 0.70.

\[
\begin{array}{|l|c|}
\hline
\text{Tabel 3: Composite Reliability Test} & \text{Composite Reliability} \\
\hline
\text{Effectiveness of Internal Control} & 0.928 \\
\text{Information asymmetry} & 0.947 \\
\text{suitability Compensation} & 0.908 \\
\text{Organizational Commitment} & 0.925 \\
\text{Leadership Style} & 0.932 \\
\text{Organizational Ethical Culture} & 0.894 \\
\text{Obedience Accounting Rules} & 0.888 \\
\text{Law Enforcement} & 0.922 \\
\text{The tendency of cheating} & 0.955 \\
\hline
\end{array}
\]

\text{source: Output PLS, 2014}

Discriminant Validity Test: Based on table 4 test results or test the discriminant validity correlations between variables indicate the value of the square root of AVE of each construct is greater than the value of the correlation between the constructs with other constructs in the model on the correlation of latent variables, the discriminant validity is said to have good value.
Tabel 4: AVE & Correlation of Latent Variables

<table>
<thead>
<tr>
<th></th>
<th>AVE</th>
<th>$\sqrt{AVE}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI</td>
<td>0.721</td>
<td>0.84236</td>
</tr>
<tr>
<td>AI</td>
<td>0.748</td>
<td>0.86487</td>
</tr>
<tr>
<td>KK</td>
<td>0.622</td>
<td>0.78867</td>
</tr>
<tr>
<td>KO</td>
<td>0.640</td>
<td>0.80000</td>
</tr>
<tr>
<td>GK</td>
<td>0.734</td>
<td>0.85674</td>
</tr>
<tr>
<td>BEO</td>
<td>0.629</td>
<td>0.79310</td>
</tr>
<tr>
<td>KAA</td>
<td>0.533</td>
<td>0.73007</td>
</tr>
<tr>
<td>PH</td>
<td>0.702</td>
<td>0.83785</td>
</tr>
<tr>
<td>FR</td>
<td>0.808</td>
<td>0.89889</td>
</tr>
</tbody>
</table>

*Sumber: Output PLS, 2014*

Test Inner Model: The test results show that the model’s inner R-square value tendency fraud (fraud) (KK) of 0.719. R-square value of 0.719 means that the variability of the effectiveness of internal control constructs (KPI), asimteri information (AI), the suitability of compensation (KK), organizational commitment (KO), leadership style (GK), the ethical culture of the organization (BEO), adherence to accounting rules (KAA) and enforcement (PP) at 71.9% while 28.1% is explained by other variables outside of research.

Hypothesis Testing: Table 5 known hypothesis testing of the path coefficients in the above table where the limit to reject and accept the proposed hypothesis is +1.96, which if the value of the t value < t table (1.96), the alternative hypothesis (Ha) will be rejected or the In other words accept the null hypothesis (H0). So it can be known variables KPIs, AI, KK, BEO, KAA, PH, whereas KO variables and GK is not accepted (rejected).

Tabel 5: Path Coefficient (Mean, STDEV,T-Values)

<table>
<thead>
<tr>
<th>Original Estimate</th>
<th>Sample Mean Of Subsamples</th>
<th>Standard Deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>KPI -&gt; FR</td>
<td>-0.220</td>
<td>-0.223</td>
<td>0.095</td>
</tr>
<tr>
<td>AI -&gt; FR</td>
<td>0.133</td>
<td>0.130</td>
<td>0.058</td>
</tr>
<tr>
<td>KK -&gt; FR</td>
<td>-0.187</td>
<td>-0.178</td>
<td>0.085</td>
</tr>
<tr>
<td>KO -&gt; FR</td>
<td>0.035</td>
<td>0.021</td>
<td>0.066</td>
</tr>
<tr>
<td>GK -&gt; FR</td>
<td>0.008</td>
<td>0.026</td>
<td>0.075</td>
</tr>
<tr>
<td>BEO -&gt; FR</td>
<td>-0.212</td>
<td>-0.220</td>
<td>0.092</td>
</tr>
<tr>
<td>KAA -&gt; FR</td>
<td>-0.189</td>
<td>-0.184</td>
<td>0.096</td>
</tr>
<tr>
<td>PH -&gt; FR</td>
<td>-0.212</td>
<td>-0.217</td>
<td>0.105</td>
</tr>
</tbody>
</table>

*Source: Output PLS, 2014*

Discussion: The first hypothesis proposed in this study is that the effectiveness of internal control negative effect on the tendency of fraud (fraud). This means, the more effective system of internal control in an agency will be able to decrease the tendency of fraud (fraud). The results of this study indicate that the effectiveness of internal control negative effect on the tendency of fraud (fraud). Thus, the test results received the first hypothesis (H1). With meningkatkan effectiveness of an entity's internal control will eliminate the chances of a person to commit acts of fraud (fraud) as opportunities arise through weaknesses in the supervision of the internal control system of an agency.

The second hypothesis proposed in this study is that the positive effect of information asymmetry on the trend of fraud (fraud). This means that the higher the employee's perception of information asymmetry in a government, it can increase the occurrence of fraud (fraud) in the government sector. These results indicate that the positive effect of information asymmetry on the trend of fraud (fraud). Thus, the test results accept the second hypothesis (H2). The results of this study indicate if an agency in the case of information asymmetry between the employee (internal) and public (external), the agency will open up opportunities for employees (internal) agency to perform acts of fraud (fraud). However, if an organization diberikan transparency on matters relating to the organization and the effect on the financial statements, it is certainly not going to happen.

The third hypothesis proposed in this study is that the suitability of a negative effect on the tendency compensation fraud (fraud). This means that the higher the perception of employees regarding the
suitability kompensasi in a government, it can reduce the tendency of fraud (fraud). These results indicate that the negative effect on the suitability kompensasi fraud (fraud) in the government sector. Thus, the test results received a third hypothesis (H3). The results of this study indicate that the compensation received by the employee in accordance with the performance and fulfillment levels so as to reduce the amount of fraud (fraud). Thus, the objective of which compensation program that individual balance, internal, external to all employees and an increase in the success of the organization’s performance can be done well. The fourth hypothesis proposed in this study is that organizational commitment negative effect on the tendency of fraud (fraud). This means that the higher the employee’s perception of organizational commitment in a government, it can reduce the tendency of fraud (fraud). The results of this study indicate that organizational commitment has no effect on the tendency of fraud (fraud). Thus, the test results reject the fourth hypothesis (H4). The reason for this finding does not support the hypothesis and opinion from various previous studies are (1) the provision of any type of job assignment can not be assumed that the employee has been fully committed to the advancement of the shelter organization, (2) the difference principle is believed by every employee who is not aligned with the system exist in the organization that was followed, and (3) lack of appropriate consideration in selecting the organization that led to a lack of a sense of pride in having the organization.

The fifth hypothesis proposed in this study is that the leadership style of a negative effect on the tendency of fraud (fraud). That means that if a leader has a leadership style that is respected by his subordinates are expected to reduce acts of fraud within the organization. The results of this study indicate that leadership style has no effect on the tendency of fraud (fraud). Thus, the test results reject the fifth hypothesis (H5). The reason for this finding does not support the research hypothesis, is (1) in a weak leader or men-dorong guiding subordinates to define realistic goals, by way of explaining the role and task requirements, (2) the leader lacks the charisma that subordinates assume that the ability of a leader they are mediocre and do not inspire the organization that was followed, and (3) the leader is not responsive to subordinates completing the job on time so that less motivate subordinates to do so. The sixth hypothesis proposed in this research is an ethical organizational culture negative effect on the tendency of fraud (fraud). This means that the ethical culture of the organization with it will reduce the level of fraud in the organization. The results of data processing show that the ethical culture of the organization negatively affect the tendency of fraud (fraud). Thus, the test results received a sixth hypothesis (H6). Good organizational ethical culture is very influential on the performance of employees and can reduce cheating action (fraud) as a good organizational ethical culture will form the organizational actors have a sense of belonging (sense of belonging) and a sense of identity (sense of pride as a part of an organization).

The hypothesis put forward is the seventh observance of accounting rules negatively affect the tendency of cheating (fraud). That is, the obedience of an agency to follow accounting rules issued by the government, the smaller the chances of fraud action (fraud) accounting. The results of testing the hypothesis in this study states that the observance of accounting rules negatively affect the tendency of fraud (fraud). Therefore, this test accepts the hypothesis seven (H7). Adherence to accounting rules is viewed as the degree of conformity procedures asset management organization, implementation of accounting procedures, and presentation of financial statements and all supporting evidence, the rules established by the CPC and / or SAP (PP RI No. 24/2005). So, if the financial statements are made without following the applicable accounting rules, the state is expressed as a form of failure and will cause kecenderungan-van fraud that can not be or is difficult to trace the auditor. The eighth hypothesis proposed is law enforcement negatively affect the tendency fraud (fraud). In other words, the higher the enforcement of regulations in an agency, the lower the possibility of fraud in the intansi. The results show that the enforcement of regulations negatively affect the tendency of fraud (fraud). Thus, the test accepts the hypothesis eighth (H8). Basically fraudulent practices will continue to be repeated in an entity if the employee does not adhere to the applicable laws and regulations. In an entity, rules are made so that the operations of the entity run more effectively and efficiently. Regulation here pertains to the rules governing employees as those directly involved with the operations of the entity.

4. Conclusion

Conclusion that can be drawn from this study that the effectiveness of internal control, information asymmetry, the suitability of compensation, organizational ethical culture, observance of rules of accounting, law enforcement significantly influence kecenderungan-van cheating. But this study shows that organizational commitment and leadership style has no effect on the tendency of cheating.
Suggestions: Suggestions submitted to this study, is hoped to government agencies in Kendal for transparency of financial statements by way of loading it in the print media or local government agencies Kendal website so that people more easily gain an understanding of the financial statements of the relevant agencies. It is expected that the leaders of government agencies to more clearly Kendal in delivering the desired direction and purpose that employees understand what the objectives of the institution. Expected for employees in government agencies Kendal to be able to run the values and the ethical rules that apply in the organization.

Research Limitations and Future Research Agenda: The study has some limitations that need improvement and development in the study - the next study, the limitations of this research are:
1) Measurement of the tendency of cheating is an extremely sensitive measurement that SSR assessment seems less objective self-report. Should be measured from the auditor's assessment of which the inspectorate.
2) The study was conducted at government agencies. Research still needs to be done back in different populations, for example, banking institutions service companies, trade and manufacturing, or financial institutions other than banks.
3) Develop a questionnaire to capture in real terms over all the variables used.

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Determinant Factors of Cooperative Capital Structure in Financial Perspective

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Abstract: Research on capital structure is mostly done on the type of profit-oriented and go public companies. The same research topic also needs to be developed in cooperative organization, because there are difference in the member service orientation and the characteristics of the organization. Ability to raise capital also becomes a major problem for cooperative organization. The study was conducted to assess the financial performance as determinant factors affecting capital structure, using regression correlation analysis either partially or simultaneously. The results showed that, not all financial performance that analyzed to be determinant of cooperative capital structure, six financial performances as measured partially, only the sales stability, asset structure, and the company size that become determinant factors that effects the cooperative capital structure, while profitability, liquidity, and business risk are not be determinant factors of cooperative capital structure. But simultaneously all financial performances that analyzed by multiple correlation becomes determinant factors that effects the cooperative capital structure.

Keywords: Cooperative Organization, Financial Performance Factors and Cooperative Capital Structure

1. Introduction

A lot of researches in the field of Financial Management with capital structure topic, that applied on profit-oriented and go public companies, but not yet many research is applied in a cooperative organization that operated with special characteristics and member service but not profit oriented. Cooperative business with its members referred to services, which can be used by members and the general public, both as consumers or businesses such as micro, small, and medium enterprises. Members who take advantage of cooperative services (as user) and the other side member have to act as an owner, both member function that called dual identity of cooperative member. As user, a member obliged to use cooperative services, while the owner is obliged to participate for sharing capital, supervise and take decisions through the member meeting forum. The classic problems of cooperative organization related to the ability to raise capital, which should have collected from members, capital resources are coming from outside of members. Cooperative capital resources nationally more than 50% are still sourced from debt, this condition is not in accordance with the principle of independence of the cooperative, cooperative was founded, managed and used by members. Cooperative as a business entity owned by the members and also services to members, capital requirements should be met by the members themselves.

Statistical data from Ministry of Cooperatives and SME’s indicates that the performance of cooperative capital in 2010 to 2012, there are 188,181 units of cooperatives with a membership approximately 31 million people, only able to finance cooperatives capital approximately 49%, and 51% cooperative capital financed by debt. The proportion of outside cooperative capital compare with its equity, that measured by debt-to-equity ratio (DER) is greater than 1 (DER> 1) illustrates the proportion of debt is greater than their equity. Capital structure can help cooperatives in the development of its business and may also be a risk for the cooperative. This condition indicates that the cooperative has been unable to fulfill the value of self-help in the development of its business. This conditions is not much different from the conditions cooperative capital in West Java, the DER value <1 in 2012. West Java was chosen as the research object. Cooperative has a structural weakness of financing, which is characterized by variability the amount of capital required (Munkner, in Sutaryo Salim, 2000: 3). Another opinion states that "the capital function in a cooperative is handicapped, because the amount of benefits available for a member is not dependent on his capital contribution but on his patronage of the cooperative" (Röpke J. 2002). Cooperative is less attractive to members, prospective members and other investors, who wish to become a member simply because it has excess capital.

Determining the appropriate capital structure is a difficult decision that cooperatives need to consider several factors that can influence the capital structure. Factors affecting to capital structure is the stability of sales, asset structure, operating leverage, growth rates, profitability, tax, control, management attitude, the attitude of lenders and agencies ratings, market conditions, internal conditions and the company’s
financial flexibility (Brigham and Houston, 2001). Research on the factors affecting capital structure have been carried out, but from several previous studies are inconsistencies in the results, Asih Suko Nugroho (2006), Joni and Lina (2010), Ahmed et al (2010), Chen, Shun-Yu (2011) and Pahuja et al (2011). Based on the description above, the title of this research is the determinant factors of cooperative capital structure in the financial perspective. This study aimed to assess the financial performance as determinant factors that effects cooperative capital structure in West Java.

2. Literature Review

Cooperative is an economic movement based on the principle of brotherhood that has function and very important role in fostering the economic potential of the people, and to realize the prosperous society. Cooperative is a modern economic organizations demanding conceptual and rational thinking because cooperative exist in a dynamic economic environment and continue to move forward, more and more open, globalized and create increasingly intense competition (Ramudi Ariffin 2003). Cooperative activities based on co-operative values and principles, which are guidelines for cooperative work in making any effort, cooperatives as economic organizations that are not specialized activities to create gain but rather to create the members welfare, in a form of satisfactory service, the principal task of cooperative to support the economic interest of the member. Business decision should be based on the interests of the members, in order to stimulate and increase the effective participation of members. In addition of cooperative values and principles that distinguish with other business entities, some characteristics as criteria of cooperative organizations (Hanel, A 1989):

1) The number of individuals who joint together in a group on the basis of at least one common interest or goal (Cooperative Group).
2) Members of the cooperative group individually determined to achieve the goal of improving their economic and social situation, through the efforts (actions) together and help each other (Organization of cooperative groups).
3) As an instrument (vehicle) for the purpose of a company that is owned and coached together (cooperative company).
4) The Company of cooperative assigned to support the interests of the members of the group, by way of providing or offering goods and services required by the members in their economic activities, namely in the company or each household members (Member Promotion).

The capital structure as a balance of the amount of permanent short-term debt, long-term debt, preferred stock and common stock (Agus Sartono, 2001), the same sense described by Brigham, E. F, et al (1999). Obtaining capital structure indicates the source of capital or capital contributions from owners and creditors, financial contribution of members as equity or shares, reserves and other deposits formation, thereby cooperative capital resources can also be obtained from its own capital resources (equity) as well as the source of loan capital (Debt) (Hanel, A 1989). Difference of opinion regarding the theory of capital structure continues until now. Modigliani and Miller argue that leverage (capital structure) is independent of the value of the company, and is known to irrelevance theory, Furthermore, Modigliani and Miller concluded that leverage will increase the value of the company due to debt interest reduces the taxable income (Brigham, E. F, et al, 1999). Cooperative capital consists of principal saving, compulsory savings, other deposits which have the same characteristics as compulsory savings, capital investments, capital contributions, reserves and undistributed net income (IAI, 2004). Equity of cooperative has four general criteria are:

1) Derived from the owner and or determine ownership of the company that is in the form of reserves or retained earnings,
2) Capital as a risk taker and income is not fixed,
3) An owner claims when the company is liquidated or dissolved,
4) Embedded in the company in the long term is not limited, or also known as permanent capital

Capital sources from debt or financial leverage has three important implications (Brigham, E. F, and Houston, 2001: 84):

1) Obtaining funds through debt makes shareholders can retain control of the company with limited investment.
2) Creditors look at the paid-up equity or fund owner to provide a safety margin, so if shareholders only provide a fraction of the total financing, the risk of a small part company is on the creditor.
3) If the company gain greater returns on investment that is financed with borrowed funds compared with the interest payments on capital returns for the owner will be greater, or leveraged.

Cooperatives are also faced by the decision of selecting capital sources, the use of debt can be justified, if it can provide additional services at a better price. The theory of capital structure has been developed include: Agency theory, signaling theory, Asymmetric Information Theory, and the Pecking Order Theory. 

Agency theory, proposed by Jensen and Meckling (1976) Horne and Wachowicz,(1998), a management as an agent and owner as a principal. Principal hopes the agent will act on his behalf, to be able to function properly, the management should be given incentives and adequate supervision. Signaling theory, a signal of management actions taken to give guidance to investors about how management sees the company’s prospects, companies with favorable prospects will try to avoid the sale of shares and commercialize any new capital required by other means, including the use of debt that exceeds the normal target capital structure (Brigham and Houston, 2001).

Asymmetric Information Theory, is a situation where managers have different information (better) about the prospects of the company owned by investors, information asymmetry occurs because the management has more information than investors (Suad Husnan, 1996), (Myers and Majluf, 1984), so that outside investors trying to capture signal activity manager to suspect the company’s prospects. Pecking Order Theory, (1) companies like internal financing (retained earnings), (2) if funding from outside (external financing) is required, the company will publish the safest securities in advance, which began with the publication bonds or debt, followed by securities that characterized the options (such as convertible bonds), (3) finally if it is still inadequate, the new shares issued. In accordance with this theory, there is not a target of debt to equity ratio, because there are two types of capital itself, namely internal and external. Own capital from the company preferably own capital that comes from outside the company. Companies prefer to use funding from internal capital, the funds derived from cash flow, retained earnings and depreciation (Myers, 1996). The order of the use of funding sources with reference to the pecking order theory is: internal funds, debt and equity. In this study, the capital structure is a combination of various sources of funding, with the main categories of debt and equity, which used the cooperative to fund the investments of its assets with the formula:

\[
Debt \text{ to Asset Ratio} = \frac{Total \text{ Debt}}{Total \text{ Asset}} \times 100\% \tag{1}
\]

Many factors that predicted by experts as a determinant factors of the capital structure. The determinants of the capital structure right now is a difficult decision for cooperatives organization, that need to consider several factors which can influence the capital structure. The capital structure is defined as the ability to raise funds and partially offset by an increase in organizational performance. This is to maintain business continuity, trust members and stakeholders. Risk factors of business, tax position, financial flexibility and conservatism or aggressiveness of management are factors that determine capital structure decisions; especially in the target capital structure (Brigham and Houston 2001). Research conducted on the determinants of capital structure shows that the variables of growth of assets, fixed asset ratio, R & D Expenditure significant effect on the capital structure (Ghosh et al, 2000), (Ahmed et al 2010). Further research, it turns agency cost and ownership structure significantly influence the capital structure (Moh’d et al, 1998). Empirical research shows that the determinants of capital structure are: Return on assets (ROA) or economic profitability Chang and Rhee (1990). Company with a good reputation can gain greater debt because lenders believe that reputation will continue to be maintained, there is a positive relationship between reputation and debt (Wiwattanakantang, 1996). Determinant factors are affecting capital structure in this study, limited by factors relating to the financial performance of cooperatives, such as: (1) Sales stability, companies with relatively stable sales may be safer to obtain more loans and fixed using a higher burden in the form of interest on loans compared with companies whose sales are unstable (Brigham and Houston, 2001), (Ahmed et al 2010). Sales stability, company with sales relatively stable means having a stable cash flow as well, it can use more debt than companies with sales of unstable (Agus Sartono, 2001). Sales stability, measured by growth in sales or service, according to the formula:

\[
P_{jt+1} = \frac{P_{jt} \times P_{jt+1}}{P_{jt+1}} \tag{2}
\]

\[P_{jt} = \text{sale at the end period}\]
P_{t-1} = sale at last period

(2) Profitability, measures the ability to generate profit from the level of sales, assets, or certain capital, thus profitability can be described by profit margin, return on assets and return on equity. Return on Assets used in this study, to measure a company's ability to generate profits based on the level of certain assets (Mamdou Hanafi, 2005), the net profit of cooperative organization assumed to be equal to the cooperative surplus. Several researches indicate that The ability of company create profit, there in no relationship with capital structure (Joni and Lina, 2010) (Rafique, 2011). But the other research indicate that there is significant relationship between profitability with capital structure (Saleem et al, 2013). Profitability is defined as earnings before interest and tax to total assets:

\[ \text{Return On Asset} = \frac{\text{EBIT}}{\text{Total Asset}} \]  

(3) Asset Structure is the overall assets owned by cooperatives or listed on the balance sheet, which includes current assets and non-current assets. Companies that have a corresponding proportion of assets to guarantee loans tend to use debt. Multipurpose asset that can be used by many companies is a good guarantee. Asset structure describes some amount of assets that can be pledged as collateral value of assets. Companies that have the guarantee of debt will be easier to get debt than companies that do not have a guarantee (Brigham et al, 1999). Capital structure affected by asset structure (Frank and Goyal, 2007) The asset structure is measured by comparing the non-current assets with overall assets owned by the cooperative in a certain period.

\[ \text{Asset Structure} = \frac{\text{Non Current Asset}}{\text{Total Asset}} \]  

(4) Liquidity is measured by the current ratio and current liabilities, high liquidity means the company has the ability to pay short-term debt, so that tends to lower the total debt, which eventually capital structure will be smaller. The liquidity ratios measure the relationship between a firm's liquid or current assets and its current liabilities (Cornet et al, 2012). Liquidity is measured:

\[ \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \]  

(5) Business risk is the risk of the company is currently not able to cover operational costs and influenced by the stability of income and expenses. Companies with high business risk tend to avoid using debt financing. The world recognize investment business risks as part of the risk premium, which is defined as the uncertainty of the revenue stream due to the nature of the business itself as products, customers, and how to produce the product. Business risk is the uncertainty faced by the company in business. Business risk is calculated as the standard deviation of return can be shaped margin, return on equity and the other for several years. Measured by the formula:

\[ \text{Risk} = \text{standard deviation of cooperative returns} \]  

(6) The Company size, describe the size of a company, measured by total sales or total assets. Some researchers use asset or sales growth is positive reflecting the greater size of the company, thus multiplying also funding alternatives that can be selected in increasing profits. In this study the size of the company is measured by the amount of asset growth of cooperatives as compared to previous cooperative assets.

\[ \text{Asset Growth} = \frac{P_{a_t} - P_{a_{t-1}}}{P_{a_{t-1}}} \]  

\( P_{a_t} = \text{Cooperative Assets at the end period} \)

\( P_{a_{t-1}} = \text{Cooperative Assets last period} \)
Based on the literature review, research framework can be described as follows:

**Figure 2.1: Model of Research Paradigma**

![Diagram of Research Paradigm]

- Sales Stability
- Profitability
- Asset Structure
- Liquidity
- Business Risk
- Company Size
- Capital Structure


Based on the research framework above, the hypothesis can be formulated as follows: “the financial performance as determinant factors that effect to cooperatives capital structure”. Partially, withdrawn hypotheses: (1) There is the effect of sales stability to cooperative capital structure, (2) There is the effect of profitability to cooperative capital structure, (3) There is the influence of asset structure to cooperative capital structure, (4) There is effect of liquidity on the cooperatives capital structure, (5) There is effect of business risk to the cooperatives capital structure, and (6) There is the effect of firm size to cooperatives capital structure.

3. Methodology

This type of research is descriptive quantitative research. The survey method and limit the sample are used. The sample size of 56 units of cooperatives in West Java, the sampling technique is used by two-stage cluster sampling. Methods of analysis to explain the strength and direction of the influence of the independent/explanatory variables on the dependent variable are using multiple regression models. Use of this analytical model, should avoid the possibility of deviation by the classic assumptions. In this study, the classical assumptions that are considered most important are (Gujarati, 1995): (1) It has a normal distribution, (2) Nothing happens Multicolinearity between independent variables, (3) does not occur Heteroskedasticity or variant disturbance variables constant (Homoskedastisitas), and (4) does not occur autocorrelation between residuals of each independent variable. Technique of data analysis is using SPSS. The relationship between the dependent variable (Y) with the independent variable (X) is described in the multiple regression models.

\[ Y = f(X_1, X_2, ..., X_n) \]

Multiple regression equation becomes:

\[ Y = a + b_1 X_1 + b_2 X_2 + ... + b_n X_n \]

**Notes:** Y as a dependent variabel, a value of Y when \( X = 0 \) \( X_1, X_2, ..., X_n \) as a indepenen variabel 1, 2, and -n \( b \) slope of variabel \( X_1, X_2, ..., X_n \).

Regression Equation:

\[ Y = a + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + b_6 X_6 + b_7 X_7 \]

**Notes:**
- \( Y = \) Debt to Asset ratio
- \( b_1 \ldots b_n = \) coefficient of regression
- \( X_1 = \) Sales Stability
- \( X_2 = \) Profitability
- \( X_3 = \) Asset Structure
Hypothesis test is conducted by the significance test of independent variables (Xi) to the dependent variable (Y) either partially or simultaneously with the statistical test t (t-test) and F test.

4. Result and Discussion

This study has tested a variety of classical assumptions required and considered important in the multiple regression analysis, the results are the data/residual is normal distribution/normal data, does not occur Multicolinearity among the independent variables, does not occur Heteroskedasticity or variant disturbance variables constant (Homoskedastisitas), and not occur autocorrelation between residuals of each independent variable. The results of the partial correlation analysis, the correlation coefficient (r) and the determinant coefficient (r2) to describe the influence of financial performance as determinant factors of the cooperatives capital structure can be explained in the following table:

<table>
<thead>
<tr>
<th>No</th>
<th>Affecting Variables</th>
<th>Correlation Coefficient</th>
<th>Determinant Coefficient</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales stability to capital structure</td>
<td>0.489</td>
<td>23.9%</td>
<td>Significance</td>
</tr>
<tr>
<td>2</td>
<td>Profitability to capital structure</td>
<td>0.016</td>
<td>0%</td>
<td>Not significance</td>
</tr>
<tr>
<td>3</td>
<td>Asset Structure to capital structure</td>
<td>0.0685</td>
<td>46.9%</td>
<td>Significance</td>
</tr>
<tr>
<td>4</td>
<td>Liquidity to capital structure</td>
<td>-0.066</td>
<td>0.4%</td>
<td>Not significance</td>
</tr>
<tr>
<td>5</td>
<td>Business risk to capital structure</td>
<td>-0.015</td>
<td>0%</td>
<td>Not significance</td>
</tr>
<tr>
<td>6</td>
<td>Company size to capital structure</td>
<td>0.502</td>
<td>25.2%</td>
<td>Significance</td>
</tr>
</tbody>
</table>

Sources: Analysis result

Based on the analysis results, it can be explained on the analysis of the effect of each independent variable in the form of a cooperative financial performance as a determinant factors on the capital structure: (1) The magnitude of the correlation coefficient of influence sales stability to the cooperatives capital structure of \( r = 0.489 \) with determinant coefficient of \( r^2 = 23.90\% \) with a significance test result of 0.000, because the probability of 0.000 less than 0.05, it can be stated that the stability of sales affect on the capital structure is significantly. This means that the ability of cooperatives to raise capital sourced from loan capital is influenced or determined by the sales stability. (2) The effect of profitability to the cooperatives capital structure with a correlation coefficient of \( r = 0.016 \) or determinant coefficient of \( r^2 = 0.00\% \). Results of tests of significance of 0.902, greater than 0.05, it can be stated that profitability does not affect the capital structure. So the hypothesis that there is an influence on the profitability of capital structure is not proven. (3) The effect of the structure of assets to cooperatives capital structure, with \( r = 0.0685 \) or determinant coefficient of \( r^2 = 46.90\% \). Results of tests of significance of 0.000, less than 0.05, it can be concluded that the structure of asset significant effect on capital structure. (4) The effect of liquidity to the capital structure can be explained that the magnitude of the correlation coefficient of \( r = -0.066 \) or determinant coefficient of \( r^2 = 0.40\% \). Test results are not significance for a significance level of 0.618 is greater than 0.05, then the liquidity does not affect the capital structure. (5) The influence of the business risk to capital structure cooperative with correlation coefficient of \( r = -0.015 \) or the determinant coefficient of \( r^2 = 0\% \). Significance test results can be seen that the significance level of 0.910 is greater than 0.05, then the business risks do not affect to the capital structure. And (6) effect of the size to the cooperative companies on capital structure with a correlation coefficient of \( r = 0.502 \) or the determinant coefficient of \( r^2 = 25.20\% \). Result of significance test of 0.000 is smaller than 0.05, then the firm size effect on the capital structure. Simultaneously, the influence of the stability of sales, profitability, asset structure, liquidity, business risk and the size of the cooperative enterprise to the cooperative capital structure can be explained from multiple correlation analysis in the following table:
set structure, and size of cooperative company. Profitability, liquidity, and business risk are explained that the cooperative has bigger size of cooperative enterprise, the greater the cooperative is the easier to access capital sources, especially from the companies, cooperative has greater the opportunity for obtaining fund from the loan. Or in other words, the capital structure, it can be stated to six of determinant factors of financial performance effect on capital structure, it can be the variable stability of sales, profitability, asset structure, liquidity, business risk, and the size of the company. Results calculated by regression analysis are presented in the following table:

Based on the analysis in Table 4.2, it can be explained that the determinant factor Stability sales, profitability, asset structure, liquidity, business risk and the size of the cooperative companies together have a very strong influence, with a correlation coefficient of 0.708, coefficient determinant of 50.20 %. Tests of significance can be seen that the significance level of 0.000, less than 0.05, it can be stated to six of determinant factors of financial performance effect on the capital structure significantly. The results of multiple regression equation used to predict how much the variable capital structure change when there is a change in the variable stability of sales, profitability, asset structure, liquidity, business risk, and the size of the company. Results calculated by regression analysis are presented in the following table:

<table>
<thead>
<tr>
<th>Tabel 4.2: Model Summary Multiple Regression</th>
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<tbody>
<tr>
<td>Model</td>
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<tr>
<td>-------</td>
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<tr>
<td>dimension 0</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Sales stability, Profitability, Asset structure, Liquidity, Business risk and company size

Based on the result of statistical analysis on partial correlation shows that not all financial performance to be determinant factors to the cooperative capital structure of the six financial performance measure that determinant factors of the capital structure are only sales stability, asset structure, and size of cooperative company. Profitability, liquidity, and business risk are not a determinant factor to cooperatives capital structure. Stability sales, asset structure, and the size of the cooperative enterprise become the determinant of cooperatives capital structure can be described as follows: (a) The ability of co-operatives in maintaining the stability of sales or services will be determinant in the decision of acquisition of loan funding sources. This illustrates that if service activity can be improved by cooperative, the cooperative should find additional sources of financing, the easiest is sourced from a loan, rather than from other sources such as members of the deposit, if the deposit must be upgraded members have to wait for a decision member meeting, or rely on sources of surplus arrested, usually cooperative surplus also very small amount. (b) The structure of assets have a significant effect on the capital structure, structure of assets pledged as collateral for loans cooperatives, the greater the ratio, asset structure shows that the cooperative increasingly the ability to provide collateral for loans obtained in other words the more solvable. (c) The size of the cooperative enterprise effect on capital structure, it can be explained that the cooperative has bigger size of cooperative companies, cooperative has greater the opportunity for obtaining fund from the loan. Or in other words, the greater the cooperative is the easier to access capital sources, especially from the loan.

<table>
<thead>
<tr>
<th>Tabel 4.3: Calculation Coefficients Regression</th>
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<tr>
<td>Model</td>
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</table>

a. Dependent Variable: Capital structure

Linear regression equation is:

\[ Y = -0.770 + 0.019X_1 - 0.002X_2 + 0.100X_3 - 0.002X_4 + 0.019X_5 + 0.093X_6 \]

Based on the significance test, it can be seen that with a significance level of 0.000, less than 0.05, it can be concluded that the stability of sales, profitability, asset structure, liquidity, business risk, and the size of the companies affect to the cooperative capital structure. Constants significance testing can be done by comparing the value t tabel with t count price, for a 5% error level test of the parties with df = n-2, the obtained t table of 1.997. If -1.997 ≤ t ≤ 1.997 mean that there is a significant influence between the stability of sales, profitability, asset structure, liquidity, business risk, and the size of the cooperative enterprise to the cooperative capital structure. Based on the result of statistical analysis on partial correlation shows that not all financial performance to be determinant factors to the cooperative capital structure of the six financial performance measure that determinant factors of the capital structure are only sales stability, asset structure, and size of cooperative company. Profitability, liquidity, and business risk are not a determinant factor to cooperatives capital structure. Stability sales, asset structure, and the size of the cooperative enterprise become the determinant of cooperatives capital structure can be described as follows; (a) The ability of co-operatives in maintaining the stability of sales or services will be determinant in the decision of acquisition of loan funding sources. This illustrates that if service activity can be improved by cooperative, the cooperative should find additional sources of financing, the easiest is sourced from a loan, rather than from other sources such as members of the deposit, if the deposit must be upgraded members have to wait for a decision member meeting, or rely on sources of surplus arrested, usually cooperative surplus also very small amount. (b) The structure of assets have a significant effect on the capital structure, structure of assets pledged as collateral for loans cooperatives, the greater the ratio, asset structure shows that the cooperative increasingly the ability to provide collateral for loans obtained in other words the more solvable. (c) The size of the cooperative enterprise effect on capital structure, it can be explained that the cooperative has bigger size of cooperative companies, cooperative has greater the opportunity for obtaining fund from the loan. Or in other words, the greater the cooperative is the easier to access capital sources, especially from the loan.
Variable profitability, liquidity, and business risk is not a determinant factor of cooperative capital structure, that can be explained: (a) There is no effect of profitability on the cooperatives capital structure, it means the ability of cooperatives to raise capital sourced from capital loans are not influenced or determined by the profitability of the cooperative, this condition illustrates that the decision to increase the financial resources derived from the loan, does not consider the level of profitability, since most of the profitability of small cooperatives and cooperative goal is not to make a profit. (b) The results of this analysis showed that the level of profitability is not a significant effect on capital structure, because the source of the loans are obtained by cooperatives mostly of the credit program, which is channeled through cooperatives or for the cooperative itself, such as Kredit Usaha Rakyat, loans disbursed by Lembaga Pengelolaan Dana Bergulir, a soft loan from the partnership program (Program Kemitraan) and so on, in which direction the distribution in order to empower cooperatives and SMEs, and not pay attention to the ability of liquidity. And (c) the business risk variable has no effect on the capital structure, because that lender to ignore the risks facing cooperative, because as described here in above risk is measured as the deviation of the expected return with the return that happen. Return obtained year after year cooperative relatively stable thus indicating the occurrence of low volatility. It can be seen in ROE obtained from cooperative sample during the last three years of growth averaged only 0.21% per year. Based on the multiple correlation analysis showed that of the six of financial performance can be a determinant factors of cooperative capital structure, it indicates that together all six of financial performance can be determinant factors on the cooperative capital structure; these results are basically consistent with previous studies.

5. Conclusion And Recommendation

The conclusion from this study include: (1) In partial analysis are not all of financial performance as determinant factors of the cooperative capital structure, of the six financial performance is measured only financial performance as measured by the stability of sales, asset structure, and the size of the cooperative enterprise be a determinant factors of the cooperative capital structure. Profitability, liquidity, and business risk are not a determinant factors of cooperative capital structure. And (2) Based on the multiple correlation analysis showed that all of six variables of financial performance as measured by the stability of sales, profitability, asset structure, liquidity, business risk, and the size of the cooperative enterprise, as determinant factor that affect to the cooperatives capital structure.

Recommendation: Recommendations to be done to improve cooperative capital: (1) Cooperatives should always strive to improve the financial performance of cooperatives, particularly financial performance becomes a determinant factors of cooperatives capital structure, it is necessary to increase the confidence of capital owners, thus simplifying access to financing sources. (2) Establish a cooperative effort with other similar networks, the secondary cooperatives, cooperative secondary role to provide services that cannot be met by each cooperative as it is considered too expensive when performed by each cooperative. And (3) For further research suggested can complement this research, through the development of research variables that have been used, not limited to financial performance, but also can be developed with variables related to the specific characteristics of cooperative organizations, such as: participation of members, internal processing cooperatives, member satisfaction levels, government policy in the development of cooperatives, and other macro-economic factors.

References


Book References
How to Promote Franchisee Endurance in the Franchise System based on Entrepreneurial Orientation

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Abstract: Entrepreneurial orientation is important to maintain the franchisee's outlet endurance. This research aims to find out franchisee entrepreneurial orientation that appropriate to outlet endurance in the given franchise system. Through a qualitative case study approach, data were gathered by conducting 12 depth interviews to franchisees from 12 differences brand in Banda Aceh municipality, to get a cleaner and deeper picture of franchisee entrepreneurial orientation and their outlets endurance. Based on entrepreneurial profiles of prospective franchisees by Boulay and Stan (2013), the result indicates that, franchisees in the system developer class will have a high endurance by giving independent autonomy, allowing them to innovate and operating system with multi outlets. Franchisees in the in-store craftsman class will have a high endurance by detail and clear standard operating procedure and develop collaborative communication. And franchisees in the opportunistic class will have high endurance by strengthening brand. Overall franchisees having cooperative entrepreneurial orientation.

Keywords: Entrepreneurial Orientation, Franchisee, Cooperative Entrepreneurial Orientation, Franchisee Endurance

1. Introduction

Franchisee who purchases the right from franchisor to use its brand name and operating system, faced a dilemma, on the one hand to endure their outlet, they have to applied entrepreneurial behaviour, but on the other hand they couldn't applied, due to limitation of standard operational that has been set by franchisor. Then which type of entrepreneur orientation can be matched with the franchisee? This question is important because it's related to franchisee endurance in the franchise system. Previous study have questioned whether franchisee investor or entrepreneur like (Grunhagen and Mittelstaedt, 2005: Ketchen, Short and Combs, 2011; Boulay and Stan, 2013), because if categorized as entrepreneurs, franchisee doesn't meet all contained aspects in the general concepts of entrepreneurship. But if we says that they aren't entrepreneurs, franchisee implementing some of entrepreneurial dimension. The most widely referenced of entrepreneurial dimension by Lumpkin dan Dess (1996), consist of autonomy, innovativeness, risk taking, proactiveness and competitiveness aggresiveness. In this case franchisee has conducted three of five entrepreneurship dimensions i.e risk taking, autonomy and proactive.

From three studies mentioned above (Grunhagen and Mittelstaedt, 2005: Ketchen, Short and Combs, 2011; Boulay and Stan, 2013), essentially they conclude that franchisee is ‘entrepreneur’. Therefore, the next question is how entrepreneurial profile suitable for franchisee in order to their endurance? This question posed to respond empirical phenomena that occured in Banda Aceh Municipality. In the last five years business sector including franchising began to grow after the peace agreement and recovery from earthquake and tsunami disaster. But in early 2015 the data shows, many franchise outlets difficult to survive and finally failed. From 35 franchise brands listed in Banda Aceh during observation period in the last five years, 15 brands (43%) failure. Observing the failure rate of franchise outlets in Banda Aceh are high enough, it’s interesting to explore further the franchisee endurance in franchise system. Basically many aspects in researching franchising including franchisee endurance. As suggested by Dant, et.al., (2008), there are trichotomy of franchising domain: 1. Franchisor 2. Franchisee (company outlet) and 3. Customer. This indicates, there are three parties which play in franchise business, therefore research on franchising can be done, first, from franchisor side as the party having company and parent brand which sells the rights to other parties (franchisee). Second, from franchisee side as the party who purchases the right from franchisor to use its brand name and operating system to sell goods and services to consumer/customer as end user. And third, from customer side as end user of franchise product and services.

Although research on franchisee endurance can be seen from three domain mentioned above, but this study is limited to the franchisees. The main reason for this restriction is due to high failure rate of
franchisees in Banda Aceh, despite operating outlets on relatively low competition. Whether the failure is related to franchisees entrepreneurial orientation? As a comparison, in Pontianak city West Kalimantan province with geographic and demographic characteristics similar to Banda Aceh, from 33 franchise brands, until now all brands still survive. Why in Banda Aceh doesn't? It is interesting to study more. Boulay dan Stan (2013), asserted that there are three entrepreneurial profiles of ideal franchisee (system developer, in-store craftsman and opportunistic investor) as suggestion to the franchisor in order to choose their ideal franchisees. This research aims to promote franchisee outlet endurance, based on entrepreneurial profile as asserted in research by Boulay and Stan (2013). It is expected that this research can provide guidelines to franchisees in order to endure their outlets and as suggestion to the prospective franchisee, what type of franchise should they choose.

2. Literature Review

Entrepreneurial Orientation: In order to determine franchisee entrepreneurial orientation, first reviewed the concept of entrepreneurial orientation from expert and previous researchers. Entrepreneurship was presented first by Schumpeter in 1934 as 'an innovator'. An entrepreneur is someone who create new business by taking risks and uncertainties to achieve profit and growth by identifying significant opportunities and combine the needed resources, so it's can be capitalized (Zimmerer & Scarborough, 2008:4). Entrepreneurship according to Hisrich, et.al. (2008: 10), is the process of creating something new on the value of using requires time and effort, bear financial, physical and social risks, receive generating monetary rewards, personal satisfaction and freedom. Essentially entrepreneurship is the process of creating something new and taking risks and returns. Jain (2011), stated that entrepreneurship is a process of (i) recognizing (by the individuals or team of individuals) that the entrepreneurial opportunities, for new venture creation or new value creation exist and they have value (ii) deciding to exploit the opportunities by them (iii) exploiting the opportunities by the way of new venture creation or new value creation by them for realization of some desired value.

The popular models of entrepreneurial orientation (EO), is proposed by Lumpkin and Dess (1996), that there are five dimensions of EO, namely autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness. But there are three dimensions that stand out are innovativeness, risk taking and proactiveness (Miller, 1983) and has been used as a consistent literature in EO. Furthermore, Suryana (2011:24), revealed that entrepreneurship is a creative and innovative capabilities as the basis, tips and resources to look for opportunities to success. The essence of entrepreneurship is the ability to create something new and different through creative thinking and innovative action to create opportunities. Zenovia (2011) menyatakan the concept of entrepreneurship is seen as the process of uncovering and developing an opportunity to create value through innovation and seizing that opportunity without regard to either resources (human and capital) or the location of the entrepreneur – in a new or existing company.

Some proponent arguments, that stated franchisees are entrepreneurs: To find out an appropriate form of franchisee entrepreneurial in order to endure franchisee outlet, some previous research will be reviewed. Grunhagen, (2005:219), stated that franchisee as entrepreneur through the following statement: ‘the franchise industry, in an attempt to promote the attractiveness of franchising to aspiring entrepreneurs has coined the catchy phrase: ‘be in business for yourself, but not by yourself’’. Ketchen et.al. (2011), through 38 responden from Entrepreneurship Theory and Practice (ETP) board members, consist of 61.5% full profesor, 30.8% associate profesor and 7.7% assistan profesor. They asked, ‘Do you consider franchisees to be entrepreneur?’ The answered showed that 12 (31.6%) said yes, six said no (15.8%), and 20 (52.6%) said that some are and some are not. Comparing ‘yes’ and ‘no’ answered, It is concluded that franchisee is entrepreneur. Furthermore, Ketchen, et.al., (2011:587) suggested that they (franchisees) do almost all functions as other entrepreneurs except that they do not need to come up with the business idea” and that “from the individual franchisee’s perspective, a franchise is a new venture and therefore can be considered an entrepreneur. Some reasoning from practices through Ketchen, et.al., (2011:584):

- Franchisees are, however, entrepreneurs in the most important meaning of the word, and that is that franchisees put their own capital and net worth at risk, seeking the best return on their investment.—Don Larose, Senior Vice President of Franchise Development, Express Oil Change, LLC.
A franchisee is absolutely an entrepreneur. Anyone who is willing to take a risk by putting their own money and, many times, all they own on the line for a business is my definition of an entrepreneur.—Tom Hunt, Owner and President of PHD Hotels, Inc., a franchisee of Hampton Inns.

Other advocates stressed that franchisees engage in risk-taking, a key element of an entrepreneurial orientation (Lumpkin & Dess, 1996). One respondent, for example, asserted that “franchisees who assume the risks of ownership and engage in innovative behaviors to make their franchise a success would be considered to be entrepreneurs.” Rajagopal (2007:346), stated ‘As primary income generators of franchise businesses, organisational effectiveness and growth of the entire organisation rests on the abilities of the franchisees.’ Zimmerer and Scarborough (2008), stated some studies have identified several characteristics that tend to be identified by entrepreneur are: 1. The desire for responsibility 2. Prefers moderate risk 3. Convinced ability to succeed 4. The desire to get feedback immediately 5. High energy level 6. Future orientation 7. Organization skills 8. Assessing that achievement higher than money 9. High commitment 10. Tolerance for ambiguity 11. Flexibility 12. Tenacity.

Previous research by Withane (1991), which explicitly examination of why people choose to join a franchise rather than start an independent business, Withane (1991) asked 150 franchisees to rank the importance of seven personal characteristics for the success of a franchisee. His results are need for achievement, initiative, self-reliance, competitiveness, internal control, autonomy, and risk-taking; but when the same respondents provide self-assessments of how they manifest each characteristic, the ranking is quite different, with risk taking, competition, and self-reliance as the top three characteristics. Garg (2005), said that franchising is cooperative entrepreneurship than independent entrepreneurship. Cooperative entrepreneurship as opposed independent entrepreneurship. More specific research on entrepreneurial of franchisee has been done by Boulay and Stan (2013) that revealed three entrepreneurial profiles of ideal franchisee as shown in Table 1.

| Tabel 1. Entrepreneurial profiles of ideal franchisee
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Class</strong></td>
<td><strong>System Developer</strong></td>
<td><strong>In-Store Craftsperson</strong></td>
<td><strong>Opportunistic Investor</strong></td>
</tr>
<tr>
<td>Weight (%)</td>
<td>32.79% of context units</td>
<td>51.99% of context units</td>
<td>29.26% of context units</td>
</tr>
<tr>
<td>Interpretation</td>
<td>The desire to develop professionally through entrepreneurship in business creation: Seeks independence and autonomy, willing to develop with and within the network</td>
<td>The desire to set up own business by opening a retail outlet, looking for a second career, focusing on customer relations and involvement in the local environment</td>
<td>The desire to earn more by accumulating more resources, in search of the best opportunities (returns on investment) in the market and ready to switch brands if necessary</td>
</tr>
<tr>
<td>Examples of specific vocabulary</td>
<td>Independent autonomy</td>
<td>Store</td>
<td>Earn [money]</td>
</tr>
<tr>
<td></td>
<td>Undertake</td>
<td>Set up</td>
<td>System</td>
</tr>
<tr>
<td></td>
<td>Entrepreneur</td>
<td>In business</td>
<td>Get on</td>
</tr>
<tr>
<td></td>
<td>Create</td>
<td>Decline</td>
<td>Opportunistic</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurship</td>
<td>Business</td>
<td>First</td>
</tr>
</tbody>
</table>

Source: Boulay and Stan (2013)

**Franchisee Endurance:** The term of franchisee endurance yet used widely in franchising research. Franchisee endurance connected with sustainability of outlets during the contract period and extend the contract further. Many aspects that can be used as a basis for assessing the franchisee endurance. Several indicators can be used to measure franchisee endurance. First from performance. Rajagopal (2007:341-346) finding that franchisee performance was reflected in their competitive gains, perceived use values, volume of buying and level of quintessence with the CRM services of the organisation. The strategic performance of franchisee outlets and effective retailing augment the customer perceptions and help build the long-run customer demand towards the franchisee outlets. It has been observed in the study that the performance of franchisee outlets is function of outlet attraction, supply and manufacturing management quality, price and promotional strategies as functional factors. Besides, relational variables including personalised customer services, leisure support and customer convenience also influence the performance of outlets.’

Second, from franchisee satisfaction. Gauzente (2003), states that the franchisee satisfaction contribute to the long-term durability of the franchise network. Then Lee, et al. (2010:569), propound that franchisee satisfaction which consist of two dimension, economic satisfaction and social satisfaction, affect to franchisee loyalty (intention to renew contract and advocacy intention). Third from trust. It’s means as
franchisee trust to their franchisor. As research by Chiou, et.al., (2004:24), that intention to remain in the franchise system is a result of trust. Fourth from franchisor-franchisee relationship. Researchers who supporting this idea are Brown and Dev (1997), stated that the closer the relationship between franchisee headquarters and the on-site managers, the better individual franchisee will perform and the stronger the chain becomes.

**Franchisee Endurance Based on Entrepreneurial orientation:** Even though franchisee endurance indicators which have been mentioned above are not describe entrepreneurial orientation directly, but to achieve those indicators (performance, satisfaction and trust), the franchisees must seek to implement entrepreneurial orientation dimensions such risk taking, proactiveness. According to Garg (2005), research that can explain franchisees endurance based entrepreneurship orientation/profile is needed. Despite of entrepreneurial orientation dimensions are not implemented overall by franchisee, but in order to endure their outlets, the franchisee must perform entrepreneurial behaviour. Basically since the first assessing what type of franchise will be purchased, how much investment is required, the level of risk, choose a location, it is already carrying out entrepreneurial orientation (based on Lumpkin and Dess, 1996; Zimmerer and Scarborough, 2008). But entrepreneurial orientation is needed by franchisee, is different from others entrepreneurs, even though managers. As Rajagopal (2007:345) submitted: ‘As franchisees are perceived to be independent and self-employed entrepreneurs, their ongoing development is frequently overlooked or poorly managed, particularly compared with the development opportunities for corporate staff in their support offices. The concern, however, is that franchisees do not prioritise their own professional development due to their inability to diagnose and source appropriate training, their focus on immediate operational needs and a lack of free time to undergo development activities. As primary income generators of franchise businesses, organisational effectiveness and growth of the entire organisation rests on the abilities of the franchisees.’

**The Types of Franchising:** Franchising classification related to level entrepreneurial orientation is needed. Several researchers classify franchising as follow:

Garg, (2005:60) said franchising is usually classified into two categories:

1. Traditional (or tradename or product), (e.g. gasoline stations), a franchisee function as a distributor or a retailer for the products manufactured by franchisor.
2. Business format franchising (e.g. fast food chain restaurants), a franchisor typically provides a way of doing business. To its franchisees consisting of a trademarked set of procedures, designs, management approaches and services that are to be delivered exactly as specified by the franchisor.


**3. Methodology**

Qualitative research was deemed appropriate methodology, given the lack of literature on franchisee endurance based on entrepreneurial orientation. Particularly, the case study approach, through depth interviews towards 12 franchisees from 12 brands which exists in Banda Aceh municipality who are able to explain perception, opinion and attitude towards their entrepreneurial orientation in order to endure their outlets. Interviews conducted which lasted approximately 45 minutes until one hour for each franchisee. The participants were chosen through purposeful sampling, with aim of selecting franchisees from different brand in order to meet the required information of entrepreneurial profile of ideal franchisee from Boulay and Stan (2013). Face to face interviews were conducted on the franchisees’ work setting. The main themes in the interview guide were: 1. What are encouraged and considered factors before joining franchising? 2. Whether the franchisees’ feel as investor or entrepreneur? 3. What are they do before deciding to choose a particular brand? 4. How are their responds on outlet management procedure? 5. What are they do in order to their outlets endurance? In addition to the questionnaires above, they also asked about 6. Whether they have other business or other jobs? 7. How many years become franchisee? The participants and franchising brands and sectors are presented in Table 2 as follow:
Table 2: The participants, brands and sector of franchising

<table>
<thead>
<tr>
<th>No</th>
<th>Initials</th>
<th>Brand</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AM</td>
<td>KFC</td>
<td>Fat Food</td>
</tr>
<tr>
<td>2</td>
<td>AR</td>
<td>Indomaret</td>
<td>Retail</td>
</tr>
<tr>
<td>3</td>
<td>YF</td>
<td>GSC Super Bimbel</td>
<td>Education</td>
</tr>
<tr>
<td>4</td>
<td>JH</td>
<td>TIKI</td>
<td>Courier</td>
</tr>
<tr>
<td>5</td>
<td>MA</td>
<td>King'O Donuts</td>
<td>Food &amp; Beverage</td>
</tr>
<tr>
<td>6</td>
<td>AW</td>
<td>Rudy Hadisuwarno</td>
<td>Salon</td>
</tr>
<tr>
<td>7</td>
<td>IM</td>
<td>Bimbel Alumni</td>
<td>Education</td>
</tr>
<tr>
<td>8</td>
<td>B</td>
<td>JNE</td>
<td>Courier</td>
</tr>
<tr>
<td>9</td>
<td>FF</td>
<td>TK Khalifah</td>
<td>Education</td>
</tr>
<tr>
<td>10</td>
<td>R</td>
<td>Kuch2 Hotahu</td>
<td>Food &amp; Beverage</td>
</tr>
<tr>
<td>11</td>
<td>D</td>
<td>AHASS</td>
<td>Motor service</td>
</tr>
<tr>
<td>12</td>
<td>FM</td>
<td>Primagama</td>
<td>Education</td>
</tr>
</tbody>
</table>

4. Result

Based on depth interviews from 12 franchisees with different brands, the result can be described as their answers from seven questions (q1–q7) as follow:

q1. Before joining franchising, first almost all of interviewees were encourage and considerate market opportunities, except D whose continuing his father’s in law outlet. Second reasoning (AM, AR, YF, AW, IM, F, R, FM) are having idle fund, while JH and B because get trust from master franchise. The next reason is being franchisees more easier than set-up independent business, beside well known brand already or brand which starting to famous.

q2. All of franchisee feel that they are as entrepreneurs or having entrepreneur spirit.

q3. Before deciding to choose a particular brand, they would seek the relevant information about one brand and business system which following it. They are also comparing some brands and systems of franchising, including franchise fee, franchise royalty, level of risk, contract system, outlet management.

q4. Their responds about outlet management procedures have some differencies. Many factors influence their comments as their entrepreneurial orientation, their characters and the franchise system. The comments for this question could grouping into three types franchisees character. Franchisee with SD characters have a positive and negative comments. Basically franchisee with SD characters are independent person, they don’t like to be restricted. According to them, franchise system more profitable to franchisor including profit sharing. Similarity with their comments, Laurence and Kaufmann (2011:289) have made a parable about franchisee-franchisor relationship as folow: ‘A scorpion needs to get across the river, and says to the frog, carry me across the river, and the frog says, you know, no, you’ll sting me and I’ll die. The scorpion said, well no, once we get on the river, if I sting you, we’ll both die; I’ll drown. So the frog says, okay, and they get halfway across. The scorpion stings him and he says, why did you do that? He says, I’m a scorpion, it’s what I do. Well, the scorpion’s the franchisor and the frog’s the franchisee – Collins’

Thus the parable of franchisor-franchisee relationships. Fortunately franchisee in SD characters, they have other business as independent business, so they don’t think too much during the performance outlets still favorable. Then the franchisees with ISC character prefer the franchise system where they are follow to participate managing the outlet. Because basically they reason became franchisee are for main souce of their economic living. Therefore they have great interest for their outlet endurance. And the franchisee with OI characters prefer the franchise system where they are not too much follow to participate managing the outlet. Generally they have regular job in other sector, so become franchisee as to invest and earn their money.

q5. To endurance their outlet, the franchisees always monitoring constantly their outlets performance. They are also building good communication with their franchisor. But some franchisees complained about the lack of supervision of their franchisor after contract is signed.

q6. For question about whether franchisees have others business or others jobs, the answer could be grouped into three type of franchisees entrepreneurial characteristics. AM, AW, FM, AR, JH whose include SD characteristics, they have others business before joining franchising business. Generally they are the
real entrepreneurs. Their business more than two sectors. Become franchisees just for invest their idle funds. While B,D,MA,R, could be said that they are the real franchisees. Generally, become franchisees as their economics living sources. They are focus on one business, and difficult to arrange many business. They are not agile like franchisees in SD category. Therefore they are prefer to choose the franchise where they come running daily business operation. Latest, F,YF,IM which OI characteristic, actually they have regularly jobs before joining as franchisee. Therefore their motivation to be franchisees are to earn they money and income. They don’t have enough time to manage their outlets. From dept interviews they prefer to choose franchise with good operating systems, good franchisors track records and prospective brand name. They are wily to catch the opportunity and dare to be the first franchisee in one area. They are not too fear with risk, because having permanent jobs. In order to understand how to promote franchisee endurance based on interviews abovó and entrepreneurial profile from Boulay and Stand (2013), then 12 franchisees who have been interviewed, could be grouped into three types, there are: System Developer (SD), In-Store Craftperson (ISC) and Opportunistic Investor (OI). The result shown in the following table:

<table>
<thead>
<tr>
<th>Class</th>
<th>Participant</th>
<th>Years as franchisee</th>
<th>Personality characteristics (specific vocabulary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SD</td>
<td>AM</td>
<td>33</td>
<td>Entrepreneur, Independent autonomy, not only as franchisee but they have others business, opportunity catcher, leader, internal locus of control, risk making, first, innovativeness, pro-active, mobile</td>
</tr>
<tr>
<td></td>
<td>AW</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FM</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td></td>
<td>AR</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JH</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>ISC</td>
<td>B</td>
<td>15</td>
<td>Become a franchisse with hope, it will be their livelihood source, risk taking, focus, devote their time and give more attention for outlets, opportunity catcher, detail, in store</td>
</tr>
<tr>
<td></td>
<td>D</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td>MA</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RCP</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>OI</td>
<td>FF</td>
<td>4</td>
<td>Become a franchisee just for earn their money, becaus they have had a stable job (government office). Risk taking, opportunity catcher, not enough time to manage the business, information up date</td>
</tr>
<tr>
<td></td>
<td>YF</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IM</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

All interviewed franchisees feel that themselves have entrepreneurship souls and spirits. All of them have the same reasons, that if someone has entrepreneurial spirit, they will always looking for business opportunities, seeking and up date information pro-actively, dare to take the risks. Five of twelve interviewed franchisees (AM, AW,F,M,AR,JH) have SD personality characteristics. They are the real entrepreneurs, because first they have their own (independent) business before joint as franchisees. They have not only one business sectors but engaged in some business sectors. Their average age were 45 years and over. Their economics have been established. They have high spirit of leaderships, high internal locus of control, high confidence, considering that failure was a valuable experience to success. They are not easily to be satisfied, even though getting successes. Franchisees in this category prefer to joint franchising with well-known brand, standardized system, because basically for them become a franchisee just for sideline investment.

Next, four of twelve interviewed franchisees (B,D,MA,R) have ISC personality characteristics. Basically becomes a franchise because of teir circumstances, especially as source of their economics living. Like Boulay and Stan (2013) described, actually they want to set up their own business by opening a retail outlet. They are focus to manage their outlet. There is a difference with Boulay and Stan (2013) resulted that ISC profiles looking for a second career. But here franchisees will looking for the second career if their outlet failed. But if their outlet success they will focus on the progress of their outlet. Their business ambitions are not as high as the franchisees with SD profile. Generally they are good and thorough workers, happy to intervene managing their outlet. Two of four franchisees in this category are business beginners, who choosing became a franchisee as a place to study business. Franchisees in this category prefer to joint franchising with tolerance system, because they want to participate actively in managing outlet. Generally they prefer to buy a cheaper franchise, but confidence with franchise prospect. They need good communication (collaboration communication) between franchisor-franchisee. Then three of twelve interviewed franchisees (F,YF,IM) have OI characteristics. Actually they are opportunities catchers and the real investors. All of them have a regular job as government employees. Their motivation as stated by Boulay and Stand (2013), are to earn (money) and first. Therefore they prefer to buy franchise
with need system, franchisor with good track record because they don't have enough time to manage their outlets. The third are the first franchisee for a particular brand in Aceh province. So, specific vocabulary from Boulay and Stan (2013) for this class is proven.

Discussion: From depth interviews and three grouping, there are something to be discussed. First, from personality characteristics, it can be said that all participants have entrepreneurial orientation. But there are some differences in levels or degrees of their entrepreneurial orientation, which affect their behaviors. The problem is how they adjust their entrepreneurial orientation behavior with the given system in the franchise business system. The grouping by Boulay dan Stan (2013) directed to how franchisor choose their franchisees, but the facts are they are often did not meet directly with their prospective franchisee and even during the franchise contract lasts. Therefore, this research more suitable for prospective franchisee, what type of franchise system should they choose, to get match with their entrepreneurial characters and if its were, so their endurance will be better. Through this discussion, the author would like to introduce a new term associated with entrepreneurship degree required by franchisee, that is ‘kw-preneur’ or ‘entrepreneur kw2’. It's mean entrepreneurship with lower level than the real entrepreneur. This level of entrepreneurship more suitable for franchisee, because franchisees must following a given business system, so they can't express their entrepreneurial orientation at all. Garg (2005:58) said that franchising is cooperative entrepreneurship than independent entrepreneurship.

5. Conclusion

Based on results that explanation above, we take conclusion that for promote franchisee endurance based on franchisee entrepreneurial orientation, then franchisees in the system developer (SD) class, will have a high endurance by giving independent autonomy, allowing them to innovate and operating system with multi outlets. Franchisees in the in-store craftsperson (ISC) class will have a high endurance by detail and clear standart operating procedure and developing collaborative communication. And franchisees in the opportunistic class will have high endurance by strengthening brand.

Recommendation: Even though this research is intended for franchisee in order to promote their outlet endurance, but also provides some useful recommendation for scholars, prospective franchisees, and franchisors. Understanding of entrepreneurial orientation in franchise system bring us to one variable that rarely studied namely ‘cooperative entrepreneurial’. For future researchs, can continue this research with larger sample and quantitave research methodology, also associated about cooperative entrepreneurial with franchiser-franchisee endurance. So it can be enrich the knowledge and determine which indicators most influencing franchisees endurance based on entrepreneurial orientation. Further, for prospective franchisees, this research provides some important information as a guide in determining which type franchise should be purchased which is associated with their entrepreneurial profile (SD,ISC or OI). It is important to consider in order to their endurance later. Whereas for franchisors, this research provides some information related to background and motivation of prospective franchisees, because it's will contribute to the success of franchisee as well as an success indicator measurement for franchisors.

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Independent Value Creation: Concept, Activities and Implications

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Abstract: Marketers need to understand to value creation process performed by customers, not only in term of co-creation (value creation performed jointly with provider) but also independent value creation (value creation conducted independently by customer without direct interaction with provider). By its understanding, it would help in designing of what services required by customer, how to develop the customer value, and the underlying factors. For marketers, this information will guide in determining the capacity of services to accommodate customervalue creation in exchange. This study aims to investigate independent value creation, particularly to describe its concept, its activities and value, and to investigate how personality role in value creation. The study used qualitative design, in which theprimary participants are the customer of higher education servicersor students in Indonesia. The participants' selection is performed by a judgment sampling. The main data collection in this study is through in-depth interviews. The findings show that value creation can be perform by both of value co-creation and independent value creation. By independent value creation, there are activities, namely: collecting of knowledge sources, critical thinking, evident finding, information sharing, personal interaction, and helping. There are benefits found from independent value creation such as functional, social, and relational. Personality has potential opportunity to influence the customer performance in independent value creation. Marketing implications of the independent value creation are also discussed in this paper.

Keywords: co-creation, independent value creation, value creation, marketing, service dominant logic.

1. Introduction

Historically, the meaning of customer value has shifted from value as utility, economic worth, perceived satisfaction, net benefit, mean-end, and phenomenological experience (Ng and Smith 2012). Moreover, in SD logic view, value has clarified in nature and scope, through the dominant premise, namely: the customer is always a co-creator of value; the enterprise cannot deliver value, but only offer value propositions; value is always uniquely and phenomenological determined by the beneficiary; and the premise which defines the resource-creation process that underlies value creation, through service provision, all social and economic actors are resource integrators (Vargo and Lusch 2008). Value creation as center of marketing activities in marketing and management literature has different terminology, including: co-production and co-creation. Co-production concept is often used to describe customer participation before the term of co-creations appears. The co-production is often obscured by term of co-creation in marketing literature, resulting miss interpretation. Moreover, among researchers, there are differences in understanding co-production and co-creation. Vargo, Lusch and Morgan (2006) defines them differently, where value co-creation is activity consisting two different things, namely co-creation of value, which refers to creation of value through both direct interaction and not directly with marketers, and co-production, which refers to participation of customer in creating a core offering. In this sense, co-production is a component of co-creation of value (Vargo and Lusch 2008). However, Grönroos and Voima (2013) provides a different perspective on the both, where they are same concept, namely the joint value creation activities, but with a different perspective. Co-production is creation of joint value of perspective or point of view of production, and co-creation is the same activity in perspective of value creation. Even, some interprettat that co-production and co-creation are not dichotomous view or mutually exclusive, but they are as a continuum based on the value creation process, where the co-production is on one continuum, and co-creation on the other continuum (Chathoth et. al 2013). In otherview, co-production or joint production is a situation in which companies and consumers interact and participate in production (Bendapudian Leone 2003; Troyee and Supphellen 2012) or cooperation of consumers and production partner (Etger 2008).

This gap encourages the need to look beyond value creation performedby customer. Grönroos and Voima (2013) classified value creation, namely joint value creation or co-creation and independent value creation. Both terms are in customer perspective. Independent value Creation is value creation carried out by no direct interaction with provider. Furthermore, in marketing literature, mostly value creation study analyze in the sense of co-creation, while the sense of independent value creation is
limited. Based on this gap, this research problem is what is the concept of independent value creation, it’s activities and its value or benefit, and how personality factors play a role in the activities. Thus, this study addresses three questions related to independent value creation. Firstly, the question related to what activities carried out by customer in independent value creation. Providers need to understand to what extent the possibility of independent value creation, so it is necessary to know the spectrum of independent value creation activities from the lowest to the highest level. For providers, this information will guide in determining the capacity of the service or value proposition to accommodate the customer value creation in exchange. Secondly, question related to what’s value or benefit obtained by independent value creation. Information of the benefits required by providers and customers in order to determine how much the potential benefit for customer and how much can be developed. Finally, questions related to how personality factors related to independent value creation activities. Personality factors regarding how the personality traits (introverts vs extrovert) associate with the customer’s independent value creation activities.

2. Literature Review

Customer Value Creation: Understanding value and process of creation has shifted from a view of product and company-centric to be a view focusing on personalized customer experience (Prahalad and Ramaswamy 2004). The interaction between customer and company became the locus of value creation, where customers are active, informed, networking, and power perform co-creation with company or provider. In addition, value creation in an interaction between customers and providers can be classified into four classifications, namely: value facilitation, value co-creation / value creation, independent value creation, and independent social value creation (Grönroos and Voima 2013). This classification is distinguished by subject, type of interaction between customer and provider, and value creation activities undertaken. Value creation indicating how customers interact directly with provider often termed as co-creation (Vargo and Lusch, 2008; Grönroos, 2011). This terminology indicating the involvement of customers in value creation activities have long studied in literature, namely participation (Dong, Evans and Zou 2008, Fang 2008, Casalo, Flavian and Guinaliu 2008), involvement (Kristensson, Matthey, and Johanssen 2008; Lagrosen 2005; Hollebeek and Brodie 2009), and co-production (Etgar 2008; Bendapudi and Leone 2003; Troye and Supphellen 2012). Therefore, it gives an overview of how evolution and dynamic of the interaction concept between customers and marketers in the exchange, and demonstrate these concepts have relationships, similarities and differences.

Customer participation initially occurs on public health sector with the motivation to manage risk in medical decision making (Vertinsky and Uyeno 1971). In subsequent developments, customer participation evolved and appeared some definition of customer participation. Customer participation is degree to which the customer is involved in production and delivery of services (Dabholkar 1990), contribution of customers in exchange namely in marketing process, consumption and delivery of products or services (Dong et.al 2008), or the level of customer involvement in providing and sharing information, providing advice, and decision-making for co-creation and delivery process (Chan, Yim and Lam 2010). A shift in participation definition is ranging from the narrow involvement such as information contributions (Kelley, Donnelly and Skinner et.all 1990), into the high level involvement in production and delivery (Dabholkar 1990), provide resources (time, effort, information and co-production) (Namasivayam 2003), participate as co-creation component in value creation (Vargo and Lusch 2008). Thus, customer participation is more commonly used to describe activities of customer co-production.

The initial concept of co-creation is joint value creation by company and customer, which enables customers to construct experience, define and solve problems together, and create an experience environment where customer can actively engage in dialogue, in which the emphasis is on experience variation (Prahalad and Ramesway 2004). Furthermore, co-creation becomes growing and dynamic concept, which it’s conceptualized in two perspectives, namely focusing on company and on customer (McColl-Kennedy, Vargo, Dagger, Sweeney and Kasteren 2012). Comparing co-creation and co-production would be seen a comparison of some aspects (Chathothet.al 2013). Co-creation is value creation conducted by joint creation a unique experience, customers play an active role as information providers and value creators, customer participation is repeated interaction regarded as operant resources, customer expectations is products co-creator, activities focus is on customer and experiences, it engage customers with high level of information, innovation and design is conducted together with customers, its learning from customers, as well as communication is done through open and transparent dialogue. However, co-production is more as value creation through achievement of economic value and
In addition to value creation performed through interaction with providers, there is a value creation performed by customer without any direct interaction with provider. Grönroos and Voima (2013) referred this concept as independent value creation and independent social value creation. The first concept shows that value creation is conducted by customer on an individual basis without any direct interaction with providers, and the second concept describes value creation performed without any direct interaction with provider, but with interaction with others (e.g., customers, family). Both terminologies are very limited discussed in literature. Moreover, Rihova, Buhalis, and Gouthro (2013) define a similar term called customer-to-customer co-creation (C2C) to show independent social value creation, which in his study, there are four categories of C2C co-creation based on who is doing. Co-creation is done by two consumers in pairs as “detected customers”; by group known by customer (e.g., family or friends) as “social bubble”; by temporary community that is not known (e.g., moviegoers) as “temporary community”; and by active customer community (e.g., football fans) as “ongoing neo-tribes.”

A study of independent social value creation is reflected on how interaction among customer in value creation. Huanget.al (2015) found that relationship between consumers at early stages would be close, but at a later stage would be far, in which its in line with achievement level of individual goals and perceived uncertainty. In addition, the relationship among consumers is also providing customer benefits in creating value, for example, relationships among customer affect goal in which the number of friends make easier to achieve objectives, and the achievement can be at an imagine level (Fitzsimons and Bargh 2003). Relationships between customers also provide social support in achieving purchase goal (Uchino 2006). Sense of community ownership positively associates with quality and commitment at products having high relationship among customers (Bunker 2014). Additionally, Duhachek, Zhang and Khirnian (2007) explains that interactions among customers influence purchasing decisions, in which the type of information and groups’ attributes affect to attitudes toward product, and it is influenced by group interaction. Thus, these studies confirm that customer value creation associated with interaction among customer.

**Independent Value Creation in Higher Education:** Concept of independent value creation can be found limitedly in literature. Fagerstrom and Ghinea (2013) investigated co-creation in higher education, and concluded that network marketing via Facebook could be co-creation media for prospective students in their study decision-making, not only co-creation with university but also with other students. Moreover, Diaz-Mendez and Gummeson (2012) showed that education services is one of the most representative examples of value co-creation approach, where if student is not learn on their own or co-create value, they would not get value from educational services. The concept of value creation, especially in higher education can be found in some term. In connection with independent value creation, value creation in higher education became a model which has developed. Some of the terminology is independent learning, autonomous learning, and self-directed learning. It is undeniable that there is no common definition of independent learning (Morison 2011). Independent study is a process, a method and a philosophy of education in which a student acquires knowledge by his or her own efforts and develops the ability for inquiry and critical evaluation; it includes freedom of choice in determining those objectives, within the limits of a given project or program and with the aid of a faculty adviser; it requires freedom of process to carry out the objectives; and it places increased educational responsibility on the student for the achieving of objectives and for the value of the goals (Candy 1991). In addition, in linguistics, it is known independent language learning where it is a movement that led to student-centered learning, in which it sees learners are individuals who have needs and rights, where they can develop and practice the responsibility for their learning (White 2008). In other word, in fact independent value creation in education is not a new concept, but it has grown and developed with different terminology.

In this study, there are two types of independent value creation in higher education, namely independent personal value creation and independent social value creation. Personal value creation or personal learning is a learning activity that is conducted with no interaction with other students, while independent social value creation or joint learning is when students do joint learning with others. In the personal learning, activities carried out individually by students, there is indirect interaction with campus, and no control of campus on their students. While in joint learning is a value creation activity
undertaken by student with their friends or others, with no direct interaction with campus, and no control of campus on students.

3. Methodology

Since the creation of an independent value in higher education is still very limited, this study uses qualitative exploratory design to achieve the study objectives, namely inductive approach and aims to gain a deeper understanding of a problem (Wahyuni 2012, H.2). This study uses a case study design to answer the research question, because the study is more to answer questions from what and how aspect of the study topics, researchers cannot control the events under study, and the research focus is more on current events or contemporary (Yin 1989). In addition, the unit of analysis in this study shows how the selection of participants in the study. In this research study is the dyadic relationship between the campus and the students in the transaction. So that participants will be selected in this study were students. To select the participants of this study, it is used purposive sampling technique, the sampling technique in which participants were chosen because it meets qualification criteria determined by objective research. Participants in this study were students. The sample size in this study is based on the theoretical saturation principle, i.e. one point in the collection of data in which cannot be found additional information anymore to answer research question. The main data collection in this study is through in-depth interviews. This study has conducted interviews with twelve participants in three university students in Indonesia. Undergraduate student’s participants were interviewed for approximately 30-60 minutes each. Data analysis is using the principle that data analysis is a progress and is an ongoing process, and not just at one time.

4. Finding

Independent Value Creation Activities: Independent value creation activities undertaken by students in college are decomposing of personal learning and joint learning. Personal learning is learning activities undertaken individually without direct interacting with the other party, and joint learning is learning activities carried out jointly with other students. Some of independent learning activities are as follows.

a. Collecting of knowledge sources. Collecting information is an activity to collect materials and learning resources such as data, information, knowledge, or references required by students to achieve learning goals. The collection of materials and learning resources is done in several ways, namely: asking a friend, a senior or others (outside lecturers), reading books or records, viewing or listening relevant information from electronic information channels. Television, radio, internet, social media), going to library, observing student learning techniques, and through learning from experience. Participants described these activities in the following terms.

"When I learned in the morning, usually I read a book, and if there were important things in the book I would note. I were also looking for other references, for example from a book said that they quote from a writer, for example from Thomas Edison, later I would look again what it's said in a part of another book". Usually I watched television or news; learning is not only focus on a book. For example, when I learn positioning topic (in marketing), at the time I saw a billboard in road or on public transport, there are information I can learn from"...."Once I get syllabus, I will search for books or journals in library. Although it's not all I read, but at least I understand it and I came to know the author "...."Usually to look for information in group learning, I will immediately ask a friend, and also by giving my opinions....my expectation is came true when I give an opinion then there will be a response from my friend....I'll see new information or its also increasingly convinced me that this is true because my friend explain by giving example ... ".

In addition to this activity, participants also said that listening to music is also part of learning activities that promote concentration. Sources of information coming from Internet (google, ebook) are widely used in searching for information.

b. Critical thinking. Critical thinking is thinking activities such as contemplation, precipitation, remember, stringing, imagine, and analyze information and knowledge gained in learning process. Some of being taught is remembering previous subject lecture, learning technique, subjects’ problem solving, and the relationship among topics in lecture. Some of thinking phenomenon of participants is as follows.

"The way of my thinking is imagining, making analogy with available facts ... for some things I became more relax thinking and not deeply understand the topics... Oh look like this... But I will be relax to read, because eventually it will also be discussed in group"...."What I think is how to remember more easily, what’s the key to make information is easier to remember, and then my thinking leads to the completion method"...."For
example, when there are topics discussed in class, delivered differently, and then we think there is a thinking note,... means that what is presented is wrong, the truth is like this...

c. Evident Finding. This activity is student effort to find argumentation or problems solving in learning through looking for supporting evidences. Some activities are matching subjects with other sources (book) and looking for examples of applications.

"there were a group assignment and we had already done and discussed in class, when we went back home, I would compare with literature ... oh there was a mistake in previous discussion because when we compared with a reference book, this is right ... usually I look for examples of ads on YouTube, to find examples of its application"

d. Sharing information or knowledge. This activity is mutual communication activities such as a conversation or discussion amongst students in groups. There are some activity, namely: informing a way to do assignment, discussing difficulty in understanding the subjects to other students, suggesting how to improve learning, offering alternative learning resources outside the specified and other relevant information, responding when getting an explanation from another student, and answering questions of other students associated with course material. Participants described these activities in the following terms.

"The first is expressing each opinion of student, then it’s giving comments on the opinion, and discussing of how to close gaps (difference opinion) that we comment on or less or misunderstandings to" ..... "Merging the minds of many people into one thinking"

e. Personal interaction. Personal interaction is to communicate and relate well with other friends so the friendships would be sustain. Description this activity is reflected such as: interacting with other students, listening explanations of other students, joking at the right moment, and sharing something fun (food). Expression of personal interaction phenomena in this activity is as follows.

"To facilitate relationships, sometimes we share a meal or a joke to start or in the middle of critical condition, there is a friend who starting a humor... the more often is in the middle of group study sometimes we took a break."

f. Helping. This activity is providing assistance to other students who are facing trouble or problem, and making effort to increase learning achievement. Participants expressions on this activity are including: helping other students who ask for helping in learning, helping other students who have trouble in understanding the course material, teaching other students on how to understand the course material, and advising to other students in learning. The phrase that expressed by a study group show that the help is given for those who request for assistance or it is given on their own initiative. Participants described these activities in the following terms.

"At first, friend who needs help informs difficulties about reading, and then the team leader will ask the best group member who could understand the reading, to read the passage, after which he will explain to this friend" ..... "There is also a friend that he was quite clever, and quickly understands the reading, when he had finished and made a summary, he will say something like “anyone needs help? ... He would give his own initiative to do so, when it is not there (who asked for help) he will continue other activities” ..... "What happens when we learn in group, if a friend has difficulty but he is not asking for help, then we will think that he’s going through it in his own way in learning process"

Independent value creation activities, both personally and socially carried out with other students have similarity with co-creation activity in marketing literature. For example, there are two-dimensional of co-creation activities, namely customer participation behavior and extra role behavior or customer citizenship behavior (Yi and Ging 2013). The participation behavior consists of information finding, information sharing, responsive behavior, and personal interaction, while the extra role behavior consists of feedback, advocacy, helping, and tolerance. The value creation activity in present study adds critical thinking and evidence finding activities.

Customer Creation Value: There are values or benefits gained by students either through personal or joint learning. By personal learning, students get functional benefits, while by joint learning they find not only functional benefits, but also social and relational benefits.

a. Functional benefits. Functional benefits perceived by participants including: learning subject is fitting with what student want to be learned, making easier to understand lecture material, learning time is
flexible as I can or want, improving quality of learning, providing a solution for my learning difficulties, improve understanding course material, a way of learning that suits my way, more focused, able to own methods, and flexible or free. Some expressions associated with the functional benefits of learning are as follows.

"Personal learning makes me able to find information I need and possible to not be disturbed by other information that is not I need".... "By personal learning, I feel freer to decide what I learned and which chapter I will be more focused".... "For me, by individual learning I will get the information I want, if I learn in groups I get additional information from the discussion. For example, I have been getting information A, from the learning group I get information of A + B and A + C. Sometimes, I also get the information that I obtained cons before, so I also understand differences in the discussion".... "There is no interference, more flexible how I think, how I learn, and how I read"

b. Social benefits, social benefits are benefits associated with how others see a student with learning activities are being carried out. Students gain social benefits in terms of learning itself is a positive perception as someone who has a high intellectual. The expression given by participants are as follows:

"When I bring a book even though I have not read, but I felt others would assume that I’d like to read. It makes me ok, and my heart feel happy ... also when I read book, I feel others will think differently...when others are busy with cell phone, while I read book ... this is anti-mainstream student." 

c. Relational benefits. This benefits concern on how the increasing of intensity and quality of student relationships with other students. The quality of this relationship is as important capital for student life. Some of the benefits of joint learning activities are "help me maintained close relationships with other students" and "the closer interaction with other students".

The Role of Personality Characteristics: Personality traits in this study are viewed from extroversion characteristic point of view, in which it states that everyone is grouped into a continuum between extroverts and introverts. Extroversion is characterized by nature gregarious, active, assertiveness, positive emotion and warmth (Parvin, Cervone and John 2005). These characteristics in this study were associated with two concepts value creation, which is done by the students in higher education services. The relationship is shown by students who tend to be introvert would prefer to individual learning, while extrovert will tend to prefer to joint learning. Participant gives an overview of this relationship as follows.

"Extrovert student would prefer to group learning, while introvert student would prefer to individual learning. Introvert student my knowledge is not like disturbance, while extrovert student iso problem with disturbances.Introvert student usually more difficult to get along with others, while extrovert student is easier to get along with other people. Introvert student will be easier to learn themselves and not easy to talk when in group discussion. Extrovert student will quickly bored to learn on their own, more often be "nosy" when in group learning and be more as ice breaker ...."

Implications: The findings in this study expands the understanding of independent value creation (Grönroos and Voima 2013) in higher education, especially how value creation is performed with other students (social value creation). There are some managerial implications from the findings. Firstly, university needs to make value creation activities, either personally or socially as part of a commitment to improve quality of higher education services. The facilitator role for student learning activities needs to be strategies for improving graduates quality. Emphasis on value creation has become a guide for value co-creation activities. Important feature of independent value creation is the lack of control of university on value creation actions done by students. For marketers, independent value creation activity on higher education can be a guide in managing services outside of education. Uniqueness of customer and exchange in higher education provides guidance on how customers make independent value creation, both in the sense of personal independence and jointly with other customers. Personal self-learning students in higher education services could be a model of customer management to improve benefits. The view that customers as learner can be a guide for service providers to facilitate customers in better way. Secondly, universities need to synchronize students’ independent value creation activities with their value co-creation activities. This would encourage the integration of student value creation activities, which influence to increase value or benefits. Synchronization of independent value creation and value co-creation in higher education can be through the provision of internet and e-learning media, in which not only students can get learning materials, but also can communicate and share knowledge with both faculty member and other students. Similarly, internet plays a central role for customer value creation and co-creation activities with marketers, because it can be not only as media of dissemination of information or product promotion, but also as a medium of communication with and among customers.
Thirdly, universities should facilitate student independent personal value creation through creating a productive atmosphere by providing self-learning facility including books, libraries, cubicle, and internet access at campus locations. It would encourage an atmosphere that allows students to focus in independent learning, getting flexibility of where, how and when to learn. At the level of other services, marketers need to provide a means for independent value creation activities, such as products information that are easily to be accessed by customers. Brochures, websites, billboards, and various other media are not only aimed at raising awareness and purchase, but also facilitate independent value creation activities. Fourthly, the facilitation role for independent social value creation activities could be conducted by providing better physical facilities allowing students perform joint learning. Provision of discussion rooms at each campus area will increase chances for students to learn together. Also, it is important to encourage students to work together as a method of learning, through group assignment in which structurally inherent in teaching. Encourage students to create value with outside parties such public, stakeholders with the subject matter (e.g.: business), or their family will increase benefits of student learning activities. Fifthly, at cognition level, it is important to provide an understanding of how independent value creation activities to students. It is conducted through disseminate information of the technique of effective independent learning. Availability of the information through verbal communication and internet plays an important role.

Finally, universities need to provide information guiding to how to increase productivity in independent value creation, associated with both education benefits and how to access the services. Information of education benefits, how to obtain the educational benefits for student goals. Aspects of how to get the greatest benefit from the study highlight the need in communication. For example, information about English language learning success tips, tricks applying for jobs, and so on. The method intended is how customers can understand on how to independently get greater potential benefits provided by product. Detailed and massive spread information would help process of independent value creation. Also, in the case of independent value creation performed with other customers, it should be provided with information, customers’ media, and management of the media in order customer value creations can be productive.

5. Conclusion

This study extends an understanding of customer value creation, which is performed independently or through no direct interaction with provider. The limitation of independent value creation topic studied in literature motivate the present study to elaborate independent value creation performed personally (personal value creation) and jointly with other customers (social value creation). Both type of value creation complete customer value creation carried out by direct interaction with provider (co-creation). In addition, control and two-way communication are to be conceptual boundaries of independent value creation with co-creation. At the time of value creation performed through no direct interaction with provider in which they do not control the activities, independent value creation is conducted. Thus, independent value creation is value creation without direct interaction with providers, even thought's involving other customers’ interaction.

Independent value creation activities are performed through both personally and socially. In higher education, independent value creation undertaken through some activities, namely: collecting knowledge sources, critical thinking, getting evidence or solving problems, doing physical activities, sharing information, doing personal interaction, and helping. Moreover, the activities were done fully through social value creation, but it’s only partially carried out through personally value creation. Some activities done through personal value creation are collecting knowledge resources, critical thinking, getting evidence or problem solving, and doing physical activities. Value or benefit gained by students in personal value creation activities is more as functional value, namely getting more focused in activities and flexibility in time, method, and place. Enjoyment value is only occurs in a few students. Meanwhile, through social value creation, students got some value, including functional, relational and social value.

Limitation and research implications: This study is subject to some of limitation, which will effect on the interpretation of findings. Firstly, the scope of higher education in the study is not distinguished education types. The field of education will have a difference in learning, where different knowledge is very likely different ways of learning. Secondly, the judgment sampling would provide weaknesses in representation of higher education institution. Finally, interview techniques used in this study less include group dynamics in elaborating data compared to group discussion.
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Model of Improvement Operational Performance Based on Quality Management, Creativity Innovation, Imitating and Role of Strategic Human Resources

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Abstract: This study aims to examine the influence and contribution of Human Resources Strategic to build the creativity of imitation, innovation and quality management initiatives in order to improve operational performance of Small and Medium Enterprises. At the present time, it is impossible to find an industry that is not continuously required for innovation and reorientation to adjust to the dynamics of the environment, especially the market. Factors influencing the success of HR management come from individual and organizational factors (Koberg, 1999; Scott, 2011). An important point related to the resource-based viewpoint (RBV) and knowledge management of a company is a company must have inherent capabilities resources and difficult to imitate. The indicators built include awareness of creating innovation and imitation. How HR Strategic is seen as stakeholders of the company will contribute to greater competitive advantage through organizational learning. Therefore, HR Strategic will give contribution to attitude and capability. The uniqueness of this research is to integrate aspects of HR and Operations together in a sustainable organizational learning. With a sample of 224 SMEs and 7 hypotheses proposed are all supported, I hope this model can be used as a further model of SME development and new research agenda.

Keywords: Quality Management, Knowledge Management, Imitating Creativity, Innovation, Strategic Human Resource Management

1. Introduction

The rapid environmental changes and competition require each company manager to be proactive to the changes that occur. Company managers need to utilize all the potential that exists within the company. Therefore, to know the dramatic environmental changes not only belongs to the manager itself, but also to the employees, so that they can be independent and able to contribute to advancing the organization (Marno, 2012). The concept of quality management still brings different interpretations; it means that there is no agreement of the expert related to quality management. The difference is based on the terminology used in the literature. Feigenbaum (1991) uses the term total quality control, Lascelles and Dale (1991) uses the term total quality improvement, and Ishikawa (1985) uses companywide quality control, and strategic quality management (Garvin, 1988). The difference in quality management concept is often unclear and creates confusion. Small and medium enterprises in the competitive environment still have some drawbacks, such as: difficult access to capital, low product reliability, difficult to adjust to customer demand, limited human resources and production equipment, and difficult to access the market. Human resource management paradigm changes with the changing demands of the environment and employees. Competency-based and Strategic Human Resources are paradigm examples of Human Resources management (Marno, 2010). HR is seen as a unique asset, competitive and highly desirable for the survival of the organization.

The tendency of empirical research on HRM strategy is rarely associated with operational management, in particular, quality management. It is possible because of the difference concept between the operational Management and HRM (Human resource management). However, some research such as conducted by Sohel Ahmed, (2003), John W. Boudreau (2002) and Lilian M. de Menezes (2010) integrate those two. A research conducted by Pfeffer (1998), S. Ahmad (2003) about seven Operational management practices underlies HRM correlation with OM (operation management) to be the framework of the research. The emphasis of problem in this research is how to construct and test the HR Strategic Empowerment Model integrated with Operational Management, particularly, quality management in SMEs Operational Performance Improvement through Innovation and Imitating Creativity. Meanwhile, the purpose of this study is to examine the role of strategic human resources in improving Operational Performance for Small and Medium Enterprises by reviewing the extent to which an understanding of small and medium enterprises and cultural in an effort to improve the quality of imitating, innovation and organizational learning creativity to improve operational performance.
2. Literature Review

Innovation Capability and Imitating Creativity: As we know that HR is increasingly recognized as a strategic asset for any business and a key element of the company (Boxall & Purcell, 2003; Pfeffer, 1998; Gratton, Hailey & Truss, 2000). Driven by increased competition, rapid changes in technology, globalization and other factors, a business actor is trying to understand how one of the last resources becomes really competitive. Human resources can be managed for competitive advantage (Wright, 1996). A research by Ana Pérez-Luno (2007) fills the concept and phenomena of imitation and innovation. It explains how to distinguish companies with strict innovation and imitation. The findings explain that innovation and imitation can sustain a competitive advantage. A non-protected patent will be replaced or recognized its novelty by other party. The quick development and time to participate in market is crucial to win the competition. Robert Lomas (2006) describes how the innovation will not be more advantageous than imitation. In today’s knowledge of economy, organizational performance and competitive advantage comes more than what a company knows and human capital allows to use what they know instead of manual labor (Argote & Ingram, 2000; Grant, 1996; Hatch and Dyer, 2004; Kogut & Zander, 1992; Pfeffer & Sutton, 2000; Winter, 1987). Based on the theory of the Technology Acceptance Model (TAM) and Theory of Reasoned Action (TRA), this research is focusing on how to make the technology acceptance factor construct, control behavior, intensity, purchasing behavior and awareness of intellectual property (Collin, 2003).

Strategic Human Resource Management: Changes in the business environment will bring the impact of changes in business strategy. As we know, the changes in business strategy will be increasingly directed managers to clarify the direction in which the vision and mission of the HR field will be taken by the sense that HR is an integral part of the organization. Because this change involves many aspects and demands to be achieved, it is necessary to improve and develop human resources quality. The development of human resource quality is usually done through HR investment activity. Therefore, it is necessary to note that the presence of the HR investment will change HR strategy pattern and require changes to the type of competence in different task types that will have an impact on the changing role of HR. Plessis, Frederick (2010) provide an understanding that the strategic HR management is necessary when dealing with business competition. Research at Rosebank in Auckland, New Zealand explains the gap between what the business want and what the HR is given today. The employee strength which can be improved in economic growth is by training the talented employees. Hu (2007) reviews some literatures on how to lose fundamental SHRM based on Resource Based View, HR Development, which leads to improve performance, particularly financial performance of a sustainable advantages. It is emphasized that, regarding talent development strategy, training, organization, performance, and leadership development is truly needed. Moreover, another research confirms that SHRM is a decisive factor to provide competitive advantage and HR practices will further build and support the superiority source (eg, Snell, Youndt, & Wright, 1996; Wright et al., 2001).

Courson and Enz (1999) modify a research by Spreitzer (1995), it states that empowerment will consist of internal organizational relationships built by the construct of Peer Helping Behavior and Support Environment Organizational. Empowerment is also determined by customer relationship built by the construct of Supportive Customer and Employee-Customer Value Congruity. According to Koberg, et.al (1999), all of the above factors are studied by developing the complex dimensionality, in addition to have demonstrated previously (Spreitzer, 1995). Research by Koberg is continual, so, what is researched is on Locus of control, Tenure, Sex, Education and Etnics. In today’s knowledge of economy, organizational performance and competitive advantage comes more than what a company knows and human capital allows to use what they know instead of manual labor (Argote & Ingram, 2000; Grant, 1996; Hatch and Dyer, 2004; Kogut & Zander, 1992; Pfeffer & Sutton, 2000; Winter, 1987). Knowledge management and administrative empowerment is a new concept in the science of management education, where the desire has increased over recent decades. This results in a lot of practice and a different concept of specialization of the researcher and his views. Therefore, the concept is still under development and exploration stage. The application of knowledge management methods and administrative empowerment of workers in modern educational institutions appear to provide new capabilities and possibilities of different competition. (Badah, 2012)

The ability to quickly create and effectively manage organizational knowledge is essential for survival (Bettis & Hitt, 1995). This shift has changed the nature of work which most people do in fundamental ways (Austin, 2012; Howard, 1995; Lengnick-Hall & Lengnick-Hall, 2003) and puts a priority on the
organization’s ability to understand the knowledge involved in the work. Integration of knowledge refers to the recombination on knowledge by combining, categorizing, reclassifying, and synthesizing existing knowledge (Alavi and Leidner 2001; Grant 1996). Knowledge management research, in general, has stated that integrated knowledge is important as the process of knowledge capture and reuse of personal knowledge (Garud and Kumaraswamy 2005; Postrel 2002), as well as the capture of knowledge and skills. Knowledge management processes will improve organizational processes, such as collaborative innovation, encouraging decision-making, and creativity of individual and collective learning to be better. As a result, it will improve organizational creativity of internalization process that will produce intermediate results like better decisions, organizational behavior, products, services and customer relationships (King, 2009).

Knowledge is often defined as "a justified personal belief." There are many taxonomies that define the various types of knowledge. The most fundamental difference is between "tacit" and "Explicit" knowledge. Tacit knowledge inhabits the minds of people, and depend on the interpretation of people (Polanyi, 1966). The definition is related to either impossible or difficult to articulate. Most knowledge initially tacit in nature, but rather painstakingly developed over a long period of time through trial and error, and being underutilized because "organizations do not know what it is to know" (O'Dell and Grayson, 1998). Some knowledge are embedded in business processes, activities, and relationships that have been made from time to time through the implementation of the continuing series of improvements. Therefore, the hypotheses proposed are as follows:

**H1: The better the HR Strategic Empowerment is, The better the Innovation Capability will be.**

**H2: The better the HR Strategic Empowerment is, The better the Imitating Creativity will be.**

**Quality Management:** Marno (2007) raises the topic of total safety management in improving operating performance. The independent variable in this study is the sustainable improvement and employee fulfillment, while the dependent variable is operational performance. A sustainable improvement is the tendency of organizations to be able to perform a sustainable improvement of the quality of safety through relentless innovation. Employee fulfillment is a level when employees feel that the organization is able to provide the fulfillment of the sense of safety in their work. While the employee’s performance is the degree of settlement tasks that accompany the work of someone reflecting how well an individual meets the demands of work. The results indicate that there is positive and significant correlation between sustainable improvement and employee fulfillment on operational performance of employees. The limitations of this research, HR is seen as part of the input, while the Operational Management HR Strategic HR is positioned as partners and stakeholders of the company’s success. The concept of quality is translated comprehensively by SR ISO 9000/2001 through quality standards and measurements (Blaga, 2002). Quality must meet the needs of the market (market needs) and contract stipulations (explicit needs) including viability, profitability, manufacturing cost, maintenance and exploitation costs and other aspects related to the consideration of HR and environmental harmony. Lilian (2010) integrates the practical aspects of HRM with Operations Management especially regarding Empowerment, JIT, IT, Supply Chain, Time-based work and TQM. Proposition and the results found that there is a strong correlation between HR practices with an operational management practices longitudinally.

Siyamtinah (2006) in a study of small and medium business partnership in Semarang aims to identify the reasons for small and medium enterprises in Semarang to make alliances with other companies. The variables used are knowledge transfer, tacitness, specificity, complexity, experience, protectiveness and organizational culture. The results show no significant differences among the seven variables for small and medium enterprises. In conclusion, the research shows that there are four reasons for small and medium enterprises to do partnerships, namely: complementarity, business linkages and similarities, dependence on suppliers, and expanding marketing network. Besides that, there are five reasons why they do not form an alliance, they are: the new operation company, the use of simple technology, employees’ ability to complete the entire job, a lot of rules to establish partnerships, and no one has invited to be a partner. The results shows that there are any significant negative effect among variables of tacitness, complexity, experience, organizational cultural differences with variable of operational performance, while two variables have no significant difference, namely specificity and protectiveness.

**H3: the better the Understanding of Quality Management is, the better the Innovation capability will be.**

**H4: the better the Understanding of Quality Management is, the better the Imitating creativity will be.**
Operational Performance: Siyamtinah (2007) conducts a research to determine and analyze the differences in the pattern of building organizational capability in the Small and Medium Industries (SMI) in Semarang. The variables used are seven, they are human capabilities, the use of technology, interaction with outsiders, marketing capabilities, new product development, production capabilities and operations, and research and development. Two distinguishing factor in building innovation capabilities are company size (number of workers) and the age of the company (long operation). The results show that the size of the company makes the difference of SMEs in building organizational innovation capabilities in HR capability variables, use of technology, marketing capabilities, as well as research and development. While three other variables: interaction with outsiders, new product development, and research and development have no difference. Furthermore, the age of the company led to the difference in SMEs in building organizational innovation capabilities in the variable: the use of technology, interaction with outsiders, marketing capabilities, as well as research and development. While the capabilities of human resources, new product development, and production capabilities and operation have no difference.

Samson and Terziovski (1999) state that TQM process has been applied in order to improve the level of competition, but give different results. There is a gap in research related to quality management, especially regarding the effectiveness of the implementation of TQM. This research is basically to test the impact of quality management practices and operational performance, both individually and collectively. The finding shows that TQM practices and organizational performance have a significant correlation, but not all indicators of TQM practices become a strong predictor of operating performance. TQM Element consists of leadership, people management, customer focus, strategic planning, information and analysis, and process management. While the performance of the company have indicators include: customer satisfaction, employee morale, productivity, level of damage to the product, warranty costs, the cost of quality, and delivery time. There are three indicators that have the strongest influence on the performance, namely: leadership, management of people and customer focus. These findings are consistent with previous findings, where behavioral factors such as: leadership commitment, employee empowerment, and open culture can create competitive advantage if compared to a mere means and techniques in TQM (process improvement, benchmarking, information and analysis).

Fok and Hartman (2001) examine the correlation of Total Quality Management (TQM) and the development of information systems. Organizational culture in this research serves as a mediating in the relationship between independent and dependent variables. Organizational culture is focused on organizational climate, which include: openness, level of competition, the formality of the procedures, cooperation, team orientation, centralization, the level of employee participation, quality orientation, degree of innovation, and a proactive attitude. In particular, this research considers whether the organization which fully adopt TQM have differences in their approaches in the development of the Information System (IS). Therefore, the hypotheses proposed are as follow:

**H5:** The better the Innovation Capability is, the better the Operational Performance will be.

**H6:** The better the Imitating Creativity is, the better the Operational Performance will be.

**H7:** There is a strong correlation between the Empowerment of strategic HR and Quality Management

Research Framework

3. Methodology

**Type of Research:** This research is the exploration research which is trying to uncover or to explore the factors that determine the operational performance of various aspects of supporting and inhibit. In
this regard, the type of study is a Confirmatory Factor Analysis (CFA) that is intended to confirm the analysis of the elements that define a factor indicator or a latent constructs (Ferdinand, 2006).

Sources, Type of Data, Population and Sample

Sources and type of data: Source of data used is primary data, the data are obtained directly by distributing questionnaires and the mail survey followed by in-depth interviews. Respondents are the managers of Small and medium enterprises in Semarang and Demak. Because this research involve so many institution, cooperation with the Department of Industry in Semarang and Demak has been well-established. Types of data are Quantitative and Qualitative Data, this involves ordinal and interval scale for qualitative analysis. The qualitative data are needed to support the discussion of the quantitative research in order to draw conclusion of the data used.

Population, Sample and Sampling Techniques: The population in this study are all the Small and Medium Enterprise (SME) in Semarang and Demak with the criteria of the number of employees between 5 to 19 people for small enterprises, and between 20 to 100 people for medium ones. According to the data source from the Department of Industry, Trade and Investment in Demak (2012) there are 3,708 pieces of business units with the amount of labor as many as 10,272 people. Those business units are the combination of Large, Medium, Small Business and Home Appliances. Briefly, the small and medium enterprises are about 3,700. In 2012, the number of SMEs in Semarang are about 5,720, so that, the population of this research consists of 9,210 SMEs. The sampling technique used in this research is gradual. First, it is by the method of sampling area, which is based on a sampling of existing companies in the areas or districts in the city of Semarang and Demak which has a large population of SMEs. Second, it is by the method of proportional sampling, the sampling in proportion to each district. The distribution of samples has a common variation for all fields of SMEs are well represented; they have developed a business more than 5 years and have market or potential competitors. Moreover, they also have sufficient education to receive ideas from both development agencies and other sources. There were 224 respondents who once verified can be analyzed through the AMOS ver. 22.

The Definition of Operational and Measurement Variables: This research uses a questionnaire to decrypt the operational variables which are standardized. First, it has been tested its validity and reliability. The dimensions of Strategic HRM, all questions use five (5) Likert scale (1 = Strongly Disagree and 5 = Strongly Agree). Some variables use ordinal scale category with in-depth interviews. Table 3.1 below describes each operational variables.

| Table 3.1: The definition of operational variables |
| Variables | Indicators | Measurement |
| General Description of the respondents | Number of Employee | 1, 2, 3 is by Ordinal Scale |
| | Number of Customer | 4. The questionnaire with 5 points of Likert scale |
| | Type of Business | 5. Scale ratio |
| | Understanding on Competition, quality and operational activity in business | |
| | Development strategy | |
| Dimension of Strategic HRM | Aspects of Psychological Empowerment | interval scale with the dimensions construct of each 5 which is embodied in the questionnaire with 5-point of Likert scale |
| | Aspects of Irreplaceable | |
| | Aspects of Competence Scale | |
| Dimension of Quality Management Practices | Quality Awareness | interval scale with the dimensions construct of each 5 which is embodied in the questionnaire with 5-point of Likert scale |
| | Quality and Knowledge Management | |
| | Organizational learning | |
| Innovation Capability | Planning | |
| | Initiator | |
| | Improvement | |
Technique of Analysis: A research requires appropriate analytical tools and in accordance with the pattern of research and variables to be studied in order to be interpreted. As the research framework, the researcher uses the path diagram and the Structural Equation Modeling (SEM) of AMOS statistical software package in the model and hypothesis testing. Validity Test, test internal consistency (reliability) and normality or cut off to test the fit model has been carried out. The result of the conversion of the model is shown below:

Cut-off limit for the residual amount is 5%, when the residual amount is greater than 2% of all residual covariance generated by the model, then a modification needs to consider. When it is found that the residual value of the resulting models is greater enough (ie > 2.58), then the other way to modify is to consider adding a new channel to the estimated model. The residual value which is greater than or equal to ±2.58 is interpreted as statistically significant at the 5% level. As seen in the AMOS output with cut-off as in the picture, it can be concluded the model was fit and could be interpreted, the estimation of hypothesis testing can be discussed as follows:
4. Findings and Discussion

**H1**: The better the HR Strategic Empowerment is, The better the Innovation Capability will be (supported).

Having regard to the calculation results of AMOS, then, there is positive and significant variables of strategic human resource empowerment on innovation capability. This finding generally supports the infrastructure developed by HR Strategic related to HR policies regarding the consistency of psychological empowerment, competence and irreplaceable strategic of HR planning and boosting innovation capability.

**H2**: The better the HR Strategic Empowerment is, The better the Imitating Creativity will be (supported).

Having regard to the calculation results of AMOS, then, there is positive and significant variables of strategic human resource empowerment towards creativity Innovation. These findings generally support the infrastructure developed HR Strategic related to HR policies regarding the consistency of psychological empowerment, competence and irreplaceable strategic human resources in doing imitating that does not violate the law. Imitating and Innovation remains a dialectic development of SMEs in which their parts of the problem concern the capital. Strategic HR will develop a strategy on how the two aspects are beneficial both financial and legislation. Strategic HR that process an integration with other infrastructure needs to be developed (Aviv Kidron, 2013).

**H3**: the better the Understanding of Quality Management is, the better the Innovation Capability will be.(supported)

**H4**: the better the Understanding of Quality Management is, the better the Imitating creativity will be.(supported)

Observing the results of AMOS, the 3rd and 4th hypothesis are supported but has a negative correlation. This research has failed to connect the Quality Management with Innovation capability and Creative Imitating. It is realized by the researcher and as Siyamtinah stated (2006) that SMEs fail to build partnerships. SMEs have a regular job characteristics, so that, they tend to work by order. SMEs belong to the association which has the same characteristics. Therefore, knowledge of Quality Management is not enough to encourage innovation and imitating capabilities.

**H5**: The better the Innovation Capability is, the better the Operational Performance will be. (supported)

**H6**: The better the Imitating Creativity is, the better the Operational Performance will be. (supported negative)

**H7**: There is a strong correlation between the Empowerment of strategic HR and Quality Management. (supported)

As shown in the calculation of AMOS, partially, the hypotheses are supported. Therefore, it can be defined that operational quality as measured by various indicators of sustainability, employee moral, productivity and networking output quality can be explained by the indicators of innovation capability variables but it fails to be explained by imitating creativity. The correlation of the HR Strategic Empowerment and quality management is high (0.88). It shows that it has already been integrated the understanding among the functions of Management. This finding supports Lilian (2010), Collins (2003) and Boudreau (2002) research.

**Limitations of Research**: In conclusion, the current SMEs are more innovation-oriented than imitating one. SMEs are now more risk averter than the risk taker which is quite interesting to do further research.
There are some negative hypothesis that can not be described quantitatively. Future research is expected to explain the limitations of this research.

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Improving New Product Performance through Market Intelligence Quality, Customer Interaction Capabilities and Customer-Centric Commitment on Indonesia Micro Retail Fashions

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Abstract: The purpose of this paper is to examine and test the mediator of customer interaction capabilities in relationship with quality market intelligence (MIQ) and customer centric commitment (CCC) with the new products performance (NPP). This paper chooses 184 micro retail fashions and examines the relationship of MIQ, CCC with CIC and NPP. The findings indicate that MIQ only affects the NPP, while the CCC is not. Nonetheless, CIC actually mediate the relationship between MIQ and CCC with NPP. By examining the diverse learning literature market, CRM, NPD and entrepreneurship, this paper offers a unique analysis on the quality of market intelligence and customer centric commitment and their impact on customer interaction capability and performance of new products. Conceptual and empirical discussion results to extend previous research on market orientation culture on SMEs.

Keywords: Market Intelligence quality, customer centric commitment, customer interaction capabilities, and new product performance

1. Introduction

The success of new product development is an essential part in the long-term development of company. Unfortunately, not all companies succeed in developing new products. A study by Cooper (1996) has shown that companies in the manufacturing industry that is capable of producing unique products and offer value to customer superiority are only able to achieve 79.6 percent success of the time. Even companies that use high-quality technology are only capable of achieving 43.2 percent successes (Cooper 1996). This has led many researchers attention to the factors that can encourage new product development performance. Some researchers tried to approach their studies through market intelligence approach as the basis of the information search behavior of customers and competitors (Jaworski and Kohli 1993, Carbonell and Escudero 2010).

Market Intelligence continues to be a top priority for many organizations, and the role of market intelligence that is so dominant in improving business performance led to the concept to become an important foundation in the competition for many organizations and has consistently attracted many academics and practitioners to conduct research of this field (IKA, Jones et al. 2013). Some researchers have found that the intelligence market such as intelligence generation, intelligence dissemination and responsiveness to market are factors that really affect the performance of the company (Meunier-FitzHugua and Lane 2009, Carbonell and Escudero 2010, Chen-Si Ho Chao and Spillan 2010, Haverila and Ashill 2011). This suggests that the market intelligence can drive business performance. Unfortunately, some dimensions of market intelligence developed by Jaworski and Kohli (1993) and Carbonell and Escudero (2010) do not always give positive impact on business performance or the performance of new products. The two dimensions of market orientation, intelligence generation and intelligence dissemination, are proven not a strong incentive for new product performance. It is only responsiveness that gives positive effect on the performance of the new product development (Carbonell and Escudero 2010, Chao and Spillan 2010). Surprisingly, the findings by Rojas-Mendez and Rod (2013) show that the business performance is influenced by market intelligence dissemination; but not with market intelligence generation and responsiveness. Moreover, other studies have shown that market sensing as part of the market intelligence is not a decisive factor of company performance, such as revenue, margin and profit growth rate (Morgan, et al Slotegraaf 2009).

What is described above show that there are inconsistencies on research findings about the correlation of market intelligence to the performance of new products. Some researchers have included mediating variables that can bridge the correlation of market intelligence and new product performance, for example, the innovation speed (Carbonell and Escudero 2010), New product capability (Trainor, Krush et al. 2013), Organizational knowledge (Toften and Ottar Olsen 2003). However, some studies which use the mediating variables of customer interaction capability to bridge market intelligence relationships
with new product performance still seems have not been studied. Therefore, we use these variables to mediate the correlation of market intelligence with new product performance. We are of the view that the quality of information obtained from market intelligence activity is an essential resource for shaping customer interaction capabilities, and an increase in customer interactions which potentially improve the performance of new products. It is important to be tested, especially for micro-enterprises that have close relations with customers better than large companies (Zimmerer and Scarborough, 1998). In a highly competitive market, such as the fashion industry, the quality of market information is needed to determine ways of micro entrepreneurs interact with customers effectively and efficiently.

Characteristics of micro enterprises are close to give customers the opportunity of testing the variable customer centric commitment as other antecedent of customer interaction capabilities and performance of new products. The previous research has proven that a customer centric or customer focus is antecedent of the company’s performance. For example, customer responsiveness has effect on ROA (Pehrsson 2013). Customer orientation has positive effects on individual service performance (Acer, Zehir 2013). There is an association of customer focus and new product performance (sanuri Mohd Mokhtar 2013). However, several other studies have shown the opposite, customer centric has no positive impact on the firm performance. For example, Organizational customer orientation does not give a positive effect to the salesperson performance (Cross, Brashear et al. 2007). Customer Orientation does not affect the performance of the company (Aaron J. Johnson, C. Clay Dibrell, and Eric Hansen, 2009). Therefore, it shows that the correlation of the customer centric and company performance is still filled with uncertainty. As in the study of the relation MIQ with NPP, we also assume that CIC also becomes mediation of CCC and NPP. We believe that companies that focus on the customer will have the capability of interacting with the customer. As a result, they will able to improve their performance, including the performance of new products. There is still unclear relationship between MIQ and CCC toward NPP. Therefore, it motivates us to propose testing on the mediating role of CIC as bridging process variables of such relationship because the purpose of this study is (1) to build a new approach to improve the NPP based on MIQ and CCC and (2) to test the mediation of CIC in relation of MIQ and CCC with NPP.

Conceptual Development of Customer Interaction Capabilities (CIC): Customer Interaction Capabilities (CIC) is a concept that we derive from the approach of Resource Based View (RBV) and Customer Relationship Management (CRM). According to Srivastava, Fahey et.al. 2001, a company is formed by a variety of resources and capabilities possessed. Here, capabilities will describe a series of skills needed to use the resources. The resources here are the tangible and intangible entity that is available to companies that allow them to produce the efficiency and effectiveness of market offerings that have value for some marketing segments (Hunt 1999). Information and relational sources are two of intangible resources that can drive superior business performance if used intelligently and diligently. The previous researchers like Jaworski and Kohli (1993), Narver and Slater (1990), and Morgan, Vohries et al. (2006) have agreed that the information and knowledge about customers and competitors obtained from market intelligence activity are valuable resource for improving business performance. These resources are the basis for increasing the capability of customer relationship management (CRM) of company because the relationship with the customer is only formed when the company has complete information about customers and competitors. Lamb, Hair et al. (2010) explains that CRM is a business strategy designed to optimize profitability, revenue and customer satisfaction by focusing on the determination of the appropriate customer groups. The main focus of CRM lies in the use of information about the customer to create a marketing strategy in developing and maintaining long-term desirable customer relationships (Pride and Ferrell 2009). CRM has a basic philosophy that companies can increase profitability by building good relationships with their customers. As a result, customers become loyal and disloyal (PEPPERS and ROGERS 2011, Levy, Weitz et al. 2012). Thus, the CRM is the process of cross-functional organization that focuses on building, maintaining, and improving long-term relationships with interested customers (Lin, Chen et al. 2010, Wang and Feng 2012).

According to Lin, Chen et al. (2010) there are 5 of the most popular CRM activities today and each company needs to have the capability to apply it. These five activities are to share information, customer engagement, long-term partnership, joint problem solving, and technology based. Thus, CRM capability is defined as the ability or skill and knowledge accumulation companies use to acquire, deploy and utilize relational resources to achieve superior performance (Day 1994, Morgan, et al Slotegraaf. 2009). One form of CRM capabilities is the ability to build a company’s interactions with customers. The ability to interact with a strong customer is one of the most important marketing capabilities that can help companies achieve superior business performance and sustained competitive advantages (Day
The above description shows the interaction between the customer and the company is the foundation of the CRM system. Because only through effective interaction, companies can learn about the expectations of customers, acquire and manage knowledge about them, negotiate a mutually satisfactory commitment, and build long-term relationships. Through effective customer interaction management, the company will obtain the customer data as a point of contact for satisfactory service. Here, touch points is the main base of contact with the customers, such as customer registration for certain services, customer communications about product information, handling warranty for the product, or customer talking to the seller and delivery personnel (Lamb, Hair et al. 2010). According to Lamb, Hair et al. (2010), a large amount of information can be obtained when the company establishes the organization of interaction with customers. Through interaction, the customer and the company can exchange information and develop a learning relationship. A customer typically defines interactions with the stated preferences. The company will respond by designing products and services around the desired customer experience.

Customer interaction process begins with gathering marketing information which will be the basis of CRM data. Based on this database, the company can apply the interaction with customers through campaign management, loyal customer retention programs, cross-selling other products and services, marketing communications plan, strengthening customer purchasing decisions, encouraging the sale of products to new customers, increasing the effectiveness of marketing and distribution channels to improve customer service (Lamb, Hair et al. 2010). Therefore, customer interaction capabilities (CIC) is the central point in establishing good relationships with customers and increase the performance of the company in the long run. This study specifically highlights the capabilities of customer interaction, gives the ability to identify, acquire and retain profitable customers as an essential factor for improving the performance of new products of small and medium enterprises. Therefore, CIC is defined as the ability of the company to build an intensive interaction with the customer through the stages of customer identification, customer acquisition and retaining profitable customers.

**Market Intelligence Quality (MIQ) and Customer Interaction Capability (CIC):** The study of MIQ can refer to the views by Jaworski and Kohli (1993) and Morgan, Vorhies et al. (2006) on market-oriented business culture. According to Jaworski and Kohli (1993), market intelligence is part of a market orientation. Market-oriented business culture is needed to boost the company's performance. Continual gathering information about the needs of customers and competitors' condition will help companies to identify what customers want. Enterprise knowledge about the customer needs to create superior customer value over time (Narver and Slater 1990, Garcia and Calantone 2002, Gellync, Banterle et al. 2012). Here, Customer knowledge is the most common level of knowledge, more specialized and highly specialized (Aspara, Tikkanen et al. 2011). Knowledge at the most general level can be knowledgeable about the industry, environmental and social trends. At a more specific level, the necessary knowledge is in the form of knowledge about customers in a particular market segment, which is typically behavior of customers in a particular market segment, as well as the distinctive needs and wants of customers in certain market segments. The most specific level of knowledge can be a knowledge of enterprise to customers individually or behavior of individual customers of other companies, their decision-making process, their wants and needs, as well as their contact information (Aspara, Tikkanen et al. 2011).

According to Jaworski and Kohli (1993), market intelligence is built by three-dimensional orientation of the market, namely intelligence generation, intelligence dissemination and responsiveness to market. Intelligence generation gathers information about market activities and competitive environment and interprets this information into the definition of objectives and strategies. Intelligence dissemination regards information dissemination activities throughout the functional areas of the company through horizontal communication to gain understanding or integration between different departments. Through intelligence dissemination, information is discussed and formally or informally distributed among the relevant users within organization (Moorman 1995, Carbonell and Escudero 2010). Open sharing of information on all parties involved in the new product development process will improve better understanding of the capabilities and limitations of each party. However, some researchers have shown that high incoming information and engagement in an organization can have a negative effect on the pace of innovation (Moorman 1995).

**Responsiveness to market** is an evaluation to measure the effectiveness of measures aimed to meet the needs of customers, such as the determination of the target market, product offerings, distribution, and promotion (Jaworski and Kohli 1993). Slater and Narver (1995) have stated that the ability to gather
information from customers and competitors will give advantages for company in response to the opportunities and threats. Thus, responsiveness to market is the enterprise perspective to external threats. In relation to this, responsiveness to market is seen as the ability to modify the organization’s strategy to align environmental threats with opportunities. Responsiveness to market is one of the strategic factors that influence the competitive advantage (Dong, Hinsch et al. 2013). Responsiveness allows companies to reconfigure their processes to meet the needs of new markets, take advantage of information processing systems and adopt new products and processes to win the competition (Dong, Hinsch et al. 2013). Therefore, it is not surprising that the responsiveness to market is key in improving the success of the competition. Companies that are better to understand the needs and desires of customers will be able to respond to information about the needs and desires will generate more value from customers. Moreover, companies that are more active in gathering information about customers will be more responsive to customer needs and more aware of the movement of competitors (Dong, Hinsch et al. 2013).

In addition to the opinion by Jaworski and Kohli (1993), Morgan, Vorhies et. al. (2006), state that the market intelligence capability is the ability of the company with its business resources to learn about the market and use knowledge of the market to improve the performance of the company. Market intelligence activity involves gathering information about customers and competitors, analyzing the market information, and utilizing it to develop marketing programs (Morgan, et al Vorhies. 2006). Such information is vital in helping decision-making for strategic marketing organization oriented to market development. Thus, market intelligence capability is an organizational asset that facilitates the development of distinctive capabilities (Bruce, Jordan et al. 1994). Therefore, the market intelligence quality is a quality of company in analyzing and distributing information to certain related parties and uses such information as aid in decision-making process of strategic marketing.

Market intelligence is the most important skills needed in the success of new product development. The important information, the accuracy and reliability of information on the changing needs and desires of today’s customers or potential customers obtained from market intelligence will be a strong foothold in the new product development process. The information obtained from market intelligence also allows a reduction in the cost of the NPD, accelerate new product development time, and significantly contributes to the profitability of the company (Haverila and Ashill 2011). In general, many successful companies have utilized more in the collection and sharing of information, conducting market research, and involved in the acquisition of intelligence and learning (Garcia and Calantone 2002). In the process of new product development, information collection gives an opportunity to the new product development team to learn, so that, from the information obtained, they can act more quickly in decision-making (Carbonell and Escudero 2010).

Regarding that market intelligence is important part of market orientation (customers and competitors), it can be said that market intelligence can strengthen a company’s CRM capabilities, and thus can improve the performance of the company. CRM capabilities include the ability to interact with customers such as the ability to identify the customer, get customers and retain profitable customers. Therefore, CIC is defined as the ability of the company to build an intensive interaction with the customer through the stages of identification, acquisition and retaining profitable customers. The quality of market intelligence will enable the company to develop the CIC. In new product development, market intelligence will determine the success of the quality of new products as the ability of interaction management with the customer is only possible when the company acquired more information about customers and competitors. Therefore, the following hypothesis is proposed:

H1: Market intelligence quality (MIQ) has a positive correlation with the customer interaction capabilities (CIC).

Market Intelligence Quality (MIQ) and New Product Performance (NPP): According to Hart, Tzokas et al. (1999), the effective use of market information for the process of new product development (NPD) may improve the success rate of new products. Empirical evidence supports a positive relationship between the use of market information and new product performance (Akgun, Byrne et al. 2007). A high level of utilization of information will increase the effectiveness of decision-making and implementation, which in turn will produce a new product performance to be greater (Moorman 1995, Liu and Tsai 2013). Subsequently, Liu and Tsai (2013) show that knowledge management capabilities and mechanisms to share information really affect the performance of new product development. Cooper and Kleinschmidt (2000) and Moorman (1995) also show that the market intelligence generation has a
positive influence on the performance of the new product. Luca and Atuahene-Gima (2007) find a positive relationship between the acquisition of information and new product performance. While Jaworski, Kohli et al. (2000) have shown that there is a positive effect of market orientation on business performance, it means the market intelligence is really an important driver for improving the performance of the company (Chao and Spillan 2010), including the performance of new products (Carbonell and Escudero 2010). In this study, the performance of new product is a measure of the success of new product development involving (1) the suitability of new products produced with the expected volume, (2) the ability to meet or exceed the sales receipt or expected results, (3) the ability to meet or exceed the expected profit rate, (4) the ability to match or exceed the rate of expected return on investment (ROA), (5) the ability to match or exceed the expectations of the owner or management (Cooper 1996, Akgun, Byrne et al. 2007). Thus, the second hypothesis that we propose is:

H2: Market intelligence quality (MIQ) has a positive correlation with the new products performance (NPP)

Customer Centric Commitment (CCC) and Customer Interaction Capabilities (CIC): According to Kim, Park et al. (2012), CRM implementation success depends on the strategy adopted, the people involved, the processes run and the technologies used. The involvement of people like the owners, managers, and employees become the most important factor for determining the successful implementation of the strategy, process and use of technology in CRM. Their commitment is needed to ensure that the company remains focused on the implementation of centric customer to always perform interactive communication with customers (Kaur and Sharma 2009, Kim, Park et al. 2012). Interactive communication can be done by determining the company policy that encourages customer interaction on a regular basis, face-to-face dialogue with customers, stimulate customers to provide information about changes to the terms of service, encourage customers to complain or give advice, encourage employees on the front lines to interact directly with customers and learn how to serve them better, and conduct regular surveys or interviews with customers to update information on customer service requirements (Kaur and Sharma 2009).

Commitment is an important factor in the success of marketing relationship as a determinant of corporate behavior, increase the efficiency and productivity of people in the company, especially employees (Morgan and Hunt 1994, Eisenberger, Karagonlar et al. 2010, Lub, Bijvank et al. 2012, Fu, Li et al. 2014). Psychological literature has identified three types of organizational commitment, those are a commitment to sustainability, normative and affective (Bansal, Irving et al. 2004, Meyer and Allen 2004, Kuo 2013). Affective commitment considers the strength of the emotional attachment, identification and involvement of people with a particular organization. A Sustainable commitment considers the extent to which the commitment of people remains in the organization when they consider leaving the organization. Meanwhile, a normative commitment sees the feelings of the people on the remaining obligations in the organization (Anari 2012, Chen, Wang et al. 2012, Joo, Yoon et al. 2012). Among those commitments, affective commitment is regarded as one of the most important and beneficial because it can affect other components in the long term (Meyer and Allen 2004, Joo, Yoon et al. 2012). Employees with a strong affective commitment can continue the work with the organization and tend to make more effort to the organization (Joo, Yoon et al. 2012). Fu, Li et al. (2014), explains that a person who has affective commitment will be seen from their characteristics, such as a characteristic to: (1) consider the problems the company as a matter of him as well, (2) think that the company is very meaningful for himself, (3) discuss the company with others on something important, (4) have a strong affection on the company, and (5) feel part of the company. This is similar to the view of Sejaaka and Kaawaase (2014) which state that organizational commitment is a tendency to remain in the organization and identify selves with the organization; involve in the organization of work roles; willingness to exert all efforts; and a desire to remain in the organization. Similarly, the opinion of the Crow, Lee et al. (2012), states that the organizational commitment is a psychological condition of an individual to an organization that is visible from the level of loyalty to the organization, the internalization of organizational goals, and dedication to the goals of the organization.

Customer-Centric Commitment is a synthesis of the concept of the commitment to the organization and customer centric. Thus, the customer-centric commitment is the strength of the emotional attachment, identification and involvement of people in the organization to implement the programs in satisfying the needs and desires of customers that ensure the achievement of the efficiency and effectiveness of marketing activities. Niininen, Buhais et al. (2007) describes a customer-centric management as an activity to capture and use customer insights to improve marketing effectiveness and serve them in the best way. Customer-centric management (CCM) is composed of a three-step process: (1) collecting and
Customer-oriented companies (customer-centric) focus on the needs and desires of profitable customers to guarantee the efficiency and effectiveness of marketing activities (Kaur and Sharma 2009). Wang and Feng (2012) describe a customer-centric organization system as an important determinant of CRM capabilities, including customer interaction capabilities. Regarding that the implementation of customer-centric is dependent on people who play a role in the organization, the commitment of a strong customer-centric will enable the company to interact with customers. Therefore, the proposed third hypothesis is:

**H3:** Customer-centric Commitment positively affects customer interaction capabilities.

**Customer-centric Commitment and new products performance:** Previous studies have shown the correlation of loyalty to the organization with organizational outcomes such as absenteeism, tardiness, organizational performance, engagement, productivity, satisfaction, customer loyalty, and turnover. These kinds of people do not just become a member of the organization; they are willing to bend over backwards for the organization. People who have a strong commitment will be able to contribute to the improvement of the performance of the organization because they regard the achievement of organizational goals as important. Conversely, people with low organizational commitment will have a low attention to the achievement of organizational goals and tend to hinder the improvement of organizational performance. The commitment of these people is important for companies to improve the competitiveness of the organization and maintain its market position (Suliman and Kathairi 2013). At the very least, a study by Kuo (2013) has demonstrated organizational commitment (sustainable, affective and normative commitment). People in the organization are key drivers of organizational performance.

In customer-oriented companies (customer-centric), the success of new products depends on the commitment of the stakeholders. Customer-centric management requires top management support and organizational commitment to CRM implementation. Top management support and organizational commitment are key factors for the success of CRM implementation in improving organizational performance (Chen and Popovich 2003). Previous studies also show that customer-oriented companies can improve the performance of new products (Appiah-Adu and Singh 1998, Zhang and Duan 2010, Pehrsson 2013). It shows that customer-centric organizational commitment of the people involved in the organization will determine the performance of the organization, including the performance of new products in it. Thus, the fourth hypothesis we propose is as the following:

**H4:** Customer-centric Commitment positively affects the new products performance.

**Customer Interaction Capabilities (CIC) and New Product Performance (NPP):** Referring to the RBV approach presenting resource capabilities role in improving business performance and competitive advantage (Barney 1991, Peteraf 1993), the capabilities of the company in the field of CRM are also able to produce superior performance including performance of marketing and financial performance (Coltman, Devinney et al. 2011). Wang and Feng (2012) and Coltman, Devinney et al. (2011) prove that there is a positive effect of CRM capabilities toward company performance. This study shows that companies that have a good CRM will be able to improve its performance. Considering that the customer interaction is the basis of CRM, the intensive customer interaction capabilities will become a key driver of new product performance enhancement. Gruner and Homburg (2000) show that customer interaction during certain stages of new product development process has a positive impact on the success of new products. The collaboration with customers to provide information about the characteristics of customers...
is very useful for leaders in improving the success of new products. The ability to do good interaction with customers will enable the company to produce new products according to customer requirements. In the development of new products, the better the CIC is, the better the success of new products will be. Each new product entering the market must be introduced, promoted and brought closer intensively. Thus, the fifth hypothesis we propose is:

**H5: Customer interaction capabilities positively influence the performance of new products.**

### The influence of CIC on mediating the correlation of MIQ and CCC with NPP:

This study thinks that the correlation of MIQ and CCC with NPP is likely to be mediated by the CIC. Market intelligence is the most important skills needed in the success of new product development. As we know, market intelligence (market intelligence generation, dissemination and responsiveness) has a positive effect on company performance (Jaworski and Kohli 1993), including the performance of new products (Moorman 1995, Cooper and Kleinschmidt 2000, Carbonell and Escudero 2010). In the process of new product development, information collection gives an opportunity to the new product development team to learn, so that, from the information obtained, they can act more quickly in decision-making (Carbonell and Escudero 2010), including strategic decisions in the development of CRM (Wang and Feng 2012). Market intelligence can strengthen a company’s CRM capabilities, including the ability to interact with customers. Therefore, the Quality of market intelligence will enable the company to develop the CIC.

Meanwhile, previous studies have shown that the customer-oriented company is a company that is able to improve the company’s performance, including the performance of new products (Appiah-Adu and Singh 1998, Zhang and Duan 2010, Pehrsson 2013). Therefore, the management of customer-centric requires support from stakeholders, especially top management and organizational commitment to CRM implementation. The commitment of stakeholders is needed to ensure that the company remains focused on the implementation of customer-centric with constantly do interactive communications with customers (Kaur and Sharma 2009, Kim, Park et al. 2012). Wang and Feng (2012) describe the organizational system of customer-centric as determinants of CRM capabilities, including customer interaction capabilities. It shows that customer-centric commitment of those involved in the process of the organization will determine the performance of the organization, including the performance of new products in it. CIC is part of CRM capabilities, and these capabilities affect the performance of the company (Coltman, DEVINNEY et al. 2011, Wang and Feng 2012). In other words, the better the CIC is, the better the company’s performance improvement will be. This is consistent with the findings of Gruner and Homburg (2000) about the existence of a positive effect of customer interaction during certain stages of new product development process to the success of new products. What is described above is basically suggests that CIC has the potential as a mediation of the correlation of MIQ and CCC with NPP. MIQ and CCC in addition to potentially increasing the NPP directly, also has the potential to improve the CIC. CIC here will strengthen the NPP. Thus the 6th and 7th hypothesis are as follows:

**H6. CIC mediates the correlation of MIQ and NPP.**

**H7. CIC mediates the correlation of CCC with NPP.**

### Research design:

A structural equation model (SEM) is used to test the research model empirically by using data from the owner of the micro retail in Central Java, Indonesia. Confirmatory Factor Model is used to test the multidimensionality of a theoretical construct (construct validity test). In addition, SEMs are also used as a comprehensive test tool for full structural models. The analysis follows the process advocated by Joseph F. Hair, Black et al. (2010). First, we create a model of the path diagram causal relationship between the construct and its indicators. Second, we examine the un-dimensionality of each construct with confirmatory factor analysis. Third, we estimate the full equation of structural models for indicators that have passed the confirmatory test. Fourth, we discuss the convergence and discriminant validity before moving to the substantive analysis. SEM analysis is performed by using the Amos software version 22:00.

### Sample and procedure:

Data are obtained from 187 complete questionnaires of 300 questionnaires distributed (62.33%). We focus on the fashion industry because this industry shows that the level of innovation activity is higher than the creative industry in Indonesia (Department of Trade, Tourism and Creative Industries of Indonesia). Companies with employee ownership of less than 20 people are selected on the basis of criteria for small businesses in Indonesia with possession of less than 20 employees (CBS, 2014). A total of 300 retail fashions become the target population in this study. The questionnaire is accompanied by a signed covering letter submitted by officers who have been trained in advance to small business owners or to people who are entrusted with the small business. From the 300
questionnaires distributed, only 250 respondents give their consent to participate in this survey (83.33%). The final evaluation of the questionnaires received show that there are 187 questionnaires (62.33%) which is suitable to be used for data analysis. The selected respondents consist of 65% males and 35% females, most of them are married (64.17%), not yet (29.95%), and divorced (5.88%). Furthermore, 52.41% of their education is high school or under, 29.95% and 17.65% are Diploma Bachelor’s, and they have run a minimum of 2 years of retail fashion.

Operational variables
1. QIA. Market intelligence quality is modified by the view of Jaworski, Kohli et al. (2000), which are essentially as quality market intelligence generation, intelligence dissemination market responsiveness and market intelligence gained from the activity of sensing market. From the three concepts, it is developed 5 item of questionnaire question regarding customer information quality, competitors’ information quality, dissemination information quality, market sharing information quality, responsiveness and quality of market information.
2. CCC. Commitment customer centric is adopted from the initial view of Fu, Li. et al. (2014), namely the ability of the company to build an intensive interaction with the customer through the stages of customer identification, customer acquisition and retaining profitable customers. 4 items questionnaire question are developed by regarding willingness to support customer service programs which are effective and efficient; exerting every effort in satisfying customer needs, customer focus and discussing customer service issues on a regular basis.
3. CIC. CIC concept is adopted from the initial view of Wang and Feng (2012) which has been adjusted, i.e. the ability of the company to build an intensive interaction with the customer through the stages of customer identification, customer acquisition and retaining profitable customers. 4 item questionnaires are applied to measure the CIC, the ability to gain loyal customers, communicate with customers, serve customers and retain loyal customers.
4. NPP. NPP concept is adopted from the views of Cooper (1996) and Akgun, Byrne et al. (2007) that have been adjusted; it is the description of the successful development of new products. 6 item questionnaires are applied to measure this construct, they are the compatibility with the expected volume, the result of expected sales, expected profit rate, the expected ROI, the owner’s hope, and the contribution of new products in the company’s development.

Analysis: We report the results of confirmatory factor analysis (CFA) for the full sample. We make observations on 19 indicators (5 indicators of QIA, 4 indicators of CCC, 4 indicators of CIC and 6 Indicators of NPP) to obtain 19 loading factor values (λ1-λ19) to be relevant and in accordance with the existing provisions in AMOS. The loading factors for all latent variables are observed to have good validity if it has a value above 0.5. Furthermore, we let all latent constructs correlated, so that the relationship between them can be evaluated. We report the results of testing Goodness-of-fit indices are good because it produces criteria in accordance with the recommended SEM (χ² 165.218, p-value = 0.132, GFI = 0.905, AGF = 0.876, TLI = 0.837 and RMSEA = 0.027). Unless AGF and TLI indices are lower than recommended (<0.90), the others are in conformity with the criteria recommended. χ² 165.218 produce a p-value of 0.132 which is not significant at α 0.05, GFI> 0.9 and RMSEA less than 0.05 are the criteria recommended in the SEM. This shows that the recommended models are fit or have eligibility to examine the relationship between variables. To prove mediation of CIC, we use Sobel test.

<table>
<thead>
<tr>
<th>Path</th>
<th>CR</th>
<th>Average Variance Extracted (AVE) in bold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Inter-correlation (C)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>CCC</td>
</tr>
<tr>
<td>CCC</td>
<td>0.863</td>
<td>0.930</td>
</tr>
<tr>
<td>MIQ</td>
<td>0.862</td>
<td>0.826</td>
</tr>
<tr>
<td>CIC</td>
<td>0.881</td>
<td>0.849</td>
</tr>
<tr>
<td>NPP</td>
<td>0.652</td>
<td>0.793</td>
</tr>
</tbody>
</table>

CCC = Customer Centric Commitment; MIQ = Market Intelligence Quality CIC = Customer Interaction Capability; NPP = New Product Performance

Descriimnint validity test: Construct reliability demonstrates high internal consistency, which means that the indicator has consistently represent the same latent constructs (Joseph F. Hair, Black et al.
Proceedings of 4th International Conference on Management, Finance & Entrepreneurship (ICMFE-2015)

We use the construct reliability (CR) and the average variance extracted (AVE) to measure the internal consistency of indicators used. CR value is greater than 0.7 for the CCC, MIQ and CIC, as well as approaching 0.7 for the NPP. Moreover, the AVE value which is greater than the value of inter-correlation shows that each construct has good discriminant validity. We assess undimensionality through examination of the maximum likelihood estimates of the standardized estimates loading factor, which exceeds 0.5 or better than 0.6 (Joseph F. Hair, Black et al. 2010).

Table 2: Parameter estimates for the path: direct effects

<table>
<thead>
<tr>
<th>Path</th>
<th>Estimate</th>
<th>SE</th>
<th>CR</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIQ ----&gt; CIC</td>
<td>0.483</td>
<td>0.126</td>
<td>3.643</td>
<td>***</td>
</tr>
<tr>
<td>CCC ----&gt; CIC</td>
<td>0.45</td>
<td>0.116</td>
<td>3.527</td>
<td>***</td>
</tr>
<tr>
<td>MIQ ----&gt; NPP</td>
<td>0.61</td>
<td>0.139</td>
<td>4.025</td>
<td>***</td>
</tr>
<tr>
<td>CIC ----&gt; NPP</td>
<td>0.377</td>
<td>0.142</td>
<td>2.543</td>
<td>0.011*</td>
</tr>
<tr>
<td>CCC ----&gt; NPP</td>
<td>-0.031</td>
<td>0.111</td>
<td>-0.244</td>
<td>0.807</td>
</tr>
</tbody>
</table>

Note: * p <0.05; *** P <0.01

Table 3: Parameter estimates for the path: indirect effects (Sobel test)

<table>
<thead>
<tr>
<th>Path</th>
<th>Beta</th>
<th>SE</th>
<th>CR</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIQ ----&gt; CIC</td>
<td>----&gt; NPP</td>
<td>0.182</td>
<td>0.083</td>
<td>2.183</td>
</tr>
<tr>
<td>CCC ----&gt; CIC</td>
<td>----&gt; NPP</td>
<td>0.170</td>
<td>0.077</td>
<td>2.183</td>
</tr>
</tbody>
</table>

Note: * p <0.05; *** P <0.01

Figure 1: The results of empirical models

The results show that there is a significant positive effect of the MIC and CIC (Beta = 0.483, t-value = 3.643, p <0.01), CCC on CIC (Beta = 0.45, t-value = 3.527, p <0.01), MIQ on NPP (Beta = 0.61, t-value = 4.025, p <0.01) and CIC to NPP (Beta = 0.377, t-value = 2.543, p <0.05). While CIC has no effect on NPP (Beta = -0.031, t-value = 0.111, p > 0.05). This suggests the hypothesis H1, H2, H3, and H4 are supported, whereas H5 is not. This study aims to test whether CIC plays a mediating role in the correlation of MIQ and CIC with innovation. By regarding the H6 and H7, through the Sobel Test antecedents, it really affects NPP through CIC. More specifically, CIC acts as a full mediating role in the relationship between MIQ with NPP (indirect effects: Beta = 0.182, t-value = 2.183, p <0.05). In addition, CIC also mediates the relationship of CCC with NPP (indirect effects: Beta = 0.170, t-value = 2.183, p <0.05). Therefore, the hypothesis H6 and H7 are supported.

Discussion: This study aims to investigate the correlation of MIQ and CCC with CIC and NPP, as well as the mediating role of CIC in relation with MIQ and CCC with NPP. This study has shown how important the role of CIC for companies engaged in the fashion industry with characteristics: short life cycle.
unstable demand, low predictability and a high level of impulse purchases (Christopher, Lowson et al. 2004). CIC has been a mediator in the relationship of MIQ and CCC with NPP. At least this study has given a new reference that gives a solution to the controversy over the relationship of market intelligence and customer centric with the performance of new products. Our results have confirmed the role of external and internal factors in strengthening CIC. External factors are derived from the quality of the information obtained from competitors and customers in the form of quality market information, while internal factors are derived from the commitment of the owners, leaders, and employees to focus on satisfying customers. As CIC external drivers, the quality of market information arises when a company has a strong market orientation culture. Meanwhile as an internal CIC drivers, CCC appears in the form of a commitment to understand the needs of the company orientation and profitable customer that wish to guarantee the efficiency and effectiveness of marketing activities (Kaur and Sharma 2009).

We agree with the view of Narver and Slater (1990), Garcia and Calantone (2002) and Gellynck, Banterle et al. (2012) that the collection of market information continuously will help companies identify what customers want, and this knowledge will be a positive impact on firm performance. According Zimmerer and Scarborough (1998), the secret of success in marketing is by knowing who the customers of the company, what they need, how much demand is and what his desire, before the competitors come to meet the needs, demands and desires. Customer knowledge abundant becomes an important resource to build the capability of interaction with customers. In another sense, the quality of market information will enable the company to interact with customers. Therefore, it is not surprising that the quality of market intelligence is an important driver for the creation of customer interaction capabilities and improved performance of new products. In fact, micro-enterprises are more effective than large companies in marketing relationships, which is the process of developing and maintaining long-term relationships with customers so that they can return to shop (Zimmerer and Scarborough, 1998). Micro-enterprises can serve a narrow target market effectively and efficiently and achieve excellence in niche markets faced. Special advantages can include close relationships with customers, personal attention, focus on service, flexibility and management organizations and (Scarborough Zimmerer, 1998). The main customer focus means involving the management of customer-centric to be more serious, so that, it continues to deliver superior value to customers. Given the implementation of customer-centric depending on the people who play a role in the organization, the strong customer-centric commitment will enable the company to interact with customers.

Slightly different from the study of Wang and Feng (2012) which shows the capabilities of CRM affect the performance of the company, this research is a dip in the CRM capabilities, the customer interaction capabilities, in relation to the performance of the company. Through effective customer interaction management, the company will obtain the customer data as a point of contact for service satisfying (Lamb, Hair et al. 2010). The increase in customer interaction capabilities will impact the performance of the company (Day 1994, Morgan, et al Slotegraaf. 2009, Wang and Feng 2012). One thing that is different from other studies, we find that the CCC does not directly affect the performance of new products. This may occur when the willingness of stakeholders to support the programs of customer services effectively and efficiently; are directly involved in operational activities to increase customer satisfaction, willingness to exert every effort in satisfying customer needs, and a willingness to discuss customer service issues on a regular basis which are not sensitive enough to the performance of new products. In a highly dynamic fashion industry, each entrepreneur requires intensive interaction continuously to ensure customers keep abreast of the latest fashion. Without the interaction capabilities, it is very difficult for micro entrepreneurs to improve their business performance. Therefore, companies with a strong customer centric commitment and be able to boost the capabilities of the customer interaction is a company that has the potential of improving the performance of new products.

According to the analysis of the structural model as a whole, MIQ has a direct impact on the CIC and the performance of new products. While CCC only directly influences the CIC but it has no effect on the performance of new products. CCC does not directly affect the performance of new products through CIC. In particular, the quality of market intelligence contributes to customer interaction capabilities, which in turn improve the performance of new products. Consistent with research Wang and Feng (2012), this study further confirms the mediating role of CIC in the relationship between the quality of market intelligence and business performance, which is neglected in the study of Toften and Ottar Olsen (2003), Chao and Spillan (2010), Haverila and Ashill (2011), Trainor, Krush et al. (2013), and sanuri Mohd Mokhtar (2013).
**Limitations and future research recommendation:** Previous studies have put the capabilities of CRM as a mediating variable of customer orientation, customer centric organizational systems, and CRM technology with company performance. This study has been more specific by placing market intelligence as part of a market orientation, customer centric commitment as part of a customer centric organizational system, customer interaction capabilities as part of CRM capabilities, and new product performance as part of the company's performance. Meanwhile, in-depth study on other dimensions of research Wang and Feng (2012) such as CRM technology, customer relationship upgrading capabilities and customer win-back capabilities in relation to the performance of the company still needs to be done. In the future, testing of other mediating variables of market intelligence and relationship of customer-centric commitment premises NPP upgrading capabilities such as customer relationship and customer win-back capabilities are excavated from the view of Wang and Feng 2012, the pace of innovation (Carbonel 2010), new product development capability (Trainor and Krush), or organizational knowledge (Toften and Olsen), is still needed in the development of the science of marketing management.

Previous studies have put the variable in the context of moderate internal market intelligence relationship with the performance of new products, such as the speed of innovation (Carbonel 2010). By linking (Jaworski and Kohli, 1993; Slater and Narver, 1995; Greenley, 1995; Han et al, 1998), it argues that the external context variables, such as market and skills mortality, the intensity of competition and market growth, play a moderating role in the relationship between orientation market and business performance. Conclusions of previous studies are inconsistent. The external variables should add to our model, to test empirically whether the impact is managed. Additionally, Matsuno and Mentzer (2000) argue that this type of business strategy will affect the impact of market orientation on business performance. Therefore, future studies should include the type of business strategy in our model to examine the relationship between the type of business strategy and existing construction.

**References**


Aggregate Economic Forces and Malaysian Equity Market: Equilibrium Time-Series Approach

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Abstract: This paper examines long-run and short-run relationships between industrial production index, producer price index, consumer price index, exchange rates, narrow money supply, broad money supply, and Malaysian equity market index. To accomplish these goals, it utilizes Augmented-Dickey Fuller and Phillips-Perron stationary tests. The paper then uses Pesaran bounds F-statistic for testing cointegrating relationship among variables. However, the study’s findings are of particular interest and importance to policy makers, financial economists, and investors dealing with Malaysian economy and its equity market.

Keywords: Co-integration; Economic Equilibrium; Macroeconomic Indicators; Malaysia

1. Introduction

During the past decades, the equilibrium relationships between macroeconomic variables and stock prices have been widely studied by academic researchers and practitioners. In fact, the literature is very rich for matured stock markets of Canada, France, Germany, Italy, Japan, the UK, and the US. However, latest studies in this area support the argument that stock prices are influenced by macroeconomic variables such as industrial production index (IP), consumer price index (CPI), producer price index (PPI), federal funds rate (FFR), narrow money supply (M1), broad money supply (M2), interest rates (INT), real gross domestic product (RGDP), and exchange rates (ER) in matured stock markets (Beltratti & Morano, 2006; Hatemi-J & Morgan, 2009; Humpe & Macmillan, 2009; Kizys & Pierdzioch, 2009).

Since the early 1980s, there has been an increasing attention to study the relationships between macroeconomic variables and stock prices in emerging stock markets. However, in the early 1990s, many emerging countries liberalized their stock markets and decided to open their domestic stock markets to foreign investors. As a result, this led to rapid growth in their stock markets and economies as well as increased their positions in the international economic and financial environment (Ghosh & Ariff, 2004). In light with these matters, it’s reasonable to conclude that emerging stock markets have features attract investors and researchers to recognize, policy makers to evaluate and study these matters.

Notable studies have been conducted to examine the relationships between macroeconomic variables and stock prices in emerging stock markets. Hanousek and Kocenda (2011) used generalized autoregressive conditional heteroscedasticity (GARCH) Model and found significant evidence that emerging European stock market indices i.e., Czech Republic, Hungary, and Poland were strongly influenced by mature European and the US stock market indices as well as their macroeconomic variables. Nguyen (2011) used moving average exponential (MAE)-GARCH Model and found that the US macroeconomic variables had positive effects on the conditional mean and negative effects on the conditional variance of Vietnam stock market index (GSE-share index). Using arbitrage pricing theory (APT), Rjoub et al. (2009) documented significant pricing relationships between stock returns and macroeconomic variables for the case of Turkey. Tsoukalas (2003) used vector autoregressive (VAR) Model and found that macroeconomic variables (CPI, ER, IP, and M2) were strongly related to stock prices for the case of Cyprus. Similarly, Verma and Ozuna (2005) showed that the changes in the macroeconomic variables of one Latin American country did not affect the stock markets of other Latin American countries. Moreover, they found that the Mexican stock market significantly affected other Latin American stock markets and the reverse did not hold.

In Malaysian context, few notable studies have been found in our area of interest. Ibrahim (1999) studied the relationships between seven macroeconomic variables (ER, foreign reserves (FR), credit aggregates (CG), consumer prices (CP), IP, M1, and M2) and the Malaysian stock market index using vector error correction model (VECM) and monthly time series data for the 1977-1996 period. The results suggested that Malaysian stock market index was efficient with respect to CP, CG, and FR, while inefficient with respect to M1, M2, ER, and IP. Similarly, Ibrahim and Aziz (2003) examined the short-run and long-run relationships between four macroeconomic variables (IP, CPI, M2, and ER) and Malaysian stock market
index using monthly time series data for the 1977-1998 period. They found positive short-run and long-run relationships between Malaysian stock market index and both of CPI and IP. Additionally, they found negative short-run and long-run relationships between Malaysian stock market index and both of M2 and ER. The current paper provides further evidence to the literature on the equilibrium relationships between macroeconomic variables and stock prices. In particular, it examines equilibrium relationships between six macroeconomic variables (IP, PPI, CPI, ER, M1, and M2) and stock market index (SMI) in Malaysia for the 1977-2011 period. The rest of the paper is divided into six sections. Section 2 presents an overview of Malaysian stock market; Section 3 discusses the review of previous empirical studies; Section 4 provides the bounds statistics methodology; Section 5 reports empirical results and analysis; while conclusions, suggestions, and further studies are discussed in Section 6.

Overview of Malaysian Stock Market: The Malaysian stock market is considered the second among largest South East Asian according to its domestic market capitalization (See Figure 1). Figure 1 shows that the Singapore stock market achieved the highest domestic market capitalization of $598 million at the end of 2011 followed by the Malaysian, Indonesian, Thailand, and Philippine stock markets which recorded $396, $390, $268, and $165 million, respectively. The SMI is the weighted average of stock prices which used to reflect the market capitalization of its components (Bursa Malaysia, 2015). SMI was started officially its operations in 1977 with a value of 113.40 points as shown in Figure 2. Figure 2 shows that SMI recorded an annual growth rate of 5.7% from 1977 till 2011. Before the onslaught of Asian financial crisis (AFC) in 1997-98, the performance of SMI rose sharply to reach the first peak in 1993 and the second peak in 1996 with 1275 points and 1238 points, respectively. However SMI achieved more than 1400 points at the end of 2011. Besides that, Figure 3 shows that the trading volume of shares in Malaysian stock market was vivid. However, the trading volume of shares recorded an annual growth rate of 6.7% for the 1993-2011 period. The trading volume started at RM20.6 billion and fell gradually to reach the first sharp decline in 1995 with a value of RM8.24 billion, then, the trading volume increased slowly to reach the first peak in 2007 with a value of RM55.8 billion. The trading volume remained stable from 2007 till 2009. However, the trading volume declined sharply from RM28.6 billion in 2010 to RM27 billion in 2011.

**Figure 1: Domestic market capitalization for the 1990-2011 period**

![Figure 1: Domestic market capitalization for the 1990-2011 period](source: Bursa Malaysia (2015))

**Figure 2: Stock market index for the 1977-2011 period**

![Figure 2: Stock market index for the 1977-2011 period](source: Bursa Malaysia (2015))
Figure 3: Trading volume for the 1993-2011 period

\[ \text{Trading volume} = 10.41e^{0.067t} \]
\[ R^2 = 0.479 \]


2. Literature Review

The equilibrium relationships between macroeconomic variables and stock market indices received a lot of attention from academics who employed different macroeconomic variables and data from both matured and emerging stock markets. However, in this section the researcher reviews selected number of previous empirical studies from the vast literature which conducted in matured stock markets followed by studies conducted in emerging stock markets.

Previous Empirical Studies in Mature Stock Markets: Beltratti and Morano (2006) applied Markov switching (MS)-GARCH Model and daily time-series data to examine the relationship between macroeconomic variables (monthly IP, monthly CPI, FFR, and weekly M1) and the US stock market index (S&P500). They found a causality direction from S&P500 volatility to macroeconomic volatility. However, the causality direction was stronger from macroeconomic to S&P500 volatility. Hatemi-J and Morgan (2009) explored whether the Australian stock market was informationally efficient in the semi-strong form in relation to ER and INT using Auto-Regressive Conditional Heteroscedasticity (ARCH) Model and daily time-series data for the 1994-2006 period. They found that the Australian stock market was not informationally efficient with respect to the INT and ER. Humpe and Macmillan (2009) investigated the impact of macroeconomic variables (IP, CPI, M2, and long-term INT) on S&P500 and the Japanese stock market index (Nikkei 225) using VECM. For the US market, they found that S&P500 was positively related to IP and negatively related to both CPI and long-term INT. They also found a positive relationship between S&P500 and M2. However, for the Japanese data, they found that Nikkei 225 influenced positively by IP and negatively by CPI and long-term INT. Kizys and Pierdzioch (2009) examined the relationships between macroeconomic variables (short-term INT, inflation (INF), ER, CPI, and PPI) and the matured stock market indices of (Canada, France, Germany, Italy, Japan, the UK, and the US) using VAR Model and monthly time-series data for the 1975-2004 period. They found that the stock market indices were not systematically linked to the macroeconomic variables in both long-run and short-run.

Previous Empirical Studies in Emerging Stock Markets: Aburgi (2008) examined the impact of macroeconomic variables (ER, INT, IP, and M1) on stock market indices of four Latin American countries (Argentina, Brazil, Chile, and Mexico) using VAR Model and monthly time-series data for the 1986-2001 period. He found that macroeconomic variables influenced Latin American stock markets indices significantly. Adjasi (2009) employed Exponential (E)-GARCH Model and monthly time-series data to investigate the effects of macroeconomic variables (CPI as a proxy of INF, M2, INT, gold prices (GP), oil prices (OP), and ER) on the volatility of Ghanaian stock market index. He found that the volatility of INT increased the volatility of Ghanaian stock market index, while the volatility of GP, OP, and M2 reduced the volatility of Ghanaian stock market index. Liu and Shrestha (2008) examined the long-run relationship between macroeconomic variables (time deposit INT, INF, M2, IP, and ER) and the two indices of Chinese stock market namely, Shanghai Stock Exchange, and Shenzhen Stock Exchange using GARCH Model and monthly time-series data for the 1992-2001 period with a total of 120 observations. The results showed that a co-integration relationship existed between stock market indices and macroeconomic variables in the long-run. Pal and Mittal (2011) applied VECM and quarterly time-series data for the 1995-2008 period to examine the equilibrium long-run and short-run relationships between macroeconomic...
variables (INT, INF, gross domestic savings (GDS), and ER) and stock market indices in India. The results indicated co-integration relationships between macroeconomic variables and Indian stock market indices in both short-run and long-run.

Based on the previous empirical studies, the following hypotheses could be formulated for the current study:

- **H₁:** There are significant long-run relationships between macroeconomic variables and SMI.
- **H₂:** There are significant short-run relationships between macroeconomic variables and SMI.

### 3. Methodology

In fact, the research methodology needs to be carefully designed to obtain results that are quite robust, objective, and realistic. For the current paper, several steps of the research methodology have been adopted.

**Variables Sources:** The present study uses annual time series data covering the 1977-2011 period. However, data on SMI obtained from Bursa Malaysia (2015); data on M1, M2, and ER obtained from BNM (2015); data on IP, PPI, and CPI obtained from DOSM (2015).

**Model Specification and Variables Descriptions:** The researcher examines long-run and short-run relationships between six macroeconomic and SMI by relying on the following model.

\[
LSMI_t = \alpha_0 + \alpha_1 LIP_t + \alpha_2 LPPI_t + \alpha_3 LPCI_t + \alpha_4 ER_t + \alpha_5 LM1_t + \alpha_6 LM2_t + \varepsilon_t \tag{1}
\]

Where \(\alpha_0\) denotes the intercept term; \(\alpha_i (i = 1...6)\) represent the coefficients of the explanatory variables; \(\varepsilon_t\) denotes the error term. \(LSMI\) represents the logarithms of yearly figures of Malaysian stock market index which obtained by taking weighted average of daily closing stock prices; \(LIP\) represents the logarithms of yearly weights of Malaysian industrial production index, and covered manufacturing, mining, and electricity sectors using 2005 as the based year; \(LPPI\) denotes the logarithms of yearly weights of Malaysian producer price index, and covered agriculture, fishing, mining, manufacturing, electricity, gas, and water supply sectors using 2000 as the based year; \(LPCI\) denotes the logarithms of yearly weights that has been taken to measure Malaysian aggregate price level of main groups of goods and services using 2000 as the based year; \(ER\) represents the yearly values of bilateral Malaysian Ringgit (RM) exchange rate vis-à-vis the US dollar ($); \(LM1\) and \(LM2\) denote the logarithms of yearly figures of total amount of money available in Malaysian economy, and expressed in RM (millions). However, all variables transformed into natural logarithmic forms except \(ER\) to make this variable simultaneous with other variables or series (Bekhet&Al-Smadi, 2015; Bekhet&Al-Smadi, 2014; Bekhet&Matar, 2013; Bekhet&Mugableh, 2013; Bekhet&Mugableh, 2012; Chen et al., 1986; Mugableh, 2015).

The error-correcting representations for ARDL Approach and for the variables in Eq. (1) can be written as the following model.

\[
LSMI_t = \beta_0 + \beta_1 LSMI_{t-1} + \beta_2 LIP_{t-1} + \beta_3 LPPI_{t-1} + \beta_4 LPCI_{t-1} + \beta_5 ER_{t-1} + \beta_6 LM1_{t-1} + \beta_7 LM2_{t-1} + \sum_{s=0}^{h} \zeta_1 \Delta LSMI_{t-s} + \sum_{s=0}^{h} \zeta_2 \Delta LIP_{t-s} + \sum_{s=0}^{h} \zeta_3 \Delta LPPI_{t-s} + \sum_{s=0}^{h} \zeta_4 \Delta LPCI_{t-s} + \sum_{s=0}^{h} \zeta_5 \Delta ER_{t-s} + \sum_{s=0}^{h} \zeta_6 \Delta LM1_{t-s} + \sum_{s=0}^{h} \zeta_7 \Delta LM2_{t-s} + \varepsilon_t \tag{2}
\]

Where \((\Delta)\)'s represent the first difference operators; \(\beta_i (i = 1...7)\) represent the long-run coefficients of one lagged variables; \(h\) signifies the lag length; \(\zeta_i (i = 1...7)\) denote the short-run coefficients at lag order \(s\); and \(\varepsilon_t\) represents error term. The current paper uses bounds statistics methodology to examine equilibrium relationships between variables. Specifically, it starts by testing whether the variables achieve their stationary behavior at upper or lower bounds using augmented Dickey-fuller (ADF) and Phillips-Peron (PP) tests. Then, the co-integrating phenomenon has been tested using Pesaran et al. (2001) bounds statistics test. Finally, results of stationary and co-integration tests have been used to analyze long-run and short-run relationships between variables.

### 5. Results and Analysis

**Stationary Statistics Tests:** Table 1 shows that all variables in both ADF and PP tests are non-stationary at the lower bound except \(LSMI\). When the first differences executed, all the variables are stationary. Specifically, at the lower bound, \(LSMI\) is stationary at 10% significance level in ADF test; while it is
stationary at 5% significance level in PP test. At the upper bound, all variables are stationary at 1% significance level except LM2, which is stationary at 10% significance level.

Table 1: Results of ADF and PP tests

<table>
<thead>
<tr>
<th>Stage</th>
<th>Variables</th>
<th>ADF Trend and intercept</th>
<th>Critical values (</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
<th>PP Trend and intercept</th>
<th>Critical values (</th>
<th>1%</th>
<th>5%</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>At</td>
<td>LSMI_t</td>
<td>-3.50(0)***</td>
<td>-4.25</td>
<td>-3.54</td>
<td>-3.22</td>
<td>-3.59(4)**</td>
<td>-4.25</td>
<td>-3.56</td>
<td>-3.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LIP_t</td>
<td>-2.36(0)***</td>
<td>-4.26</td>
<td>-3.53</td>
<td>-3.21</td>
<td>-2.36(0)***</td>
<td>-4.26</td>
<td>-3.55</td>
<td>-3.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LPPI_t</td>
<td>-1.62(0)***</td>
<td>-4.25</td>
<td>-3.55</td>
<td>-3.23</td>
<td>-1.78(3)*</td>
<td>-4.24</td>
<td>-3.54</td>
<td>-3.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower Bound</td>
<td>LCPI_t</td>
<td>-1.89(0)***</td>
<td>-4.28</td>
<td>-3.56</td>
<td>-3.21</td>
<td>-1.91(3)*</td>
<td>-4.25</td>
<td>-3.55</td>
<td>-3.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ER_t</td>
<td>-1.86(0)***</td>
<td>-4.25</td>
<td>-3.55</td>
<td>-3.22</td>
<td>-2.04(5)*</td>
<td>-4.24</td>
<td>-3.51</td>
<td>-3.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LM1_t</td>
<td>2.87(0)</td>
<td>-4.26</td>
<td>-3.54</td>
<td>-3.23</td>
<td>4.55(2)</td>
<td>-4.25</td>
<td>-3.56</td>
<td>-3.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>LM2_t</td>
<td>3.13(0)</td>
<td>-4.28</td>
<td>-3.53</td>
<td>-3.24</td>
<td>2.55(2)</td>
<td>-4.24</td>
<td>-3.55</td>
<td>-3.27</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ΔLSMI_t</td>
<td>-7.86(0)*</td>
<td>-4.26</td>
<td>-3.55</td>
<td>-3.21</td>
<td>-8.38(4)*</td>
<td>-4.26</td>
<td>-3.55</td>
<td>-3.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ΔLIP_t</td>
<td>-5.81(0)*</td>
<td>-4.27</td>
<td>-3.56</td>
<td>-3.22</td>
<td>-5.81(0)*</td>
<td>-4.28</td>
<td>-3.52</td>
<td>-3.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper Bound</td>
<td>ΔLPPI_t</td>
<td>-5.71(0)*</td>
<td>-4.24</td>
<td>-3.53</td>
<td>-3.20</td>
<td>-5.73(3)*</td>
<td>-4.26</td>
<td>-3.55</td>
<td>-3.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ΔLCPI_t</td>
<td>-6.26(0)*</td>
<td>-4.26</td>
<td>-3.55</td>
<td>-3.21</td>
<td>-6.32(3)*</td>
<td>-4.29</td>
<td>-3.52</td>
<td>-3.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ΔER_t</td>
<td>-6.20(0)*</td>
<td>-4.25</td>
<td>-3.55</td>
<td>-3.22</td>
<td>-6.30(5)*</td>
<td>-4.27</td>
<td>-3.56</td>
<td>-3.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ΔLM1_t</td>
<td>-4.97(0)*</td>
<td>-4.27</td>
<td>-3.56</td>
<td>-3.23</td>
<td>-4.94(2)*</td>
<td>-4.28</td>
<td>-3.55</td>
<td>-3.22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: ***: **: * describe the stationary status at 1%, 5%, and 10% significance levels, respectively.
Source: Output of EViews 8.1 Software Package.

Pesaran Bounds Statistics Tests for Co-integration: The present study uses F-statistics as suggested by Pesaran et al. (2001) to test the null hypothesis of no co-integration between variables. That is, it sets long-run coefficients of one lagged variables in Eq. (2) equal to zero i.e., $H_0: \beta = 0$, against alternative hypothesis of co-integration between variables where, the long-run coefficients of one lagged variables are not equal to zero i.e., $H_1: \beta \neq 0$. The calculated F-statistic value is compared with tabulated F-statistic critical value in statistical tables of Pesaran et al. (2001). If the calculated F-statistic value is greater than upper bounds, then the null hypothesis of no co-integration is definitely rejected, which means that the variables are shared long-run relationships among themselves (Pesaran et al., 2001). If the calculated F-statistic value is smaller than the lower bounds, then the null hypothesis of no co-integration is accepted, which means that the variables are not shared long-run relationships among themselves (Pesaran et al., 2001). However, if the calculated F-statistic value falls between upper and lower bounds, then, the decision is inconclusive to either accept or reject the null hypothesis of no co-integration among variables (Pesaran et al., 2001). Table 2 presents the computed and critical values of F-statistic to test the null hypothesis of no co-integration among variables.

Table 2: Co-integration test

<table>
<thead>
<tr>
<th>Model</th>
<th>Computed F-statistics value</th>
<th>Significance levels</th>
<th>Critical values of F-statistics</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSMI_t = f (LIP_t, LPPI_t, LCPI_t)</td>
<td>2.23</td>
<td>10%</td>
<td>1.92</td>
<td>2.89</td>
<td></td>
</tr>
<tr>
<td>ER_t, LM1_t, &amp; LM2_t</td>
<td>2.23</td>
<td>5%</td>
<td>2.17</td>
<td>3.21</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.23</td>
<td>2.5%</td>
<td>2.43</td>
<td>3.51</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.23</td>
<td>1%</td>
<td>2.73</td>
<td>3.90</td>
<td></td>
</tr>
</tbody>
</table>

Source: Output of Micro-Fit 5.1 Software Package.

Table 2 shows that the null hypothesis of no co-integration among variables in LSMI_t is rejected because the calculated F-statistics value falls between lower and upper bounds at the 10% significance level (Mugabe, 2013).

Equilibrium Relationships Analysis: The main objective of the current study is to analyze long-run and short-run relationships between macroeconomic variables and LSMI. However, after conducting the bounds statistics tests for co-integration; we conclude that all variables are co-integrated. Therefore, we need to examine long-run and short-run relationships among these variables. Table 3 shows the estimations of long-run and short-run coefficients.
Table 3: Long-run and short-run coefficients estimations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard error</th>
<th>p-value</th>
<th>Significance level</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.91</td>
<td>0.05</td>
<td>0.43</td>
<td>Insignificant</td>
</tr>
<tr>
<td>LIP(_t-1)</td>
<td>0.14</td>
<td>0.08</td>
<td>0.01</td>
<td>1%</td>
</tr>
<tr>
<td>LPPI(_t-1)</td>
<td>0.81</td>
<td>0.18</td>
<td>0.01</td>
<td>1%</td>
</tr>
<tr>
<td>LCPI(_t-1)</td>
<td>-0.04</td>
<td>0.21</td>
<td>0.01</td>
<td>1%</td>
</tr>
<tr>
<td>ER(_t-1)</td>
<td>-0.13</td>
<td>0.31</td>
<td>0.01</td>
<td>1%</td>
</tr>
<tr>
<td>LM1(_t-1)</td>
<td>-0.08</td>
<td>0.20</td>
<td>0.70</td>
<td>Insignificant</td>
</tr>
<tr>
<td>LM2(_t-1)</td>
<td>0.56</td>
<td>0.40</td>
<td>0.01</td>
<td>1%</td>
</tr>
<tr>
<td>∆LIP(_t-1)</td>
<td>2.87</td>
<td>0.91</td>
<td>3.16</td>
<td>1%</td>
</tr>
<tr>
<td>∆LPPI(_t-1)</td>
<td>3.28</td>
<td>0.77</td>
<td>4.25</td>
<td>1%</td>
</tr>
<tr>
<td>∆LCPI(_t-1)</td>
<td>9.96</td>
<td>2.93</td>
<td>3.41</td>
<td>1%</td>
</tr>
<tr>
<td>∆ER(_t-1)</td>
<td>9.78</td>
<td>2.81</td>
<td>3.49</td>
<td>1%</td>
</tr>
<tr>
<td>∆LM1(_t-1)</td>
<td>4.71</td>
<td>2.25</td>
<td>2.09</td>
<td>5%</td>
</tr>
<tr>
<td>∆LM2(_t-1)</td>
<td>-0.10</td>
<td>4.13</td>
<td>-0.02</td>
<td>Insignificant</td>
</tr>
<tr>
<td>ECM(_t-1)</td>
<td>-1.10</td>
<td>0.18</td>
<td>-5.74</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Output of Micro-Fit 5.1 Software Package.

Table 3 shows that 1% significance level, the variables LIP\(_t-1\), LPPI\(_t-1\), and LM2\(_t-1\) are positively associated with the LSMI\(_t\), while LCPI\(_t-1\) and ER\(_t-1\) are negatively related.

4. Conclusion and Further Studies

The present paper examines long-run and short-run relationships between macroeconomic variables (IP, PPI, CPI, ER, M1, and M2) and SMI using annual time-series data for the 1977-2011 period. Results of the Pesaran bounds F-statistics reveal that all variables are co-integrated with SMI. This study adds to the existing literature and focuses on long-run and short-run relationships between macroeconomic variables and stock prices for the case of an emerging stock market, Malaysia, rather than mature stock markets, the US or the UK, which have been frequently studied in the past. In fact, future research could broaden this study by including more than one country to draw robust results, since the main limitation of this study is the use of one country.

References


Pengaruh Right Issue Terhadap Kinerja Keuangan Pada Perusahaan Terbuka Sektor Perbankan Di Indonesia

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Abstract: The purpose of this study is to analyse financial performance of Banking sector in Indonesia Stocks Exchange (IDX) before and after the right issue. This study uses the event study five windows periods, that is two years before and after announcement the right issue and the wilcoxon Signed Rank Test non-parametric statistic. The empirical results show that the financial performance in profitability and in activity after the right issue is different significantly compare with before the right issue. This findings of this study contrary with Saputro (2013) but consistent with Burns (1991) and Budi (2003).

Keywords: right issue, event study, wilcoxon signed rank test statistics.

Pendahuluan


Rumusan Masalah: Berdasarkan latar belakang masalah, rumusan masalah penelitian ini adalah " hubungan antara pengaruh right issue terhadap kinerja keuangan (rasio likuiditas, leverage, profitabilitas, aktivitas, dan pasar) pada perusahaan yang go public di Bursa Efek Indonesia ". Pertanyaan penelitian (Question Research) ini adalah bagaimanakah kinerja keuangan (ER, TDTA, NPM, ATO, dan PER) sebelum dan sesudah right issue pada perusahaan yang go public di Bursa Efek Indonesia.

Tujuan Penelitian

1. Untuk menganalisis pengaruh right issue terhadap kinerja keuangan yang diukur melalui rasio likuiditas pada perusahaan yang go public.
2. Untuk menganalisis pengaruh right issue terhadap kinerja keuangan yang diukur melalui rasio leverage pada perusahaan yang go public.
3. Untuk menganalisis pengaruh right issue terhadap kinerja keuangan yang diukur melalui rasio profitabilitas pada perusahaan yang go public.
4. Untuk menganalisis pengaruh right issue terhadap kinerja keuangan yang diukur melalui rasio aktivitas pada perusahaan yang go public.
5. Untuk menganalisis pengaruh right issue terhadap kinerja keuangan yang diukur melalui rasio pasar pada perusahaan yang go public.

Manfaat penelitian:
1. Penelitian ini diharapkan mempunyai manfaat sebagai pengembangan ilmu manajemen keuangan, khususnya dalam pengukuran kinerja perusahaan yang melakukan right issue.
2. Hasil penelitian ini diharapkan dapat dijadikan sebagai referensi bagi pihak yang berkepentingan terhadap penelitian lebih lanjut tentang pengaruh sebelum dan sesudah melakukan right issue terhadap kinerja keuangan perusahaan yang go public.
3. Penelitian ini diharapkan mempunyai manfaat sebagai bahan pertimbangan pengambilan keputusan dalam menanamkan modalnya di perusahaan yang go public.

Tinjauan Pustaka

Investasi: Investment represents the current commitment of an investor’s fund (wealth) for a future period of time in order to earn a flow of funds that compensates for two factors: the time the funds are committed, and the risk involved (Jones, 1996:174). Tujuan investor adalah (Klinik Go Publik, 1994): (1) mempertahankan nilai investasinya, (2) mendapat penghasilan secara berkala baik dalam bentuk dividen maupun bunga, dan (3) mengharapkan kenaikan atas nilai investasinya. Pemilikan aktiva financial dalam rangka investasi pada sebuah institusi atau perusahaan dapat dilakukan dengan dua cara, yaitu: investasi langsung (direct investing) dan investasi tidak langsung (indirect investing). Investasi langsung diartikan sebagai suatu pemilikan surat-surat berharga secara langsung pada suatu institusi atau perusahaan yang secara resmi telah go public dengan harapan akan mendapatkan keuntungan berupa dividen dan capital gains. Sedangkan investasi tidak langsung terjadi bilamana surat-surat berharga yang dimiliki diperdagangkan kembali oleh perusahaan investasi (investment company) yang berfungsi sebagai perantara.


Kinerja Keuangan: Kinerja menjadi ukuran prestasi yang telah dicapai dalam menjalankan tugas, yang sesuai dengan kemampuan yang dimiliki. Kinerja perusahaan merupakan suatu tampilan perusahaan dalam periode tertentu. Penilaian kinerja keuangan adalah penentuan secara periodic, efektifitas operasional suatu organisasi, bagan organisasi, karyawan berdasarkan sasaran, standar dan kriteria yang ditetapkan sebelumnya (Mulyadi, 1997). Kinerja keuangan perusahaan adalah suatu tampilan atau keadaan keuangan perusahaan selama periode waktu tertentu. Kinerja keuangan merupakan gambaran dari kinerja sebuah perusahaan, informasi posisi keuangan dan kinerja perusahaan di masa lalu sering kali digunakan sebagai dasar untuk memprediksi posisi keuangan dan kinerja di masa depan. Sehingga...
informasi tersebut dapat digunakan investor untuk memperoleh perkiraan tentang laba dan dividen di masa mendatang dan risiko atas penilaian tersebut, serta dapat digunakan sebagai alat ukur pertumbuhan kekayaan pemegang saham (investor).


**Kerangka Pemikiran**

**Gambar 2.1 Kerangka Pemikiran**

![Diagram Kerangka Pemikiran]

**Pengumuman Right Issue**

- Kinerja Keuangan:
  - Rasio Leverage / Total debt to total asset
  - Rasio Profitabilitas / Net Profit Margin
  - Rasio Pasar / Price Earning Ratio
  - Rasio Aktivitas / ATO

**Sebelum Right Issue**

**Analisis**

- perbedaan kinerja keuangan sebelum dan

**Sesudah Right Issue**

**Hipotesis:** Berdasarkan telaah literature dan kerangka pemikiran teoritis di atas, maka hipotesis dalam studi ini adalah: “Terdapat perbedaan kinerja keuangan perusahaan (TDTA, NPM, ATO, dan PER) yang signifikan sebelum dan sesudah melakukan right issue”.

**Metode Penelitian**

**Jenis Penelitian:** Penelitian ini merupakan jenis event study (studi peristiwa) yaitu studi yang menganalisis reaksi pasar terhadap suatu peristiwa yang informasinya diumumkan kepada public.

**Populasi dan Sampel:** Populasi adalah semua individu atau unit-unit yang menjadi obyek penelitian (Zaenal Mustofa, 1992). Populasi dalam penelitian ini adalah seluruh perusahaan yang go public di BEI
dan melakukan right issue. Sampel adalah sebagian individu atau unit-unit yang diambil dari populasi. Teknik pengambilan sampel adalah "purposive sampling" yaitu teknik pengambilan sampel dimana pertimbangan perorangan / peneliti memegang peranan bahkan menentukan di dalam pengambilan objek untuk diteliti (Sudijono, 1986). Dalam penelitian ini kriteria yang digunakan untuk sampel ini adalah:

- Perusahaan melakukan right issue antara tahun 2008 sampai dengan tahun 2011.
- Emieten tergabung dalam industry sector keuangan sub sector bank
- Perusahaan yang melakukan right issue minimal telah melakukan penawaran perdana (initial public offering) dalam jangka waktu dua tahun sebelumnya.
- Perusahaan yang melakukan right issue lebih dari satu kali harus mempunyai jangka waktu antar right issue minimal selama tiga tahun. Hal ini untuk melihat pengaruh dari kegiatan right issue dalam jangka waktu dua tahun, dimana perusahaan yang digunakan adalah perusahaan yang pada tahun pertama melakukan Right Issue.
- Data penerbitan laporan keuangan tersedia selama lima tahun berturut-turut mulai dari dua tahun sebelum sampai dua tahun sesudah kegiatan right issue.
- Pengecualian untuk perusahaan perbankan dan lembaga pembiayaan, karena perusahaan jenis ini terdapat regulasi yang kuat mengenai permodalan sehingga biasanya mempunyai Leverage yang tinggi.


Definisi Operasional dan Pengukuran Variabel: Variabel penelitian adalah rasio keuangan yang digunakan untuk mengukur kinerja keuangan sebagaimana Tabel 3.1.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Konsep</th>
<th>Rumus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rasio Leverage</td>
<td>Total debt to total asset tiap tahun</td>
<td>Total debt to total asset = Total kewajiban \total asset</td>
</tr>
<tr>
<td>Rasio Profitabilitas</td>
<td>Net Profit Margin tiap tahun</td>
<td>Net Profit Margin = \Laba setelah pajak \penjualan bersih</td>
</tr>
<tr>
<td>Rasio Aktivitas</td>
<td>\ATO tiap tahun</td>
<td>\ATO = \Penjualan bersih \total aktiva</td>
</tr>
<tr>
<td>Rasio Pasar</td>
<td>\PER tiap tahun</td>
<td>\PER = \Harga saham \laba bersih</td>
</tr>
<tr>
<td>Periode Pengumuman / Hari Kejadian</td>
<td>Tanggal Pengumuman</td>
<td></td>
</tr>
</tbody>
</table>

Teknik Analisis Data: Teknik analisis yang digunakan berupa rasio-rasio keuangan dan untuk pengujian hipotesis digunakan uji Wilcoxon Signed Rank Test. Alat statistic yang digunakan merupakan statistic non-parametrik karena jumlah data kurang dari 30 (sample hanya 11 perusahaan).

Rasio Keuangan
Leverage: Rasio hutang yang nilainya merupakan hasil perbandingan antara total hutang dengan total asset, dengan formula sebagai berikut:

\[ \text{Total debt to total asset} = \frac{\text{Total kewajiban}}{\text{total asset}} \]

Net Profit Margin: Rasio profitabilitas yang nilainya merupakan hasil perbandingan antara laba bersih dengan penjualan, dengan formula sebagai berikut:

\[ \text{Net Profit Margin} = \frac{\text{Laba setelah pajak}}{\text{penjualan bersih}} \]

Asset Turn Over: Rasio aktivitas yang nilainya merupakan hasil perbandingan antara penjualan dengan total asset, dengan formula sebagai berikut:

\[ \text{ATO} = \frac{\text{Penjualan bersih}}{\text{total aktiva}} \]

Price Earning Ratio: Rasio penilaian investor terhadap EPS yang nilainya merupakan hasil perbandingan antara harga saham dengan EPS dengan formula sebagai berikut:

\[ \text{PER} = \frac{\text{Harga saham}}{\text{laba bersih}} \]

Uji Wilcoxon Signed Rank Test: Merupakan alat uji statistik non parametrik, digunakan untuk mengetahui apakah ada perbedaan antara rasio-rasio keuangan sebelum dan sesudah right issue dengan asumsi data tidak berdistribusi normal (jumlah data kecil yaitu 11). Langkah-langkah pengambilan keputusan menerima atau menolak hipotesis sebagai berikut:

\[ H_0: \text{tidak ada perbedaan kinerja keuangan yang signifikan (total debt to total asset-TDTA, net profit margin-NPM, Asset Turn Over-ATO, dan Price Earning Ratio-PER) sebelum dan sesudah right issue.} \]

\[ H_1: \text{ada perbedaan kinerja keuangan yang signifikan (total debt to total asset-DAR, net profit margin-NPM, ATO, dan PER) sebelum dan sesudah right issue.} \]

Kriteria Pengujian digunakan alpha 5%, maka jika tingkat signifikansi (asymptotic significance) > 0,05 (5%) maka \( H_0 \) diterima dan \( H_1 \) ditolak, dan jika tingkat signifikansi (asymptotic significance) < 0,05 (5%) maka \( H_0 \) ditolak \( H_1 \) diterima.

Hasil Penelitian dan Pembahasan


<table>
<thead>
<tr>
<th>NOMER</th>
<th>EMITEN</th>
<th>TAHUN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BANK ARTHA GRAHA INTERNASIONAL Tbk (INPC)</td>
<td>2008</td>
</tr>
<tr>
<td>2</td>
<td>BANK AGRONIAGA Tbk (AGRO)</td>
<td>2009</td>
</tr>
<tr>
<td>3</td>
<td>BANK CAPITAL INDONESIA Tbk (BACA)</td>
<td>2009</td>
</tr>
<tr>
<td>4</td>
<td>BANK CIMB NIAGA Tbk (BNGA)</td>
<td>2010</td>
</tr>
<tr>
<td>5</td>
<td>BANK TABUNGAN PENSUAN NASIONAL Tbk (BTPN)</td>
<td>2010</td>
</tr>
<tr>
<td>6</td>
<td>BANK NEGARA INDONESIA Tbk (BBNI)</td>
<td>2010</td>
</tr>
<tr>
<td>7</td>
<td>BANK PERMATA Tbk (BNLI)</td>
<td>2010</td>
</tr>
<tr>
<td>8</td>
<td>BANK MAYAPADA INTERNASIONAL Tbk (MAYA)</td>
<td>2010</td>
</tr>
<tr>
<td>9</td>
<td>BANK NISANTARA PARAHYANGAN Tbk (BBNP)</td>
<td>2010</td>
</tr>
<tr>
<td>10</td>
<td>BANK WINDU KENTJANA INTERNATIONAL Tbk (MCOR)</td>
<td>2010</td>
</tr>
<tr>
<td>11</td>
<td>BANK MANDIRI (PERSERO) Tbk (BMRI)</td>
<td>2011</td>
</tr>
</tbody>
</table>

Sumber: Bursa Efek Indonesia (IDX)
Deskripsi Variabel Penelitian

**Rasio Leverage**: Rasio ini mencerminkan struktur modal perusahaan. Dari total asset yang dimiliki perusahaan, berapa persen didanai dari hutang. Dari 11 perusahaan Bank yang dijadikan obyek penelitian rasio leverage sebagaimana tabel 4.2.

**Tabel 4.2: Rasio Leverage (DAR)**

<table>
<thead>
<tr>
<th>NOMOR</th>
<th>KETERANGAN</th>
<th>DAR (rata-rata)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sebelum right issue</td>
<td>0.903</td>
</tr>
<tr>
<td>2</td>
<td>Setelah right issue</td>
<td>0.890</td>
</tr>
<tr>
<td>Perubahan</td>
<td></td>
<td>-1.36%</td>
</tr>
</tbody>
</table>

Sumber: data IDX yang diolah

Berdasarkan data rasio leverage pada tabel 4.2, secara rata-rata komposisi hutang perusahaan sebelum dan sesudah right issue menurun sebesar 1,36%, oleh karena itu dapat dikatakan tidak mengalami banyak perubahan.

**Net Profit Margin**: Rasio ini mencerminkan efisiensi sekaligus tingkat keuntungan, dari nilai penjualan yang berhasil diperoleh berapa persen dapat ditransfer menjadi keuntungan. Semakin tinggi rasionya berarti semakin tinggi tingkat keuntungan sekaligus semakin efisien, dan semakin rendah keuntungan dan efisiensinya. Dari 11 perusahaan Bank yang dijadikan obyek penelitian net profit margin sebagaimana tabel 4.3.

**Tabel 4.3: Net Profit Margin (NPM)**

<table>
<thead>
<tr>
<th>NOMOR</th>
<th>KETERANGAN</th>
<th>NPM (rata-rata) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sebelum right issue</td>
<td>8.96</td>
</tr>
<tr>
<td>2</td>
<td>Setelah right issue</td>
<td>16.44</td>
</tr>
<tr>
<td>Perubahan</td>
<td></td>
<td>83.43</td>
</tr>
</tbody>
</table>

Sumber: data IDX yang diolah

Berdasarkan data net profit margin pada tabel 4.3, secara rata-rata Net Profit Margin perusahaan sebelum dan sesudah right issue meningkat sebesar 83,43% oleh karena itu dapat dikatakan profitabilitas perusahaan meningkat cukup besar.

**Price Earning Ratio (PER)**: Rasio ini mencerminkan seberapa besar investor menghargai keuntungan per lembar saham perusahaan. Rasio ini juga disebut sebagai rasio pasar karena dalam perhitungannya menggunakan harga pasar saham di Bursa. Semakin tinggi PER semakin tinggi investor menghargai setiap rupiah keuntungan per lembar saham, semakin mahal dan begitu semakin murah. Dari 11 perusahaan Bank yang dijadikan obyek penelitian Price Earning Ratio sebagaimana tabel 4.4.

**Tabel 4.4: Price Earning Ratio (PER)**

<table>
<thead>
<tr>
<th>NOMOR</th>
<th>KETERANGAN</th>
<th>PER (rata-rata)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sebelum right issue</td>
<td>65.02</td>
</tr>
<tr>
<td>2</td>
<td>Setelah right issue</td>
<td>14.78</td>
</tr>
<tr>
<td>Perubahan</td>
<td></td>
<td>-77.27%</td>
</tr>
</tbody>
</table>

Sumber: data IDX yang diolah

Berdasarkan data net profit margin pada tabel 4.4, secara rata-rata price earning Ratio perusahaan sebelum dan sesudah right issue menurun sebesar 77,27% oleh karena itu dapat dikatakan Price Earning Ratio perusahaan menurun cukup besar.

**Asset Turn Over (ATO)**: Rasio ini mencerminkan seberapa besar aktivitas perusahaan yang ditunjukkan oleh persentase nilai penjualan terhadap total asset. Semakin tinggi rasio semakin tinggi pemanfaatan asset perusahaan yang diwujudkan dalam nilai penjualan, dan semakin rendah pemanfaatan asset. Dari 11 perusahaan Bank yang dijadikan obyek penelitian Price Earning Ratio sebagaimana tabel 4.5.
Berdasarkan data Asset Turn Over pada tabel 4.5, secara rasionya sebelum dan sesudah right issue menurun sebesar 9,73% oleh karena itu dapat dikatakan Asset Turn Over perusahaan menurun meskipun tidak besar.

Hasil Penelitian


<table>
<thead>
<tr>
<th>KETERANGAN</th>
<th>DAR-before</th>
<th>DAR-after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-1,207</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig</td>
<td>0,227</td>
<td></td>
</tr>
<tr>
<td>Sumber: data yang diolah</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Berdasarkan angka dalam tabel 4.6, nilai Asymp. Sig. 0,227 adalah melebihi alpha 5%, maka hipotesis yang diajukan ditolak. Tidak ada perbedaan kinerja keuangan yang signifikan dalam hal ini dilihat dari Debt Asset Ratio sebelum dan sesudah right issue. Disimpulkan bahwa right issue tidak berpengaruh pada kinerja keuangan dari aspek Debt Asset Ratio.

Pengaruh Right Issue Terhadap Kinerja Keuangan (Net Profit Margin/NPM): Hipotesis yang diajukan bahwa terdapat perbedaan yang signifikan antara Net Profit Margin (NPM) sebelum dan sesudah right issue. Hasil pengolahan data secara statistic dengan metode Uji Wilcoxon Signed Rank Test dapat dirangkum sebagaimana Tabel 4.7.

<table>
<thead>
<tr>
<th>KETERANGAN</th>
<th>NPM-before</th>
<th>NPM-after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-2,667</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig</td>
<td>0,008</td>
<td></td>
</tr>
<tr>
<td>Sumber: data yang diolah</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Berdasarkan angka dalam tabel 4.7, nilai Asymp. Sig. 0,008 adalah kurang dari alpha 5%, maka hipotesis yang diajukan diterima. Ada perbedaan kinerja keuangan yang signifikan dalam hal ini dilihat dari Net Profit Margin sebelum dan sesudah right issue. Disimpulkan bahwa right issue berpengaruh pada kinerja keuangan dari aspek Net Profit Margin (NPM).


<table>
<thead>
<tr>
<th>KETERANGAN</th>
<th>PER-before</th>
<th>PER-after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-1,778</td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig</td>
<td>0,075</td>
<td></td>
</tr>
<tr>
<td>Sumber: data yang diolah</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Berdasarkan angka dalam tabel 4.6, nilai Asymp. Sig. 0,075 adalah lebih dari alpha 5%, maka hipotesis yang diajukan ditolak. Tidak ada perbedaan kinerja keuangan yang signifikan dalam hal ini dilihat dari Price Earning Ratio sebelum dan sesudah right issue. Akan tetapi jika digunakan alpha 10% maka hipotesis diterima, artinya terdapat penurunan harga saham dalam hal ini menggunakan proxy rasio PER. Disimpulkan bahwa right issue tidak berpengaruh pada kinerja keuangan dari aspek Price Earning Ratio (PER) pada alpha 5%, tetapi jika alpha 10% right issue berpengaruh signifikan terhadap kinerja keuangan dari aspek Price Earning Ratio (PER).

Pengaruh Right Issue Terhadap Kinerja Keuangan (Asset Turn Over/ATO): Hipotesis yang diajukan bahwa terdapat perbedaan yang signifikan antara Aset Turn Over (ATO) sebelum dan sesudah right issue. Hasil pengolahan data secara statistic dengan metode Uji Wilcoxon Signed Rank Test dapat dirangkum sebagaimana Tabel 4.7.

<table>
<thead>
<tr>
<th>KETERANGAN</th>
<th>ATO-before-ATO-after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-2.682</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Sumber: data yang diolah

Berdasarkan angka dalam tabel 4.6, nilai Asymp. Sig. 0,007 adalah kurang dari alpha 5%, maka hipotesis yang diajukan diterima. Ada perbedaan kinerja keuangan yang signifikan dalam hal ini dilihat dari Asset Turn Over sebelum dan sesudah right issue. Disimpulkan bahwa right issue berpengaruh pada kinerja keuangan dari aspek Asset Turn Over (ATO).

Pembahasan


Kesimpulan Dan Saran

Kesimpulan
1. Dari empat hipotesis penelitian, dua hipotesis diterima sedangkan lainnya ditolak, yaitu pengaruh right issue terhadap kinerja keuangan dalam hal ini Net Profit Margin (NPM) diterima, dan pengaruh right issue terhadap aktivitas perusahaan dalam hal ini Asset Turn Over (ATO) juga diterima.
2. Dua hipotesis yang ditolak; pertama pengaruh right issue terhadap kinerja keuangan dalam aspek Debt Asset Ratio (DAR) dan kedua pengaruh right issue terhadap kinerja keuangan dalam aspek Price Earning Ratio (PER).

Saran
1. Untuk mengkonfirmasi hasil penelitian ini silahkan ditambah periode jendela, bisa 3 atau 4 sebelum right issue dan 3 atau 4 setelah right issue, dikarenakan efek penggunaan dana hasil right issue untuk investasi jangka panjang lebih memungkinkan hasilnya akan tampak setelah 3 atau 4 tahun.
2. Untuk mengkonfirmasi hasil penelitian ini silah dicoba obyek sampel penelitian lain diluar sektor perbankan. Dikarenakan corporate action berupa right issue tidak hanya dimonopoli oleh sektor perbankan, sektor-sektor lain seperti manufaktur, food and beverage, infrastruktur juga melakukan right issue.

Daftar Pustaka
Causality Between Female Fertility and Female Labour Force Participation in ASEAN-5

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Abstract: Researches on whether female fertility determines labour force participation or vice versa have reached mixed results. A high participation of females in the labour market can reduce fertility, conversely, high female fertility can also reduce female participation in the labour market. As such, this paper sets out to answer the question of “What causes what?” Having established the existence of cointegration for individual ASEAN-5 countries using time-series data and also for a panel of ASEAN-5 countries, we found the presence of bidirectional causality between female fertility and female labour force participation. We therefore conclude that for the ASEAN-5 countries, any policies undertaken to increase female fertility will have profound impact on female labour force participation rate.

1. Introduction

The question of whether female fertility determines labour force participation or vice versa has produced mixed results. A high participation of females in the labour market can reduce fertility. Conversely, high female fertility can also reduce female participation in the labour market. As such, this paper sets out to answer the question of “What causes what?” Easterlin’s theory stressed that fertility has a positive relationship with relative income of a couple. This theory focuses on two main aspects. First, it focuses on the effect of birth rates on the relative number of young adults to older adults and second, the effect of this relative number on earnings and unemployment. Alternatively, the New Home Economics theory proposed that raising children are considered as a time intensive occupation, and this in turn will increase the value of time for females (educated female), thus exerting a negative effect on fertility. This model thus establishes a link between the decisions taken on fertility and those concerning the other activities of the household, such as labour force participation and consumption.

Figure 1 below shows that female fertility is steadily declining for all ASEAN-5 countries with the exception for Singapore for the period 1980-2012. Singapore somewhat displayed an episode of increasing female fertility from 1.621 (1987) to 1.956 (1988). Overall, female labour force participation displays an increasing trend for all ASEAN-5 countries (Figure 2).

Figure 1: Female Fertility Rate in ASEAN-5, 1980-2012


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Mahdavi (1990) proposed that an increase in the female labour force participation rate can cause a decline in fertility for industrialized countries. Narayan (2006) for example showed that female labour force participation rate is negatively related to female fertility for Taiwan for the period from 1966 to 2001. The same relationship was observed by Namchul and Ji-Sun (2008) and also Chun and Oh (2002) for the case of Korea. Ahn and Mira (2002) also highlighted the negative effects of female labour force participation rate on growth of fertility rate in the case of the Organization of Economic Cooperation and Development (OECD) countries. The female labour force participation rate is also found to be negatively related to the fertility rate in the case of Canada (McNown and Ridao-Cano, 2004). Beguy (2009) further noted that an increase in women employment reduces female fertility in the case of Lome, while for Dakar a positive relationship was observed between women employment and fertility rate. An inverse relationship between female fertility and female labour force participation was also found by Bloom et al. (2009) for an unbalanced five year panel covering the period from 1960 to 2000 for 97 countries. Conversely, Cheng (1996b) argued that the female labour force participation does not affect the probability of fertility rate in the case of the United States (US). Even though an inverse relationship is observed for many countries between female fertility and female labour force participation, Del Boca (2002) found that low labor market participation rates of married women accompanied low birth rates for Italy, as well as in other Southern European countries.

Furuoka’s (2012) findings indicated that there is no causal relationship between female fertility and female labour force participation for a panel of ASEAN-5 countries, except that the number of children is a cause of change in female labour force participation in ASEAN-5 countries in the long run. Mishra et al. (2010) found a long-run Granger causality runs from total fertility rate to female labour force participation rate and that a 1 percent increase in total fertility rate results in a 0.4 percent decrease in female labour force participation rate for apanel of G7 countries. Cheng et al. (1997) found that for Japan, the causality runs from female fertility to female labour force participation, where women’s employment do not hinder or reduce the probability of having more children, but having small children at home can discourage women from seeking employment outside. Salamaliki et al. (2013) established a bidirectional indirect causality between female labor supply and fertility. Narayan and Smyth (2006) found that in the short run, there is unidirectional Granger causality running from fertility rate to female labour force participation while in the long run the fertility rate Granger cause female labour participation. Lau et.al (2014), and observed a unidirectional causality between female labour force participation and fertility for the US, whereby female labour force participation Granger causes fertility. Nor Aznin et al. (2014) also noted from their panel causality tests, the existence of uni-directional long-run causality from fertility to female labour force participation for 6ASEAN countries, namely Malaysia, Singapore, Philippines, Indonesia, Thailand and Vietnam.

Given the empirical literature above, this paper, first, investigates the direction of relationship between female fertility and female labour force participation for the ASEAN-5 countries using time series and
panel data sets. Second, the paper ascertains the speed of adjustment of those two variables during shocks. Finally, the paper identifies the direction of causality between female fertility and female labour force participation for ASEAN-5 using panel data sets. The paper is thus organized as follows. The second section will elaborate on the empirical strategy used in this study. The third section will focus on the results and discussion while the final section concludes.

**Empirical Strategy:** Time data series are collected for 5 ASEAN countries, namely Malaysia, Singapore, Thailand, Indonesia and the Philippines. The data for the two main variables used in this analysis, female fertility rate (FR) and female labour force participation rate (FLFPR) covering the period of 1980 to 2012, are obtained from the World Development Indicators (CD-ROM, 2014). We follow the empirical model developed by Mishra and Smyth (2010), which looked at the causality between FLFPR and FR for OECD countries. The bilateral estimate for this study is specified as follows.

\[
\begin{align*}
\ln FLFPR_{it} &= a_0 + a_1 \ln FR_{it} + \varepsilon_t \\
\ln FR_{it} &= \beta_0 + \beta_1 \ln FLFPR_{it} + \mu_t
\end{align*}
\]

where, \(\ln FLFPR\) and \(\ln FR\) represent the logarithm form of female labour force participation rate and female fertility rate for ASEAN-5, respectively. Before proceeding with the panel cointegration and causality tests, we employ two panel unit root test, Im et al. (IPS, 2003) and Breitung (2000) tests to check the stationarity properties of the variance. The IPS statistics is asymptotically \(N(0, 1)\), as \(T\) and \(N\) goes to infinity. This test is meant to test whether the null hypothesis for each series in the panel has unit root for all cross sectional units against the alternative test that at least one of the series is stationary. To confirm the stability of panel stationarity test, we also employ the Breitung unit test, where this method requires specification of numbers of lags in each cross-section panel augmented Dickey-Fuller (ADF) regression.

Once panel unit root tests are performed and the order of the integration is determined, we proceeded to the second stage that is to identify the existence of cointegrating relationships between the variables used in the analysis. We used the Larson et al. (2001) approach to determine the linkages between FLFPR and FR for ASEAN-5. Larsson et al. (2001) present a maximum-likelihood based panel test for the cointegrating rank in heterogeneous panels by following the heterogeneous VAR(\(k\)) model as follows:

\[
Y_{it} = \sum_{k=1}^{k_i} H_{ik}Y_{it-k} + \varepsilon_{it}
\]

Where, \(i=1, 2, \ldots, N\). Each panel groups represent \(Y_{i-k+1}, \ldots, Y_{i}\) and it’s considered as fixed, while the error term \((\varepsilon_{it})\) is independently identically distributed. Larsson et al. (2001) cointegration rank hypothesis of null hypothesis is \(H(\gamma): \text{rank}(\Pi) \leq \gamma\) and alternative hypothesis represent as \(H(\gamma): \text{rank}(\Pi) = p\). In terms of identifying the significance stages, we will use Larsson’s et al. (2001) critical values based on the rank \((\gamma)\), expected value \(E(Z_k)\) and the variance \(\text{VAR}(Z_k)\). The standardize Larsson et al (2001) cointegration statistic which can be defined as \(\overline{Z}\)-statistic can be defined as follow:

\[
\gamma_{\overline{Z}} = \frac{\sqrt{N} \{ \overline{Z} \} \{ H(\gamma) \} \{ H(\gamma) \} - E(Z_k) \}}{\text{Var}(Z_k)\overline{Z}}
\]

We also adopt the Dynamic Ordinary Least Square (DOLS) proposed by Kao and Chiang (2000) to identify the long-run cointegration relationship. The DOLS technique provides a consistent estimate of standard errors that can be used for inference with normal limiting properties. When, FLFPRs the dependent variable, \(i=1, 2, \ldots, T\); the panel DOLS estimator can be rewritten as:

\[
\beta_{DOLS} = \left( \sum_{i=1}^{N} \sum_{t=1}^{T} \ln FLFPR_{it} \ln FLFPR'_{it} \right)^{-1} \left( \sum_{i=1}^{N} \sum_{t=1}^{T} \ln FLFPR_{it} \ln FR'_{it} \right)
\]
Basically, the DOLS estimators do not give efficient estimates in the presence of unique order of integration of the variables. To solve this problem, the Fully Modified Ordinary Least Square (FMOLS) method developed by Pedroni (2001) is applied to calculate the values of long-run estimates. The FMOLS technique generates consistent estimates in small samples and does not suffer from large size distortions in the presence of endogeneity and heterogeneous dynamics. To determine the long- and short-run dynamics along with the error correction term, we employ Pesaran et al. (1999) or known as Pooled Mean Group (PMG) estimates. The following equation represents the PMG estimates:

\[
\ln FLFPR_{it} = \sum_{k=1}^{p} \beta_{ik} \ln FLFPR_{i,t-k} + \sum_{k=1}^{q} \delta_{ik} \ln FR_{i,t-k} + \mu_i + \varepsilon_{it}
\]  

(6)

According to the Pesaran et al. (1999), when we use PMG estimates, we need to assume that the disturbance terms will independently distribute over the groups and the mean value equal to zero, while the variance is above than zero \((\sigma^2 > 0)\). Using the PMG estimates we are able to determine the speed of adjustment, which indicates the variables archive to the long-run equilibrium from short-run disequilibrium conditions. From equation (7), \(ect_{t-1}\) are the error correction term and the \(y_{i1}\) represent the coefficient measuring the speed of adjustment and it must be significant with negative sign. The fixed effects error term represented by \(\mu_i\) and \(\varepsilon_{it}\) indicate the panel error term. Thus, there exists a PMG with error correction term that can be formulated as follows

\[
\ln FLFPR_{it} = \alpha_1 + \sum_{k=1}^{n-1} \beta_{ik} \Delta \ln FLFPR_{i,t-k} + \sum_{k=0}^{n-1} \delta_{ik} \Delta \ln FR_{i,t-k} + \mu_i + \varepsilon_{it}
\]  

(7)

To test the Granger causality effects, we employ the panel causality test developed by Dumitrescu and Hurlin (2012), known as DH Granger causality test. The DH Granger causality test is a simplified version of the Granger (1969) non-causality test for heterogeneous panel data models with fixed coefficients. Under the null hypothesis of non-causality, each individual Wald statistic converges to chi-squared distribution with degree of freedom. The standardized test statistics \(Z^{HNC}_{N,T}\) for \(T, N \to \infty\) is as follows

\[
Z^{HNC}_{N,T} = \frac{N}{2M} (W^{HNC}_{N,T} - M) \to N(0,1)
\]  

(8)

2. Results and Discussion

Table 1 displays the results for the panel unit root test using two methods, the IPS and Breitung tests. The results reveal that the null hypothesis of unit roots for the panel data of the female fertility and female labour force participation cannot be rejected in levels, while in first differences this hypothesis is rejected. These results indicate that both the variables under study are non-stationary in level, but emerged stationary in first differences.

<table>
<thead>
<tr>
<th>Table 1: Panel Unit Root Tests</th>
</tr>
</thead>
<tbody>
<tr>
<td>At level</td>
</tr>
<tr>
<td>lnFR</td>
</tr>
<tr>
<td>lnFLFPR</td>
</tr>
<tr>
<td>At first difference</td>
</tr>
<tr>
<td>lnFR</td>
</tr>
<tr>
<td>lnFLFPR</td>
</tr>
<tr>
<td>(t)</td>
</tr>
<tr>
<td>IPS</td>
</tr>
<tr>
<td>-0.368 (0.356)</td>
</tr>
<tr>
<td>-2.100** (0.017)</td>
</tr>
<tr>
<td>-2.592* (0.004)</td>
</tr>
<tr>
<td>-5.749* (0.000)</td>
</tr>
<tr>
<td>Breitung</td>
</tr>
<tr>
<td>1.417 (0.921)</td>
</tr>
<tr>
<td>-1.217 (0.111)</td>
</tr>
<tr>
<td>-7.885* (0.000)</td>
</tr>
<tr>
<td>-4.989* (0.000)</td>
</tr>
</tbody>
</table>

Note: * and ** significant at 1% and 5% levels respectively. The optimal lag, based on AIC and p-values, are in parentheses.

Table 2 shows the results of panel cointegration test using two methods namely Johansen Fisher cointegration (for individual countries) and also Larsson et al. (2001) heterogeneous panel
cointegration (for panel of five countries). The results reveal that there are two cointegrating relations for Indonesia at 5% level of significance while for remaining ASEAN countries namely Malaysia, Philippines, Singapore and Thailand there are only one cointegrating relation at 5% level of significance.

The results of Larsson et al. (2001) heterogeneous panel cointegration test reveals that there is a long-run relationship between the those variables over the sample period because the panel likelihood ratio is 16.392 which has exceeded the critical value of 12.53 at 5% level of significance. As such, we reject the null hypothesis of no cointegration at panel level. Based on the likelihood based panel cointegration test we can thus conclude that both female fertility and female labour force participation are cointegrated for ASEAN-5 countries.

Table 3 below shows the results from both DOLS and FMOLS methods. When FR is used as the dependent variable, for all countries, the FLFPR is found to be significant. For all ASEAN-5 countries, with the exception for Thailand, a negative relationship can be observed, which concurs with the theory and also findings from many other researchers. On the other hand, when FLFPR is used as the dependent variable, a negative relationship can be observed for all ASEAN-5 countries, except for Thailand. However, for Thailand, using both DOLS and FMOLS methods, we found that female fertility is not significant. Subsequently, panel DOLS and panel FMOLS were constructed, and we found that a negative relationship can be observed for the panel dataset.

<table>
<thead>
<tr>
<th>Country</th>
<th>Johansen Fisher cointegration</th>
<th>Rank (k)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>r=0</td>
<td>r≤1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>34.963*</td>
<td>11.145*</td>
</tr>
<tr>
<td>Malaysia</td>
<td>28.499*</td>
<td>0.162</td>
</tr>
<tr>
<td>Philippines</td>
<td>19.805*</td>
<td>0.056</td>
</tr>
<tr>
<td>Singapore</td>
<td>15.574*</td>
<td>0.658</td>
</tr>
<tr>
<td>Thailand</td>
<td>50.534*</td>
<td>9.500</td>
</tr>
<tr>
<td>Panel/ Fisher</td>
<td>71.83*</td>
<td>29.46*</td>
</tr>
</tbody>
</table>

Larsson et al. heterogeneous panel cointegration

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank (k)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>r=0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>19.897*</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15.443*</td>
</tr>
<tr>
<td>Philippines</td>
<td>9.453</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.537</td>
</tr>
<tr>
<td>Thailand</td>
<td>30.627*</td>
</tr>
</tbody>
</table>

Table 2: Cointegration Test Results

<table>
<thead>
<tr>
<th>Country</th>
<th>Johansen Fisher cointegration</th>
<th>Rank (k)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>E(Z)</td>
<td>Var(Z)</td>
</tr>
<tr>
<td></td>
<td>6.086</td>
<td>1.137</td>
</tr>
<tr>
<td></td>
<td>10.535</td>
<td>2.212</td>
</tr>
<tr>
<td></td>
<td>16.392*</td>
<td>6.287</td>
</tr>
<tr>
<td></td>
<td>12.53</td>
<td>3.84</td>
</tr>
</tbody>
</table>

Note: * denote statistically significant at 5%. Critical value based on Larsson’s et al. (2001)

Table 4 displays the results for the estimation of PMG for long-run and short-run coefficients of the female fertility and female labour force participation with their respective adjustment coefficients. The cointegration is performed following Pesaran et al. (1999). For the female fertility equation, the adjustment coefficient produced the expected sign and is significant at the 1 percent level. For the female labour force participation equation, the coefficient of adjustment has the expected sign but is only significant at the 10 percent level. This result reveals that there is an adjustment dynamic from short-run to long-run equilibrium. When the long-run coefficients are considered, significant coefficients are obtained for both equations. Using the PMG for fertility equation, the coefficient obtained is -0.157, while for female labour force participation, the coefficient obtained is -0.048. The Hausman test results indicate that in both cases, restriction of homogeneity in the long-run is not rejected at the 1 percent significance level.
Table 3: DOLS and FMOLS Estimates

<table>
<thead>
<tr>
<th>Country</th>
<th>Depend variable: lnFR</th>
<th>DOLS</th>
<th>FMOLS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>t-statistics</td>
<td>Coefficient</td>
<td>t-statistics</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-0.142*</td>
<td>-4.620</td>
<td>-0.138*</td>
<td>-5.793</td>
</tr>
<tr>
<td>(0.030)</td>
<td></td>
<td></td>
<td>(0.023)</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>-0.556**</td>
<td>-2.759</td>
<td>-0.423*</td>
<td>-2.711</td>
</tr>
<tr>
<td>(0.201)</td>
<td></td>
<td></td>
<td>(0.156)</td>
<td></td>
</tr>
<tr>
<td>Phillipines</td>
<td>-0.239*</td>
<td>-2.507</td>
<td>-0.234**</td>
<td>-2.623</td>
</tr>
<tr>
<td>(0.009)</td>
<td></td>
<td></td>
<td>(0.089)</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>-0.028*</td>
<td>-2.979</td>
<td>-0.027*</td>
<td>-3.243</td>
</tr>
<tr>
<td>(0.009)</td>
<td></td>
<td></td>
<td>(0.008)</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>0.139*</td>
<td>5.370</td>
<td>0.152*</td>
<td>5.827</td>
</tr>
<tr>
<td>(0.025)</td>
<td></td>
<td></td>
<td>(0.026)</td>
<td></td>
</tr>
<tr>
<td>PanelDOLS,FMOLS</td>
<td>-0.869***</td>
<td>-1.885</td>
<td>-0.985**</td>
<td>-2.375</td>
</tr>
<tr>
<td>(0.461)</td>
<td></td>
<td></td>
<td>(0.415)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Depend variable: lnFLFPR</th>
<th>DOLS</th>
<th>FMOLS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>t-statistics</td>
<td>Coefficient</td>
<td>t-statistics</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-0.913*</td>
<td>-2.916</td>
<td>-0.830*</td>
<td>-3.443</td>
</tr>
<tr>
<td>(0.313)</td>
<td></td>
<td></td>
<td>(0.241)</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>-0.611**</td>
<td>-2.119</td>
<td>-0.978*</td>
<td>-2.872</td>
</tr>
<tr>
<td>(0.288)</td>
<td></td>
<td></td>
<td>(0.340)</td>
<td></td>
</tr>
<tr>
<td>Phillipines</td>
<td>-0.409*</td>
<td>-5.602</td>
<td>-0.511**</td>
<td>-2.312</td>
</tr>
<tr>
<td>(0.073)</td>
<td></td>
<td></td>
<td>(0.221)</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>-1.417**</td>
<td>-2.604</td>
<td>-1.440*</td>
<td>-3.420</td>
</tr>
<tr>
<td>(0.544)</td>
<td></td>
<td></td>
<td>(0.421)</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>-3.508</td>
<td>0.485</td>
<td>4.816</td>
<td>0.654</td>
</tr>
<tr>
<td>(7.221)</td>
<td></td>
<td></td>
<td>(7.363)</td>
<td></td>
</tr>
<tr>
<td>PanelDOLS,FMOLS</td>
<td>-0.204*</td>
<td>-3.626</td>
<td>-0.116**</td>
<td>-2.528</td>
</tr>
<tr>
<td>(0.056)</td>
<td></td>
<td></td>
<td>(0.046)</td>
<td></td>
</tr>
</tbody>
</table>

Note: *, ** and *** significant at 1%, 5% and 10% levels respectively. Standard errors are in parentheses.

Table 4: Heterogeneous Panel Cointegration Test

<table>
<thead>
<tr>
<th>Dependent variable: lnFR</th>
<th>MG</th>
<th>PMG</th>
<th>Dependent variable: lnFLFPR</th>
<th>MG</th>
<th>PMG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-run estimates</td>
<td></td>
<td></td>
<td>-0.106*</td>
<td>(0.020)</td>
<td>-0.048**</td>
</tr>
<tr>
<td>lnFR</td>
<td>-0.264*</td>
<td>(0.018)</td>
<td>-0.157*</td>
<td>(0.015)</td>
<td></td>
</tr>
<tr>
<td>lnFLFPR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-run estimates</td>
<td></td>
<td></td>
<td>0.159</td>
<td>(0.081)</td>
<td>0.132</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ΔlnFR</td>
<td></td>
<td></td>
<td>0.143</td>
<td>(0.146)</td>
<td>0.146</td>
</tr>
<tr>
<td>ΔlnFLFPR</td>
<td></td>
<td></td>
<td>-0.066***</td>
<td>(0.035)</td>
<td>-0.061***</td>
</tr>
<tr>
<td>ect_{-1}</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hausman test</td>
<td>0.13 [0.722]</td>
<td>0.13 [0.359]</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: *, ** and *** significant at 1%, 5% and 10% levels respectively. Standard errors and p-values are in ( ) and [], respectively.

To test for causality for panel data, we use the DH Granger causality test. Table 5 reports the results from the DH Granger causality test. This test can be used even under the conditions of cross-sectional dependence (Akbas et al., 2013). Bidirectional causality was found between female fertility and female labour force participation for ASEAN-5. This results contradicts with the findings by Furuoka (2012), where he found that there is no causal relationship between female labour force participation and total
fertility rate, except that the number of children is a cause of change in female labour force participation in ASEAN-5 countries in the long run.

Table 5: DH Granger Causality Test

<table>
<thead>
<tr>
<th>Direction of causality</th>
<th>$W_{DH}^*$</th>
<th>$Z_{DH}^*$</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>lnFR $\rightarrow$ lnFLFPR</td>
<td>4.645*</td>
<td>4.967*</td>
<td>0.000</td>
</tr>
<tr>
<td>lnFLFPR $\rightarrow$ lnFR</td>
<td>2.987*</td>
<td>2.661*</td>
<td>0.007</td>
</tr>
</tbody>
</table>

Note: * denote statistically significant level at 1%.

3. Conclusion

This paper established the existence of cointegration for individual ASEAN-5 countries using time-series data and also for ASEAN in a panel context. Further, the Granger Causality test results using panel data for ASEAN-5 countries revealed bidirectional causality between female fertility and female labour force participation. The findings of this study, though contradicts with the findings by Furuoka (2012), are considered more robust and reliable. As such, we conclude that for the ASEAN-5 countries, any policies undertaken to increase female fertility will significantly affect female labour force participation.

References


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Lee, Namchul, L and Ji-Sun, C (2008). Journal of Applied Business Research, 24, 4, 139-151


**Appendix**

Female Fertility Rate and Female Labor Force Participation Rate in ASEAN-5
Corporate Social Responsibility and Airline Performance

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Abstract: This study is conducted to find empirical evidences about the impacts of operation-related and non-operation-related CSR activities on airline industry’s specific performance measurement namely passenger load factor and passenger yield. In addition, the study tries to identify whether the airline’s business model has a moderating effect in influencing the association between CSR activities and airline’s performance. The study employs 263 observations of airlines in 46 countries from 2009-2012. Data are mainly collected from airlines’ annual reports and/or sustainability reports, while CSR value is derived from self-checklist items which are developed from KLD STATS database. This study finds, first, the negative operation-related CSR activities have a negative impact on both airline’s passenger load factor and passenger yield. Second, airlines’ involvement in the positive operation-related CSR activities may influence passenger load factor as well as providing additional passenger yield if such activities have exceeded customers’ expectation regarding the airline’s operational performance for the customer. Third, the study finds a trade-off between passenger load factor and passenger yield for airlines that have engagement in the positive non-operation-related CSR activities. Finally, the study identifies a moderating effect of airline’s business model on the relationship between positive non-operation-related CSR activities and the airline’s performance.

Keywords: Corporate Social Responsibility, Airlines, Passenger Load Factor, Passenger Yield, Business Model

1. Introduction

In the airline industry, CSR has also enjoyed a promising direction. Today, more airlines integrate the corporate sustainability agenda into their overall business strategy (Heeres, Kruijd, Montgomery, & Simmons, 2011). A report from (International Air Transport Association, 2013) mentioned that the airline is the only industry that has global environment objectives especially related to the carbon emission. The report also stated that the airline industry has a growing concern not only on the environmental issues, but also on the product quality improvement issues, the safety management issues, the employment issues and the coordination with other industries. On the other hand, the industry has been facing pressure on their performance for the recent years. The pressure has been caused by both external factors such as the recent financial crises (i.e. the 2008 global financial crisis, Eurozone’s debt crisis); the sharp increase of oil price (International Civil Aviation Organization, 2012), and the industry internal factor, especially the growing of low cost carriers in several markets and the more intense competition (International Air Transport Association, 2013). The report from IATA also indicated that for the period of 2009 until 2012, the industry had a positive trend of passenger traffic growth but the passenger yield showed an opposite direction. Such condition forces the airline companies to implement more strategic and effective decision, including its CSR activities in order to sustain their success in the market.

CSR is regarded not only as a tool to advance a company’s sustainable footprint in its activity (Kemper, Schilke, Reimann, Wang, & Brettel, 2012) but also as a strategy to compete in the market. Unfortunately, the association between CSR and corporate performance is poorly understood (Kemper, Schilke, Reimann, Wang, & Brettel, 2012), even less the studies in the airline industry are very limited and apparent needs(Lee, Seo, & Sharma, Corporate social responsibility and firm performance in airline industry: The moderating role of oil prices, 2013). Referring to firm performance classification provided by(Backx, Carney, & GedaJovic, 2002), research that try to investigate the association between CSR and firm performance commonly clarify the general performance measurement, but lack in elucidating the airline industry performance measurement. In fact, the airline industry may have certain operational indicators that may be differently influenced by company’s CSR activities. Current study tries to analyze the association between CSR activities towards the airline industry’s specific performance measurements namely passenger yield and passenger load factor. In addition, it also tries to find evidence whether the airlines’ business model i.e.a full service carrier (FSC) or a low-cost carrier (LCC), moderates the association between CSR and airline financial performance. The study is going to focus on specific performance measurement instead of general performance measurement of the airline companies as it...
provides more useful representation to capture the industry's characteristic. It also employs separated CSR measurement, i.e. operation-related and non-operation-related CSR activities, instead of aggregated CSR measurement in order to firmly explain how each CSR activities dimension affects the corporate performance (Mattingly & Berman, 2006). The examination of specific industry as suggested by Godfrey & Hatch (2007) can capture the unique aspect of the industry's social interests that really influences its performance. The next chapter reviews theoretical concepts that significantly underly the current studies including the concept of CSR measurement, corporate performance measurement and the airlines specific performance measurement. The hypotheses development is provided to conclude. The subsequent part explains research methodology, data and sampling mechanism. Thereafter, the analyses and results will be presented. A discussion and concluding part is provided as a summary of current findings and is also complemented with current study's limitation and prospective steps for further research agenda.

2. Literature Review

**CSR and Corporate Performance in Airlines Literature:** In the airline industry, empirical research of the CSR impacts on corporate performance is recognized as insufficient in contrast with the fact that the industry's more attention and commitments to the social performance. So far, the airline industry is usually included as part of hospitality industry study. (Kang, Lee, & Huh, 2010) examined the impacts of CSR activities on company performance in the hospitality industry including the airline industry. They separated the CSR activities into the positive group and the negative group. The separation is justified by some researchers who argue that people tend to weight more on the negative information than the positive one (Kang, Lee, & Huh, 2010). They found that the positive CSR activities deteriorate an airline's accounting-based performance while the negative CSR has no influence on the accounting-based performance. On the other hand, negative CSR activities have a negative impact on market-based performance, while positive CSR has no influence to the airline's market-based performance. They note that an airline should pay attention about the negative effect of CSR activities to increase their firm value. Further, in support to Friedman (1970), they asserts that CSR causes an additional cost to an airline company that may decrease firm’s short-term profitability. But their study was influenced by the fact that they used small sample sizes of US public firms.

In contrast to Kang et al, Inoue & Lee (2011) disaggregated CSR activities into five dimensions and examined the impact of each dimension to corporate performance in tourism-related industries including the airline industry. The segregation of CSR into several dimensions was conducted to follow Barney's (1991) the resource-based view which indicates that heterogeneous firm resources are an important aspect to develop firm's competitive advantages (Inoue & Lee, 2011). According to their study, CSR activities in the community dimension have a negative impact on accounting-based performance, while other dimensions fail to show significant influence. On the other hand, CSR activities in the product-related and the employee-related dimensions have a positive impact on market-based performance, while other dimensions fail to show significant influence. These results once again support the detrimental effects of CSR for short-term performance and also support enhancing effects of CSR for long-term performance of the airline industry. The latest study of Lee, Seo, & Sharma (2013) is one of a very limited number of studies that exclusively examined the association between CSR and corporate performance in the airline industry. They used five CSR dimensions as utilized by Inoue & Lee (2011) but they grouped those dimensions into two separated main activities, namely operation-related (OR) and non-operation-related (non-OR). They conclude that OR (non-OR) activities have a significant (no significant) positive impact on corporate performance. Moreover, they also note a positive (negative) moderating effect of oil prices on the relationship between OR (non-OR) CSR activities and corporate performance. Unfortunately, generalization was a concern of their study since they employed only a very limited number of US public airline firms.

**Multidimensionality of CSR:** As mentioned in the previous part, there is no generally agreed definition of CSR, given its dynamic and broad characteristics. The current development of CSR studies tends to focus on defining the dimension of CSR to explain how the issue is evolved in both academic and practice fields. Many scholars suggest that CSR studies should employ multiple (separated) dimensions instead of aggregating all CSR activities into a single dimension (Godfrey & Hatch, 2007). A single or unified dimension is recognized to be inadequate as it fails to capture a variety of preferences between stakeholders of the firm (Griffin, 2000). Carroll (1979, 1991) is known as one of the first scholars who introduced the multidimensionality of CSR activities by proposing several dimensions of corporate social performance, namely economic responsibilities, legal responsibilities, ethical responsibilities, and
discretionary responsibilities. Although Carroll’s work is recognized as a leading framework in explaining the social issues in business and management field, but it faces several weaknesses such as a possibility of misunderstanding, especially to discretionary responsibilities, overlapping nature of each domain, and incomplete assessment criteria to categorize corporate activities (Schwartz & Carroll, 2003). (Clarkson, 1995) added that the ethical responsibilities were more difficult to be defined as there are no general accepted ethical principles. (Clarkson, 1995) then introduced a CSR dimension based on the relationship of management and its stakeholders which would be more effective to analyze corporate social performance. He proposed stakeholders could be classified as primary and secondary stakeholders.

Thereafter, many scholars (e.g. Dahlsrud (2006); Inoue & Lee (2011)) follow Clarkson’s (1995) CSR dimension to examine the relationship between CSR and corporate performance. One of the well-known measurements using the Clarkson’s dimension is the Kinder, Lydenburg, Domini (KLD) data. Sharifman (1996) indicates that the data exhibits robust construct validity so researchers may confidentially use it as a measurement for corporate social performance. KLD data indicates the presence or the absence of strengths and concerns of each dimension. Several prior studies have usually subtracted the concerns score from the strength score to get a single composite score (Mattingly & Berman, 2006). Mattingly & Berman (2006) oppose this way of treatment as they argue that strengths and concerns are not necessarily co-varied and do not measure opposing sides of the underlying construct. Kang, et al. (2010) support the notion by arguing that subtracting the positive and negative impacts may be problematic due to different magnitude of the impacts. The recent study of Lee, et al. (2013) took a different approach in analyzing firm’s CSR activities. They proposed a new dimension separating CSR activities into operation-related activities and non-operation related activities. Unfortunately, Lee, et al. (2013) still subtracted the strengths (positive) and concerns (negative) impacts of each dimension.

**Airlines Performance Measurement**: Talking about corporate performance raises a subsequent debate since the corporate performance itself is a very wide concept. In particular, the corporate performance is mainly identified as financial performance and non-financial performance. Many studies have commonly employed two types of financial performance measurement, namely: accounting-based measurement to assess short-term profitability, and market-based measurement to assess market evaluation of future profitability (Gochran & Wood, 1984); McGuire, Sundgren, & Schneeweis (1988)). Non-financial performance consists of many spectrums including sales growth, productivity, cost competitiveness, market share, or other operational performances. Both aforementioned measurements, which Backx, et al (2002) refer to the general performance, are commonly appeared in the study of corporate performance including in the airline industry. However, the unique characteristic of the airline industry requires a study of corporate performance in the industry to consider several specific measurements or dimensions that are usually used to assess an airline’s performance (Backx, Carney, & Gedajlovic, 2002). Schefczyk (1993) mentioned that the specific dimensions to be captured could be in the form of financial or operational nature as long as reflecting strategic aspects of the industry.

Feng & Wang (2000) have classified airline’s performance indicators into three groups, namely factor input, product output, and consumer consumption. Some of the most important airline specific measurements are passenger yield and passenger load factor. Those measurements are particularly used to evaluate consumer consumption aspect according to Feng & Wang (2000). Passenger yield is generally measured by total passenger revenue per revenue passenger kilometer (RPK). The important of passenger yield was described by Oum, Fu, & Yu (2005) who indicated that the bankruptcy of Canadian International Airlines was caused by an inability to provide sufficient yield although it has significant productive efficiency and cost competitiveness compared to its competitors. It indicates that the ability of an airline to generate revenue is one of the most important measurements to assess the survival and success of an airline. On the other hand, passenger load factor expresses passenger-kilometers carried as a percentage of available seats per kilometer (ASK). As a part of productivity measurements, passenger load factor reflects how an airline utilizes its competitive advantage in the market (Chang & Yeh, 2001). Oum, Fu, & Yu (2005) assert that passenger load factor has a significant positive influence to the productivity of an airline.

**Hypotheses Development**: Based on the above discussions, this study takes a view that the positive operation-related (OR) CSR activities will lead to the improvement in airline’s performance as it helps an airline to have more efficient operational activities and increases the value offered by the company. On the other hand, negative OR CSR activities impair an airline’s performance as it deteriorates the value of
products offered by the company and makes the operational activities to be less efficient. Consequently, this study proposes

\( H1a \) (b): Positive (negative) OR CSR activities improve (harm) airlines’ operational indicators.

\( H1c \) (d): Positive (negative) OR CSR activities improve (harm) airlines’ financial indicators.

Although non-operation-related (non-OR) CSR activities are not directly related to an airline’s operational efficiency, according to Post, Preston, & Sachs (2002) favorable stakeholder relationships generate long-term competitive advantages to the firm. Freeman (1984) also suggests that a firm should make decisions and take some actions that may meet numerous stakeholders’ interests. More attentions toward non-OR CSR activities means better relations with stakeholder, which then provide better reputation (Brammer & Millington, 2005), customer satisfaction (Luo & Bhattacharya, 2006) and loyalty (Arikan & Guner, 2013). Those factors are expected to provide higher airline’s financial performance and to improve airline’s operational performance. Given this logic, this study offers

\( H2a \) (b): Positive (negative) NOR CSR activities improve (harm) airlines’ operational indicators.

\( H2c \) (d): Positive (negative) NOR CSR activities improve (harm) airlines’ financial indicators.

Next, Kang, Lee, & Huh (2010)suggest to utilizing key mediators for each industry such as business structure, profits driver or main stakeholder group which may influence a company’s CSR strategy. A company may choose one of the three generic strategies, namely product differentiation, cost leadership, and focus (Porter, 1980). Each strategy has its own way to provide competitive advantage in order to maximize the company’s value. But in recent year, business model is used as the unit of analysis which defines the way to create customer value in the market (Graf, 2005). In the airline industry, there are several business models such as full service carrier (FSC), low-cost carrier (LCC), charter carrier, and regional carrier. Those business models have the same output, which is to transport passengers between two destinations, but they have different value chain and value creation process (Graf, 2005). Graf (2005) also indicates that the FSC is particularly regarded to follow the product differentiation strategy by offering additional value for its passengers in compensation to relatively premium price. On the contrary, the LCC seems to achieve cost leadership by operating simple or no-frills service which allows them to have flexible pricing.

In such business strategies, stakeholders may perceive airline’s CSR activities differently. The FSC’s customers may consider positive (negative) CSR in both OR and non-OR activities as an additional (diminishing) value for them, hence increasing (decreasing) willingness to pay for a premium price, and also trigerring (deteriorating) the use the airline’s service as indicated by improving passenger load factor. Compared to the FSC model, the LCC’s customers view the cost to implement CSR activities as a burden when causing relatively higher price to be paid. The higher price is considered to place an LCC in a weak position compared to other competitors especially the FSCs. When the pricing offered by the LCC is not significantly different from the FSC’s pricing, the LCC will lose its competitive advantage then influencing its performance. Alamdari & Fagan (2007) found that there is no evidence whether an additional product offered by the LCC could lead to higher yields. Based on these arguments, this study posts

\( H3a \) (b): Airline’s business model moderates the effect of OR CSR activities on airlines’ operational (financial) performance indicators

\( H4a \) (b): Airline’s business model moderates the effect of non-OR CSR activities on airlines’ operational (financial) performance indicators.

3. Data and Methodology

Data and Analysis: This study utilizes several sources to obtain the required data. The CSR data were collected from a checklist item that is developed based on KLD STAT CSR indicators from KLD Research and Analytics. The own checklist item was utilized because of the lack of data availability for the airline industry that covers intended research sample target in major databases. The checklist mainly focuses on information provided by the airlines in their annual reports and/or sustainability reports, and does not intend to use other sources of CSR information such as mass media publications since the limited availability and the limited access to the sources. The annual reports were also utilized to obtain other important data including total passenger revenue, total passenger, total miles flown, average load factor, total asset, and the location where the airline is originated. The data of gross national product were collected from the World Bank, while the data of airline’s business strategy were obtained from the Center for Asia Pacific Aviation database. The sample period is from 2009 to 2012 and the number of
sample observation is determined by the availability of the data especially annual report of the airlines. The data are unbalanced panel with 76 sampled airlines with 276 numbers of observations which ranging from one to four observations per airline.

Model: The current study uses regression analyses to examine the effect of the CSR dimensions which are grouped into operation-related and non-operation-related CSR activities, and the airlines’ business strategy on airline specific performance measurement namely passenger yield and passenger load factor. Firm size, airline’s membership in alliance, home country’s economic condition, degree of customer awareness, and region of origin are added to control their effects on the dependent variables. Two models are used to test the hypotheses where the equation (1) examines H1 and H2, while the equation (2) examines H3 and H4. The represented models are:

\[
\text{YIELD}_{it} = b_0 + b_1 \text{PSOR}_{it-1} + b_2 \text{NGOR}_{it-1} + b_3 \text{PSNOR}_{it-1} + b_4 \text{NGNOR}_{it-1} + b_5 \text{STRAT}_{it} + b_6 \text{SIZE}_{it} + b_7 \text{ALLIANCE}_{it} + b_8 \text{GNP}_{it} + b_9 \text{ADV}_{it} + b_{10} - 12 \text{REGION}_{it} + \epsilon_{it}
\]

(1)

and,

\[
\text{YIELD}_{it} = b_0 + b_1 \text{PSOR}_{it-1} + b_2 \text{NGOR}_{it-1} + b_3 \text{PSNOR}_{it-1} + b_4 \text{NGNOR}_{it-1} + b_5 \text{STRAT}_{it} + b_6 \text{PSOR} + \text{STRAT}_{it} + b_7 \text{NGOR} + \text{STRAT}_{it} + b_8 \text{PSNOR} + \text{STRAT}_{it} + b_9 \text{NGNOR} + \text{STRAT}_{it} + b_{10} \text{SIZE}_{it} + b_{11} \text{ALLIANCE}_{it} + b_{12} \text{GNP}_{it} + b_{13} \text{ADV}_{it} + b_{14} - 16 \text{REGION}_{it} + \epsilon_{it}
\]

(2)

Variables

Main Variables: This study examines corporate performance by utilizing airline’s specific performance measurements. In particular, passenger yield (YIELD) is used as a proxy for airline’s profitability. Passenger yield measures average fare paid per kilometer, per passenger, calculated by dividing passenger revenue by revenue passenger kilometers (RPK) (American Airlines, n.d.). The measurement is recognized as one commonly used indicator of airline revenue performance (Oum, Fu, & Yu, 2005). The study also utilizes passenger load factor (LOAD) as a proxy for airline’s capacity utilization which is expressed as percentage of the number of RPK to the available seat kilometer (ASK) (American Airlines, n.d.). The load factor is a simple, standard, and fairly good industry metric of airline performance (Lazzarini (2007); Behn & Riley (1999)).

Five main independent variables are included in the model: operation-related CSR activities (PSOR and NGOR), non-operation-related CSR activities (PSNOR and NGNOR), and airline’s business strategy (STRAT). The CSR activities rating is derived from the checklist rating items which is based on KLD STATS ratings criteria from KLD Research & Analytics Inc. This study follows Lee, Seo, & Sharma (2013) that separate CSR activities into operation-related (OR) and non-operation-related (NOR). OR CSR activities include employees, product quality and safety, and corporate governance, while NOR CSR activities include the other dimensions: local community, diversity, and natural environment. This study excludes the human right dimension as the indicators mostly do not conform to the airline industry practice. Moreover, some indicators in the human right group are already represented in the other measurement dimensions. Then, both OR and NOR will be sub-classified following Lee & Park (2010) which separate the CSR into positive and negative activities. As a result, this study employs four independent variables that are derived from the checklist namely positive OR (PSOR), negative OR (NGOR), positive NOR (PSNOR), and negative NOR (NGNOR). PSOR and PSNOR (NGOR and NGNOR) are measured as a summed score of strengths (concerns) CSR ratings in six key social activities from the checklist. The checklist is developed using the same approach with the KLD STATS with scoring 1 for the observed presence of the indicator and 0 for the absence of the indicator. The OR CSR activities have the minimum (maximum) score of 0 (15) for the positive CSR activities, and the minimum (maximum) score of 0 (13) for the negative CSR activities. On the other hand, the NOR CSR activities have the minimum (maximum) score of 0 (20) for the positive CSR activities, and the minimum (maximum) score of 0 (12) for the negative CSR activities.

As the checklist procedure requires a certain degree of judgment, the procedure was conducted solely by the author to make sure the consistency in evaluating the CSR activities among samples. The checklist procedure was performed by inspecting the information about CSR activities in the annual report and/or the sustainability report of an airline company. If the information is positive, the study assumes that an airline will provide any information as long as it is valuable in elevating the airline’s reputation. In contrast, if the information is negative, the study assumes that an airline will disclose the information as...
long as it is material according to the accounting standard. In other word, this study holds an assumption
that the unavailability of the information is either the airline does not have such positive CSR activities or
the airline recognizes the concern in CSR activities is not material enough to be reported. Another main
variable is business strategy (STRAT) as a dummy to indicate whether an airline chooses to implement
the full service carrier model (FSC) or low cost carrier model (LCC). This study only chooses to include
FSC and LCC business model as two other business models (i.e. regional carrier and charter carrier) have
a concern in the availability of data. The current study employed Center for Asia Pacific Aviation (CAPA)
database to get the information about the business model of each airline.

Control Variables: This study uses six control variables: first, SIZE is used to control the impact of
different size of firms that may influence a firm’s performance. Several studies (e.g. Kemper, Schilke,
Reimann, Wang, & Brettel (2012); Lee, Seo, & Sharma (2013)) argue that in benefiting from economy of
scale, large firms may perform better than small firms so they have greater purchasing power and lower
cost. Second, the model uses ALLIANCE which is proxied as a dummy variable where 1 for an airline that
joins in an alliance membership, and 0 for an airline that does not join in an alliance membership. Iatrou
& Alamdari (2005) found that airlines have indicated whether joining an alliance has led to the increase in
carriers’ traffic; passenger load factor, and passenger revenue (yield). Third, home country’s economic
condition is included to control each country’s general economic conditions (as measured by gross
national product) effect on an airline performance for the period. As indicated by Backx, Carney, &
Gedajlovic (2002), GNP levels in carrier’s home country are related to a number of outcome variables
such as profitability and productivity. Fourth, familiarity to the airlines is measured by advertising
expense (ADV). As indicated by Servaes & Tamayo (2013) whether CSR can provide benefit to the firm
with sufficient degree of customer awareness. The last control variable is REGION which controls the
region of origin effect to the corporate performance (Backx, Carney, & Gedajlovic (2002); Francis, LaFond,
Olsson, & Schipper (2005)). The study uses the region definition according to IATA and ICAO which then
proxied as a set of dummy variables where Asia Pacific as the reference region.

4. Results and Analyses

Descriptive Analysis: The study conducts a descriptive statistics analysis to identify the characteristics
of the data set. Table 1 presents the summary of important statistics figure of the data set.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Median</th>
<th>S.D.</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Load Factor (in percent)</td>
<td>276</td>
<td>0.77</td>
<td>0.78</td>
<td>0.06</td>
<td>0.61</td>
<td>0.92</td>
</tr>
<tr>
<td>Yield/KM (in dollar)</td>
<td>276</td>
<td>0.097</td>
<td>0.092</td>
<td>0.031</td>
<td>0.044</td>
<td>0.286</td>
</tr>
<tr>
<td>ADVEXP (in $ million)</td>
<td>276</td>
<td>7.710</td>
<td>3.984</td>
<td>9.327</td>
<td>7</td>
<td>44.437</td>
</tr>
<tr>
<td>Total asset (in $ million)</td>
<td>276</td>
<td>3.962.184</td>
<td>1.000.480</td>
<td>5.623.040</td>
<td>9.606</td>
<td>16.514.500</td>
</tr>
<tr>
<td>GNP (in $ million)</td>
<td>276</td>
<td>10</td>
<td>5</td>
<td>1</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Positive Non OR</td>
<td>276</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Negative Non OR</td>
<td>276</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Positive OR</td>
<td>276</td>
<td>12</td>
<td>2</td>
<td>5</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Negative OR</td>
<td>276</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

Passenger revenue (asset) shows the mean value by US$5,372 million (US$ 7,212 million), ranging from
US$ 599 million (US$ 7 million) to US$ 36,670 million (US$ 44,437 million), indicating that the sampled
airlines are taken from both major and small airlines in term of passenger revenue. Advertising and
marketing expenditure has the range from US$ 273 thousand to US$ 44,437 million with the average of
US$ 7.212 million for an airline in a period. It can be assumed that this study also includes airlines with
various degrees of customer awareness. In addition, the study took the sample set from main economy
countries which is indicated by the average GNP by US$ 3.962.184 million (standard deviation US$ 5.623.040 million). Furthermore, the sample set includes country with the minimum GNP by US$ 9.606
million to the maximum GNP by US$ 16.514.500 million during the observation period. For the CSR
variables, average value of positive non-operation related (non-OR) CSR activities is 10 points. No airlines
without positive CSR as seen by the minimum value for positive non-OR CSR activities is one point, while
at the maximum score, the sampled airlines fulfill 18 indicators. On the other hand, the negative non-OR CSR activities has at least 1 point because all airlines generate their main income from oil, coal or derived fuel activities which is categorized as a concern in the environmental issue by the KLD. The minimum value of negative and positive OR CSR activities is 0, on this study the positive OR CSR activities variable has at least 5 points and maximum 15 points with an average value of 12 points. Negative OR CSR activities variable has, on average, 1 point of concern with a minimum (maximum) of 0 (5) points.

With regard to the dependent variables, passenger load factor of sampled airlines is, on average, 77% during the observation period with the lowest load factor was 61% and the highest load factor was 92%. In terms of yield per KM passenger airlines in the sample generated a minimum (maximum) US$ 0.044 per KM (US$ 0.286 per KM) with a mean value of US$ 0.097 per KM. Based on region of origin, 23 to 25 airlines are originated from Asia; 20 to 23 airlines are from Europe; 12 airlines are from North America; and the remaining sample airlines are from the Middle East, Africa, and South America which then grouped into other region. Table 2 shows the descriptive statistics for dependent variables based on region. On average, airlines in the North America have higher passenger load factor compared to other regions with the mean by 0.83; followed by Asia (0.77), Europe (0.76), and Other region (0.75). On the other hand, European airlines generate the highest yield per KM amounting US$ 0.111 per KM compared to Asia (US$ 0.0893 per KM); Other Region (US$ 0.0999 per KM) and North America (US$ 0.0864 per KM) as the lowest.

Additionally, from 2009 to 2012 the yield per KM for airlines in Asia, Europe, and North America tend to increase, while the other regions experience a slightly declining number. Next, Table 3 presents the descriptive statistics for dependent variables based on the airline’s business model. During the observation period, there are 54 to 57 airlines with FSC strategy and 13 to 14 airlines with LCC strategy. On average, the LCC tends to have higher passenger load factor (0.80) compared to full service carrier (0.76).

Table 3: Summary statistics of dependent variable based on region of origin

<table>
<thead>
<tr>
<th>Region</th>
<th>Asia</th>
<th>Europe</th>
<th>North America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>23</td>
<td>23</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.75</td>
<td>0.74</td>
<td>0.81</td>
<td>0.73</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0788</td>
<td>0.1086</td>
<td>0.0795</td>
<td>0.1002</td>
</tr>
<tr>
<td>N</td>
<td>24</td>
<td>22</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.78</td>
<td>0.76</td>
<td>0.83</td>
<td>0.75</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0876</td>
<td>0.1058</td>
<td>0.085</td>
<td>0.1003</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>21</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.77</td>
<td>0.76</td>
<td>0.83</td>
<td>0.76</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0946</td>
<td>0.1135</td>
<td>0.0899</td>
<td>0.1014</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>20</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.77</td>
<td>0.78</td>
<td>0.84</td>
<td>0.76</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0955</td>
<td>0.1171</td>
<td>0.0912</td>
<td>0.0974</td>
</tr>
<tr>
<td>N</td>
<td>97</td>
<td>86</td>
<td>48</td>
<td>45</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.77</td>
<td>0.76</td>
<td>0.83</td>
<td>0.75</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0893</td>
<td>0.111</td>
<td>0.0864</td>
<td>0.0999</td>
</tr>
</tbody>
</table>

Table 4: Summary statistics of dependent variables based on airline’s business model

<table>
<thead>
<tr>
<th>Business Model</th>
<th>FSC</th>
<th>LCC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>56</td>
<td>13</td>
<td>69</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.74</td>
<td>0.79</td>
<td>0.75</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.0972</td>
<td>0.0709</td>
<td>0.0923</td>
</tr>
<tr>
<td>N</td>
<td>56</td>
<td>13</td>
<td>69</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.77</td>
<td>0.81</td>
<td>0.78</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.1006</td>
<td>0.0706</td>
<td>0.095</td>
</tr>
<tr>
<td>N</td>
<td>57</td>
<td>13</td>
<td>70</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.77</td>
<td>0.81</td>
<td>0.78</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.1058</td>
<td>0.0777</td>
<td>0.1006</td>
</tr>
<tr>
<td>N</td>
<td>54</td>
<td>14</td>
<td>68</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.78</td>
<td>0.8</td>
<td>0.78</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.1039</td>
<td>0.0915</td>
<td>0.1014</td>
</tr>
<tr>
<td>N</td>
<td>223</td>
<td>53</td>
<td>276</td>
</tr>
<tr>
<td>Load Factor (%)</td>
<td>0.76</td>
<td>0.8</td>
<td>0.77</td>
</tr>
<tr>
<td>Yield/KM (in $)</td>
<td>0.1019</td>
<td>0.078</td>
<td>0.0973</td>
</tr>
</tbody>
</table>
On the other hand, the LCC have, on average, a lower passenger yield per KM (US$ 0.078 per KM), whereas the FSC have, on average, higher passenger yield per KM (US$ 0.1019 per KM).

Main Analysis: Before conducting the main analysis, residual analyses were conducted to check the multiple linear regression model assumptions, including data normality, data linearity, homoscedasticity, independence of error and multicollinearity (Gujarati, 2003). Shapiro-Wilk test was conducted to check the normality of the data; W statistics are 0.99380 (p-value = 0.35273) for the model without interaction and 0.99063 (p-value = 0.08985) for the model with interaction which is indicating that it fails to reject H0. In other word, there is no data normality assumption violation. Two other normality tests confirm the result, namely Shapiro-Francia and Kurtosis tests. According to the Breusch-Pagan results, the LOAD model has p-value of 0.9941 and the YIELD model has p-value of 0.0000. It indicates that the LOAD model does not violate heteroscedasticity assumption, but the YIELD model violates the assumption. In order to fix the violations, robust condition was conducted in running the models. The VIF examination indicates that as a whole, no severe correlations appear in the sample set as all individual VIF still far below 10 with the average total VIF is 2.36. Furthermore, the study identified whether outlier data exist in the data set. Outlier will be determined if the data have value more (less) than the mean value plus (minus) two-times the standard deviation. After inspecting and eliminating outliers, the number of observations reduced from 276 to 263.

As the number of analyzed airlines is not similar for each observation year, thus the study cannot group the data into panel data. Since several variables are invariant among firms within a given period, the fixed effect model is not appropriate for the current study (Woolridge, 2009). In addition, the study assumes that the cross-sectional units in the sample set are not random drawings which make the random effect model is not appropriate for the study (Gujarati, 2003). As the result, the inferential analysis is conducted by performing pooled regression analysis. Table 5 presents the summary of main effects from the model. Both models show overall significance at 1% α level with F-value of 16.33 and 15.4 for LOAD model and YIELD model respectively. Panel I indicates the main effects of CSR activities and airline’s business model towards airline’s passenger load factor (LOAD). Negative OR (NGOR) CSR activities show a negative and statistically significant coefficient, -0.00469 (t-value = -2.64, at the 1% α) thus it supports H1b. On the other hand, Positive OR (PSOR) CSR activities do not show a statistically significant impact towards passenger load factor thus it fails to support H1a. The regression results also present a negative and strongly significant impact of positive non-OR (PSNOR) CSR activities at the 1% significance level (t-value = -3.21) thus it fails to support H2a. The coefficient of PSNOR, -0.00287 means that one unit increase (decrease) in the positive non-operation-related CSR activities (generate), on average, 0.287% of an airline’s passenger load factor, ceteris paribus. On the contrary, the NGNOR CSR activities have an insignificant coefficient (t-value = 1.04) thus it fails to support H2b. Airline’s business model (STRAT) appears to have a negative and statistically significant impact towards airline’s passenger load factor (LOAD). It confirms that the passenger load factor of full service carrier (FSC) is statistically lower than the low cost carrier (LCC) by 3.104%.

Several control variables have significant impacts on passenger load factor. Airline’s membership in an alliance (ALLIANCE) confirms to have a negative and statistically significant impact at 10% α level (t-value = -1.74). An airline’s size (SIZE) has a positive and statistically significant impact at 1% α level (t-value = 4.17). Advertising expenditure (ADV) as the proxy for customer awareness appears to have a positive and statistically significant impact at 5% α level (t-value = 2.3). The coefficient in SIZE and ADV, 0.01369 and 0.00684 respectively, means that an increase (decrease) in total assets by 1% generates (decreases) airline’s passenger load factor of 1.36% and 0.684% of passenger load factor. Finally the region of an airline shows several results, Asia region (REG1) has a statistically insignificant different passenger load factor (t = 1.6) with Other region; Europe region (REG2) has a higher and statistically significant at 1% α level (t = 2.98) passenger load factor, on average, by 2.458% compared to Other region; and North America region (REG3) also shows higher and statistically significant at 1% α level (t = 4.89) passenger load factor, on average, by 5.366% compared to Other region. The results confirm descriptive statistics in the prior section.
Table 5: Correlation matrix between variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>LOAD</th>
<th>YIELD</th>
<th>PSOR</th>
<th>NGOR</th>
<th>PSNOR</th>
<th>NGNOR</th>
<th>STRAT</th>
<th>ALLIANCE</th>
<th>SIZE</th>
<th>ADV</th>
<th>GNP</th>
<th>REG1</th>
<th>REG2</th>
<th>REG3</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOAD</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>YIELD</td>
<td>-0.296***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSOR</td>
<td>0.0178</td>
<td>0.1030***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NGOR</td>
<td>0.0365</td>
<td>-0.0837 -0.1164*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| PSNOR    | -0.0178 | 0.2838*** | 0.0964*** | -0.174*** | 1
| NGNOR    | -0.0117 | 0.1060* | -0.0054 | 0.097 -0.1315* | 1
| STRAT    | -0.322*** | 0.4000*** | 0.0172 | 0.034 | 0.0374 0.178*** | 1
| ALLIANCE | -0.0865 | 0.7933*** | 0.0193*** | 0.0477 0.403*** | 0.0047 | 0.455*** | 1
| SIZE     | 0.1535*** | 0.1612*** | 0.0498*** | 0.0769 0.562*** | -0.014 0.1312*** | 0.461*** | 1
| ADV      | 0.1507*** | 0.2369*** | 0.3270*** | 0.194*** | 0.022*** | 0.0762 0.1906*** | 0.331*** | 0.789*** | 1
| GNP      | 0.0472*** | -0.0081 | 0.0418 0.212*** | 0.078* | -0.0314 0.172*** | 0.0102* | 0.489*** | 0.515*** | 1
| REG2     | -0.1477*** | 0.2622*** | -0.1017* | -0.0188 | -0.0825 | -0.0081 0.1954** | -0.0841 | -0.0048 | -0.072 | 0.0115 | 1
| REG2     | -0.0666 | 0.2855*** | 0.0062 | -0.0766 0.1774*** | -0.11* | 0.0438 | 0.1480** | -0.0233 | -0.106* | -0.209*** | -0.489*** | 1
| REG3     | 0.4601*** | -0.1249* | -0.1293 0.1894*** | -0.0632 | -0.0544 0.2304*** | -0.0376 0.1633*** | 0.231*** | 0.569*** | -0.373*** | -0.207*** | 1

***Significance level at 0.01 (1%); ** Significance level at 0.05 (5%); * Significance level at 0.10 (10%)

Panel II presents the main effects for the passenger yield per KM (YIELD) model. As appears in the LOAD model, NGOR shows to have a negative statistically and marginal significant coefficient (-0.00158; t-value = -1.9) thus it supports H1d. In addition, as expected by H2c, PSNOR shows a positive and statistically significant impact on passenger yield (t-value = 2.23). The coefficient, 0.00089 means that one unit increase (decrease) in the positive non-OR CSR activity generates (decreases), on average, US$ 0.00089 passenger yield per KM, given the other variables are held constant. On the contrary, both PSOR (t-value = -0.08) and NGNOR (t-value = 1.46) appear to have no significant impacts thus it fails to support H1c and H2d respectively. Supporting the result in the LOAD model, STRAT shows a positive and statistically significant impact at 1% α level of significance on passenger yield per KM (t-value = 4.74). It confirms that a full service carrier produces a higher passenger yield per KM. On average, full service airlines could generate US$ 0.01663 passenger yield per KM higher compared to low cost airlines.

Table 6: Summary of pooled regression analysis

Panel I: LOAD Model (N = 263) Panel II: LOAD Model (N = 263)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>StdError</th>
<th>t-value</th>
<th>Variables</th>
<th>Coefficient</th>
<th>StdError</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSOR</td>
<td>-0.00079</td>
<td>0.00148</td>
<td>-0.53</td>
<td>PSOR</td>
<td>-0.00004</td>
<td>0.00056</td>
<td>-0.08</td>
</tr>
<tr>
<td>NGOR</td>
<td>-0.00469</td>
<td>0.00178</td>
<td>-2.64*</td>
<td>NGOR</td>
<td>-0.00158</td>
<td>0.00083</td>
<td>-1.9***</td>
</tr>
<tr>
<td>PSNOR</td>
<td>-0.00287</td>
<td>0.00089</td>
<td>-3.21*</td>
<td>PSNOR</td>
<td>0.00089</td>
<td>0.0004</td>
<td>2.23**</td>
</tr>
<tr>
<td>NGNOR</td>
<td>0.0041</td>
<td>0.00393</td>
<td>1.04</td>
<td>NGNOR</td>
<td>0.00231</td>
<td>0.00158</td>
<td>1.46</td>
</tr>
<tr>
<td>STRAT</td>
<td>-0.03104</td>
<td>0.008</td>
<td>-3.88*</td>
<td>STRAT</td>
<td>0.01663</td>
<td>0.00351</td>
<td>4.74*</td>
</tr>
<tr>
<td>ALLIANCE</td>
<td>-0.01169</td>
<td>0.00673</td>
<td>-1.74***</td>
<td>ALLIANCE</td>
<td>0.00773</td>
<td>0.00305</td>
<td>2.54**</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.01369</td>
<td>0.00328</td>
<td>4.17*</td>
<td>SIZE</td>
<td>-0.00497</td>
<td>0.00158</td>
<td>-3.14*</td>
</tr>
<tr>
<td>ADV</td>
<td>0.00684</td>
<td>0.00298</td>
<td>2.3**</td>
<td>ADV</td>
<td>0.00545</td>
<td>0.00118</td>
<td>4.62*</td>
</tr>
<tr>
<td>GNP</td>
<td>0.00048</td>
<td>0.00213</td>
<td>0.23</td>
<td>GNP</td>
<td>-0.00014</td>
<td>0.00105</td>
<td>-0.14</td>
</tr>
<tr>
<td>REG1</td>
<td>0.01299</td>
<td>0.00812</td>
<td>1.6</td>
<td>REG1</td>
<td>-0.00584</td>
<td>0.00421</td>
<td>-1.39</td>
</tr>
<tr>
<td>REG2</td>
<td>0.02458</td>
<td>0.01097</td>
<td>2.98*</td>
<td>REG2</td>
<td>0.00999</td>
<td>0.00435</td>
<td>2.3**</td>
</tr>
<tr>
<td>REG3</td>
<td>0.05366</td>
<td>0.05669</td>
<td>4.89*</td>
<td>REG3</td>
<td>-0.00183</td>
<td>0.00524</td>
<td>-0.35</td>
</tr>
</tbody>
</table>

F-value (12, 250) | 16.33* | 15.4* |
R-squared | 0.4395 | 0.3702 |
Adj R-Squared | 0.4126 | 0.3702 |

LOAD represents load factor measured by revenue passenger kilometers (RPK)/available seat kilometers (ASK); PSOR represents positive OR CSR activities measured by checklist item; NGOR represents negative OR CSR activities measured by checklist item; PSOR represents positive non-OR CSR activities measured by checklist item; NGNOR represents negative non-OR CSR activities measured by checklist item; STRAT represents airline’s business model measured by dummy variable where 1 for FSC, and 0 for LCC; Alliance represents airline’s membership in an alliance.
Control variables that provide some significant impacts are mostly similar to the LOAD model. ALLIANCE has a statistically significant and positive impact on passenger yield (t-value = 2.54) at 5% α level. It asserts that membership in an alliance could generate US$0.0077 additional passenger yield per KM. ADV also has a positive and statistically significant impact on passenger yield (t-value = 4.62). On the contrary, an airline’s size as measured by total assets has a negative and statistically significant impact at 1% α level. At last, only the Europe region that shows has a significantly higher passenger yield per KM compared to the Other region at 5% α level. The coefficient of 0.00999 means that the airlines in Europe could produce, on average, US$ 0.00999 higher passenger yield per KM compared to the Other region.

### Table 7: Summary of regression with interaction effect results

<table>
<thead>
<tr>
<th>Variables</th>
<th>Panel I: LOAD Model (N=263)</th>
<th>Panel II: YIELD Model (N=263)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSOR</td>
<td>-0.00174 (0.00484) t-value</td>
<td>0.0008 (0.00176) t-value</td>
</tr>
<tr>
<td>NGOR</td>
<td>-0.00325 (0.00643) t-value</td>
<td>-0.00402 (0.00209) t-value</td>
</tr>
<tr>
<td>PSNOR</td>
<td>-0.00903 (0.00359) t-value</td>
<td>0.00138 (0.00125) t-value</td>
</tr>
<tr>
<td>NGNOR</td>
<td>0.00727 (0.02222) t-value</td>
<td>-0.00323 (0.00195) t-value</td>
</tr>
<tr>
<td>STRAT</td>
<td>-0.13257 (0.0309) t-value</td>
<td>0.02528 (0.01244) t-value</td>
</tr>
<tr>
<td>PSOR*STRAT</td>
<td>0.00358 (0.00516) t-value</td>
<td>-0.00111 (0.00195) t-value</td>
</tr>
<tr>
<td>NGOR*STRAT</td>
<td>-0.00457 (0.00657) t-value</td>
<td>0.00343 (0.00226) t-value</td>
</tr>
<tr>
<td>PSNOR*STRAT</td>
<td>0.00732 (0.00376) t-value</td>
<td>-0.00077 (0.00134) t-value</td>
</tr>
<tr>
<td>NGNOR*STRAT</td>
<td>0.00019 (0.0224) t-value</td>
<td>0.00485 (0.0075) t-value</td>
</tr>
<tr>
<td>ALLIANCE</td>
<td>-0.02546 (0.00601) t-value</td>
<td>0.0105 (0.00317) t-value</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.01721 (0.00363) t-value</td>
<td>-0.00599 (0.00175) t-value</td>
</tr>
<tr>
<td>ADV</td>
<td>0.00711 (0.00317) t-value</td>
<td>0.0057 (0.00133) t-value</td>
</tr>
<tr>
<td>GNP</td>
<td>-0.00057 (0.002) t-value</td>
<td>0.00004 (0.00103) t-value</td>
</tr>
<tr>
<td>REG1</td>
<td>0.01129 (0.00788) t-value</td>
<td>-0.00484 (0.00411) t-value</td>
</tr>
<tr>
<td>REG2</td>
<td>0.02844 (0.00866) t-value</td>
<td>0.01028 (0.00438) t-value</td>
</tr>
<tr>
<td>REG3</td>
<td>0.05831 (0.01137) t-value</td>
<td>-0.00258 (0.00494) t-value</td>
</tr>
</tbody>
</table>

| F-value (16, 246) | 21.02 * | F-value (16, 246) | 20.28 * |
| R-squared         | 0.5533  | R-squared         | 0.3937  |

*Significance level at 0.01 (1%); ** Significance level at 0.05 (5%); *** Significance level at 0.10 (10%)

Table 6 exhibits the results of the model with interaction for testing H3 and H4. Panel I exhibits a positive moderating effect from STRAT on the relationship between PSNOR and airline's operational performance. A positive and marginally significant coefficient (0.00732; t-value 1.95) for PSNOR*STRAT confirms H4a. On the contrary, the results fail to prove whether the interaction term of PSOR*STRAT, NGR*STRAT, and NGNOR*STRAT have moderating effects in the relationship between PSOR, NOR, and NGNOR with airline's operational performance. The insignificant coefficients are inconsistent with this study's posits, thus failing to support H3a and H3b respectively. Panel II exhibits the results of interaction model for airline's financial indicators. This study fails to prove whether the interaction between both OR CSR activities and Non-OR CSR activities with airline's business model has an impact on airline’s financial performance as measured by passenger yield.

### 5. Discussion and Conclusion

This study has main objectives to extend the prior research in CSR literature and its relation to company performance especially in the airline industry mainly the impacts of positive and negative CSR activities
that related to airline’s operational activities and non-operational activities. In addition, the study tries to examine the influence of an airline’s business model. Based on the analysis, the study has found that the negative operation-related CSR activities have a negative impact on operational and financial performance as measured by passenger load factor and passenger yield (support H1b and H2b); the positive non-operation-related CSR activities have a positive impact on financial performance (support H2c); and a positive moderating effect of airline’s business strategy towards the relationship between positive non-operation-related CSR activities and airline’s operational performance (support H4a). The negative effects of concerns in OR CSR activities towards airline’s operational and financial performance imply that the users of the service (customers) recognize airline’s noncompliance or problems in operational activities seriously. The customer may react by deciding to avoid using the airline’s service which then lowering overall passenger load factor of the airline as well as lowering the price that they want to spend for the airline’s service. The concern issues in an airline may also be seen by customers as a concern in the airline’s sustainability or ability to provide services. It may improve the finding of Kang, Lee, & Huh (2010) who found the existence of a negative but insignificant impact of negative CSR activities on profitability. However, their study did not separate the OR and non-OR CSR activities which may become an explanation for the insignificant result. By separating OR and non-OR CSR activities, this study can further elaborate which negative CSR activities having a significant negative impact on an airline’s performance.

The insignificant effects of positive OR CSR activities on both operational and financial performance may indicate that customers view whether the current level of airline’s positive OR CSR activities do not exceed their expectations. As the airline industry is a highly regulated industry, most of airline’s activities may be viewed as efforts fulfilling certain regulation or just complying minimum requirement that should be provided by the airlines. Customers do not see any value added from the current level of positive OR CSR activities that may make them to prefer the airline company rather than others beyond their regular needs to the service. The customers also do not find any operational value added that persuade them to spend an additional price on the airline service as the current level of operational activities, on average, do not go beyond their expectations. This issue could be an interesting issue whether OR CSR activities that are exceeding customers’ expectation could generate a positive impact on the airline’s performance.

Interesting results are also exhibited by the impact of positive non-OR CSR activities on the airlines’ performance. A negative impact has been found on the relationship between positive non-OR CSR activities on the airlines’ operational performance as measured by passenger load factor. On the contrary, a positive impact exists on the relationship between positive non-OR CSR activities on airlines’ financial performance as measured by passenger yield per KM. Kang, Lee, & Huh (2010) identified whether positive CSR activities have a negative impact on airline’s profitability. Then, Inoue & Lee (2011) confirmed by finding a negative effect of community-related CSR activities on short-term profitability. This study elaborates these results by showing that an airline’s engagement in the positive non-OR CSR activities contributes to decrease airline’s passenger load factor on one side, but generate additional passenger yield on the other side. The reduction on passenger load factor could be explain as the impact of increasing passenger price (yield) that is charged by an airline as the airline provides additional value in term of the airline’s reputation. Since the airline’s customer may come from several customer groups based on their propensity to pay, the additional passenger price is recognized to be an increasing cost for them by the customers who determine their purchasing decision mainly based on airline’s pricing or the price sensitive customers. In other word, the lower passenger load factor is caused by price sensitive customers that withdraw as an airline’s customer as the price increased.

The previous explanation is well explained by the result of interaction model which has found whether an airline’s business strategy positively moderates the impact of relationship between PSNOR and the operational performance. The positive impact of the interaction term reverses the negative impact of PSNOR on passenger load factor for FSC. It shows that, on average, the FSC experience lower decrease in passenger load factor compared to the LCC. Such result confirms the explanation indicating whether the lower load factor in an airline due to its engagement in non-OR CSR activities as the yield (price) is higher. For FSC that has a relatively smaller number of customers with sensitive price, the increase in pricing due to the additional value provided by non-OR activities have a lower magnitude in decreasing the airline’s passenger load factor. On the other hand, as LCC customers are mostly within the price sensitive group, the increase in price is not seen as an increasing of value added and has a higher magnitude in decreasing the airline’s passenger load factor. This result also contradicts and improves the work of Lee, Seo, & Sharma (2013) who found an insignificant impact of non-OR CSR activities on airline’s performance. The
finding was based on study with the relatively smaller sample size, only capturing airlines in the United States, and did not segregate the effect of positive and negative non-OR CSR activities.

This study also finds insignificant impacts of negative non-OR CSR activities on both operational performance and financial performance. That result agrees with the finding by Kang, Lee, & Huh (2010) which also found an insignificant impact of airline’s negative CSR activities. This result may be a sign whether the customers weight more the negative issue related to the airline’s operational activities than the non-operational one. In addition, this study also finds an insignificant impact of airlines’ business strategy in moderating the relationship between CSR activities and the airlines’ performance except for positive non-OR CSR activities. It asserts that both FSC and LCC can obtain similar effects from involving in several kinds CSR activities especially related to operational activities. The current study provides a contribution to the general CSR research by suggesting the next studies to consider the business model of a company to identify the impacts of CSR activities on the company’s performance. In addition, expanding the works of several prior research, the study also supports the utilization of several CSR dimensions, namely operation-related and non-operation related as proposed by Lee, Seo, & Sharma (2013). Furthermore, those CSR dimensions have to be separated into positive and negative CSR activities as proposed by Kang, Lee, & Huh (2010), thus the impacts of each activity could be well elaborated. Next, the study also suggests other scholars to build their own CSR measurement in the case there is no well-developed CSR measurements available, thus it can expand the sample scope in doing CSR research beyond the samples that are usually employed. Such CSR measurement can be developed based on currently available CSR measurement with certain modifications needed.

The results of this study have several practical implications. For the airline industry, these findings could be utilized as a consideration in determining an airline’s CSR activities. CSR activities engagement for airline companies provides more benefits to the airline’s operational and financial indicators through decreasing activities that could deteriorate airline’s operational activities. On the other hand, the involvement in CSR activities that enhance positive operation-related CSR activities might bring substantial benefits as long as such activities go beyond customer’s expectation. More effective strategy could lead to the possibility for an airline to be able to charge a premium price to their customers as well as loading their offered seats (distance) with more revenue passengers (distance). These findings also suggest that executives in low cost carrier and full service carrier have to carefully decide their strategic CSR decision making, especially those related to non-operation-related activities. The investment in non-operation-related CSR activities has a trade-off between additional passenger yield and diminishing passenger load factor. The more attention has to be paid by LCC or other airlines with more price sensitive customer base as additional investment in non-operation-related activities may increase the airline’s pricing that can significantly deteriorate the passenger load factor.

**Limitations and Suggestions:** This study is not free from limitations. Firstly, this study utilizes sample from several countries, but only uses limited time series in the sample set. The future replication should consider to including longer time frame, thus it can improve the results of this study. Secondly, the current study employs the company’s annual reports and/or sustainability reports as the main sources to obtain information about CSR activities, thus this study still relies on the information supplied by the companies. Further studies should attempt to explore additional information from other providers, thus the companies CSR activities could be measured more precisely. Thirdly, the study mainly focuses on the impacts of CSR activities towards airline’s industry performance. Several variables are exclusively for the airline industry and may not be generalized to other industries. A replication of this study may exercise similar approach under each industry’s circumstances and characteristics. Incorporating specific characteristics of an industry may better explain the association between CSR activities and the industry’s performance. Fourthly, the next study may utilize the GNP per capita instead of GNP as it can better reflect the customer’s ability to pay at the micro-level. Finally, the study developed its own CSR measurement based on KLD STATS measurement. Although several studies have proven that KLD STATS has construct validity and covers quite extensive CSR activities, but certain issues, especially those related to industry specific characteristic have not been recognized yet. In the future, developing customized CSR measurement by considering and combining several measurements could provide a more comprehensive tool as well as it could be appropriate to each industry characteristics.
References


The Influence of Money Perception toward Unethical Behavior of Employee (A Study at the Supreme Court in Southeast Sulawesi)

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Abstract: This study aims to describe and analyze the correlation of variables perception of money, salary satisfaction, organizational commitment, and unethical behavior of employee at the supreme court office at Southeast Sulawesi province, and to develop models of the influence of the perception of money toward unethical behavior of employee. The population of this study was all prosecutor that work in provincial prosecutor of Southeast Sulawesi which consists of 84 persons. In determining the sample the researcher used sensus method which means that resercher took all population as resondents for this study. Instrument that was used for analyzing the data was Sruktural Equation Modeling (SEM) with Partial Least Square (PLS) method. To analyze the data in this study, it is used the Structural Equation Modeling (SEM).The findings show that the money perception has a significant influence toward unethical behavior of employee. The salary satisfaction positively influences organizational commitment. In contrast, the perception of money gives no significant influence toward the salary satisfaction, the organizational commitment and the salary satisfaction also give no significant influence toward the unethical behavior of employee. Besides that, the organizational commitment variables does not moderate the correlation of salary satisfaction variables and unethical behavior of employee.

Keywords: Organizational Commitment, Perception of Money, Salary Satisfaction, Unethical Behavior of Employee

1. Introduction

Employee is the most important assets to achieve organizational goals effectively and efficiently. Employee is not just a resource, but also has become a major factor in achieving success. If an organization has good quality employee, they can achieve optimal goal proposed. In order to create and maintain a competitive advantage, organizations have done a lot of ways to encourage employee as human capital to create the progress and success of the organization. One way taken by the organization is the money approach that is by providing a decent salary and compensation for its employees in order to attract and motivate them to produce optimal performance (Milkovich and Newman, 2002). Money as important thing in one’s life and survival has become interesting to be analyzed. Money does not just touch the side of the external needs of someone like clothing, food and shelter, but also affect his/her internal needs such as hope, motivation, optimism, and commitment. As we all know that money is a medium of exchange that has a virtual value around the world. Money is very important in society. Specifically, the management has used money as an instrument to attract, retain, and motivate employees and also to achieve organizational objectives (Milkovich and Newman, 2002) because money has a significant impact on employee attitudes, performance, commitment and organizational effectiveness (Heneman, 1992; Lawler, 1990; Tang, et al. 1998; 2000).

Person's perception on money will be able to give a significant influence on work, award system, task performance, job satisfaction, morale, organizational effectiveness (Lawler, 1981; Opsahl and Dunette, 1991; Tang and Baumeister, 1984). Even for many employees, money has been viewed as something that is very important and become one of the goals of their career achievements (Chu et al., 2001; Harpaz, 1990). Heneman and Judge (2000), find that the employees' dissatisfaction on money (payment of salaries, incentive, compensation) will be able to provide negative consequences for the organization. These negative consequences can be a turnover, embezzlement, irregularities in the workplace, and unethical behavior in the organization which can lead to corrupt behavior (Greenberg, 1993; Hom and Griffioth, 1995; Lim 2002). Recognizing the influence of a person’s perception of money (Love of Money) as has been described above, each organization is required to be able to understand the behavior of individuals in perceiving himself to the payroll system provided by organizations considering that dissatisfaction with one's money can provide mild consequences for the company. If the company can not understand the impact of the money perception toward employee within the organization, then it will be difficult for them to encourage the creation of optimal employee performance and lead to the appearance of unethical behavior, irregularities, and even corrupt behavior within the organization.
Based on qualitative research gap conducted by Adang Budiman, Amanda Roand, and Victor J. Callan (2013) related to raising the issue of corruption of civil servants occurred in Indonesia during the Suharto era suggest the existence of future research specifically on the strategic government organizations using a quantitative approach is needed to reveal the approach to the corruption of government officials. This is also in line by Elisaveta Gjorgji Sardzoska and Thomas Li-Ping Tang (2013) which examines the presence of unethical behavior and corruption trends in Macedonia, they recommends that a future research needs to be conducted on a particular public sector in order to be able to see the dynamics and more specific results because the research done by them has a limitation of research that is only examining the company manager in Macedonia which is randomly selected. This research gap is also supported by the phenomenon that occurs in the Supreme Court Institution in Indonesia as a law enforcement agency that has a central position and role strategic in law enforcement. There are several crucial issues that occur in the this institution concerning on unethical behavior of employee. It can be seen from the data recapitulation of disciplinary sanctions in 2011 (Table 1.1) and the Attorney General's Year-End Reports 2012 as quoted by Reuters on Wednesday (26/12/212) which states that during the year 2012 as many as 64 employees received disciplinary letters sentencing decision lightly, 135 normal, and 98 severe discipline. Indisciplinary action is done by 43 employees of administration and 28 employees of attorney. The act of abuse of authority by 49 employees of administration and 145 employees of attorney.

2. Literature Review

The Unethical Behavior of Human Resources: Basically, it is very difficult to measure the unethical behavior of human resources because this behavior usually occurs in secret (Tang and Liu, 2012). The investigation of the psychological processes underlying the unethical behavior of human resources has turned into something important for the organization. Ashforth et al. (2008) defines unethical behavior as a corruption; it is something that implies a deliberate deviation of order, decency, and trust that leads to a moral decay. According to Ashforth et al. (2008), a corruption include: (1) misuse of the organization’s position, power, or authority for personal gain or organization (accepting gifts, money, loans; giving and accepting bribes), (2) the action taken against the company (sabotage and theft), and (3) the action taken on behalf of the organization (firing employees for personal gain). Pendse (2012) reveals that the unethical behavior is associated with Motive, Means, and Opportunity (MMO). It means that, every person who intends to act such unethical behavior in the workplace will tend to have a specific motif associated with benefits that will he get and the opportunities available. Moreover, Tang et al. (2003) describes that the unethical behavior in the organizational context can be a fraud, abuses of authority (corruption), diversion of resources (theft, embezzlement), and the omission of the occurrence of the unethical behavior.

Perception of Money: Money has a symbolic power, it means that money can cover self-feeling of sufficiency or feeling of wealthy that directs a person unto the desire to be independent, to reduce the dependence on the help of others, and to create a big difference between him and others (Vohs et al., 2006). A person with the idea that money is beyond anything else will make him avoid such voluntary action or actions that are not worth the money (DeVoe and Pfeffer, 2007). Moreover, this idea can also increase the percentage of a person to commit a fraud for personal gain (Gino and Pierce, 2009). In addition, Tang (2012) states that a person who considers money as an achievement will experience low levels of satisfaction with the job, promotion, supervision, co-workers, and overall life satisfaction. Perceptions of money is closely related to the love of money (LOM), it is defined as a person's attitude toward the money involving the component of affective, behavior, cognitive, attributive meaning and aspirations toward the money (Easterlin, 2001). According to Furnham and Argyle (1998), Love of Money (LOM) has similarities and differences with the term obsession. Obsession relates to circumstances in which a person feels to have a huge interest in all aspects related to money. In this case, a person will have the belief that money is the only thing considered as the most important thing in this life. Yet, obsession and love of money is totally different, because the Love of Money have some factors to measure it.

To measure the perceptions of money, Tang et al. (2003, 2007, 2011, 2012, 2013) state that there are four main factors of the Love of Money according to Love of Money Scale (LOMS), they are Rich (wealth), Motivation, Importance and Success factors. The unethical behavior in the workplace such as irregularities, counterproductive behavior, corruption, fraud, embezzlement, bribery, and fraud, and corruption has a significant correlation with income and the love of money (Robinson and Bennett, 2000; spector, 2001; Anand et al., 2004; Martin et al, 2007; Ashfort et al., 2008). Based on the explanation
of the correlation of the love of money and unethical behavior as described above, so, the first hypothesis proposed in this study is:

H1: If the love of money of the human resources is high, the unethical behavior will be high as well.

**Salary Satisfaction:** As described in the introduction that in order to retain and motivate employees to work more optimally, organizations seek to apply some policies, one of which is to provide decent wages and compensation for employees (Milkovich and Newman, 2002). The problem that arises of this policy is the difference between the salary assumptions applied by the company and the expectations held by employees. When this issue arises, the employee will experience the dissatisfaction with remuneration provided by the company (Tang et al., 2003). The low salary satisfaction is closely related to the expectations held by employees of the amount or value of the salary received. Love of money is a factor that builds the expectation of this value because the love of money will reflect the standards, limits choice, and expectations of salary which will be used to measure the satisfaction with the salary received (Tang et al., 2003). The different level of the love of money will lead to the different level of the salary satisfaction (Tang et al., 2004).

Someone with so much love of money will have high expectations toward the upcoming salary received; and if the fact does not meet or inverse with expectations, this will lead to disappointment which leads to the salary dissatisfaction (Lawler, 1971). Conversely, someone with a low level love of money will have low expectations toward the salary to be received, so that he will be satisfied with the salary received. The satisfaction with the salary received can be initiated by the onset of awareness of the condition and the reality of where they work, so a person will try to receive and not expect more excessive salary to be received (Tang et al., 2004). Someone with a high love of money will have high expectations and a low salary satisfaction and so that for the opposite. So, it can be defined that the love of money will have a negative correlation to the salary satisfaction. Based on the explanation of the correlation between the love of money and the satisfaction of the salary, the second hypothesis proposed in this study is:

H2: If the love of money of the human resources is high, the salary satisfaction will be lower.

**Organizational Commitment:** Hackett et al (2001) defines the organizational commitment as a confidence in the organization’s aims and values, as well as the desire to maintain a presence and loyalty to the organization. According to Luthans (2002), that as an attitude, organizational commitment is a strong desire or motive to remain as a member of the organization; a desire to demonstrate a high level of effort on behalf of the organization; and a strong belief in accepting the values and objectives of the organization. Allen and Meyer (1990) state there are three components of organizational commitment, namely affective, commitment, and normative commitment. Tang et al. (2003), states that the commitment arises as the consequences of the fulfillment of the employee’s satisfaction toward the organization. Therefore, the salary satisfaction has an influence on commitment. The high employee satisfaction towards the salary will give a positive impact on the organization, that is through the high employee commitment toward the organization.

Cohen-Charash and Spector (2001), state that from the point of view of procedural fairness, dissatisfaction and unfair treatment perceived by the employee will lead them to the negative perceptions of the organization and result in counter-productive behavior that will be detrimental to the organization. This dissatisfaction will impact on the behavior of employees towards the organization. In this study, to measure the satisfaction level of salary and employee commitment, the researcher adapts the Pay Satisfaction Questionnaire (PSQ) developed by Heneman and Schwab (1985) and the Organizational Commitment Questionnaire (OCQ) by Mowday et al. (1979) with some changes in order to conform to the context of the research to be carried out. Based on the explanation of the correlation of salary satisfaction, organizational commitment, and unethical behavior as described above, the next hypotheses proposed in this study are:

H3: If the salary satisfaction of the human resources is high, then, the commitment will be high as well.

H4: If the organizational commitment of the human resources is high, then the unethical behavior will be lower.

H5: If the salary satisfaction of the human resources is high, then, the unethical behavior will be lower.
3. Methodology

Explanatory research is conducted to test the hypothesis with intention to justify or reinforce the hypothesis that in turn can strengthen the theory used as a foothold. Singarimbun (1989) states that the explanatory research emphasize on the correlation among variables of research by testing the hypothesis containing description that focus on the correlation among variables. This study is conducted in the Office of the High Court of South East Sulawesi. Data collection techniques used in this study is questionnaire and documentation. Questionnaire technique is used to obtain the primary data, while documentation for secondary. In this study the determination of the value for each questionnaire questions uses a Likert scale (level of agreement 1-5). For the variable of money perception, unethical behavior, pay satisfaction, and organizational commitment. Respondents are asked to choose one of the 5 (five) items, started from strongly agree (5), agree (4), Neutral / Undecided (3), disagree (2), and strongly disagree (1). To analyze the data in this study, it is used the Structural Equation Modeling (SEM). This study develops 5 hypotheses by SEM analysis method with the help of PLS statistical analysis, and use traditional software smart PLS 1.1.

4. Findings

Table 1: Test of Validity

<table>
<thead>
<tr>
<th>Perception of Money</th>
<th>Original sample estimation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>0.858 11.595</td>
<td>Valid</td>
</tr>
<tr>
<td>X2</td>
<td>0.851 20.481</td>
<td>Valid</td>
</tr>
<tr>
<td>X3</td>
<td>0.913 29.632</td>
<td>Valid</td>
</tr>
<tr>
<td>Salary Satisfaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y1.1</td>
<td>0.718 3.981</td>
<td>Valid</td>
</tr>
<tr>
<td>Y1.2</td>
<td>0.855 8.417</td>
<td>Valid</td>
</tr>
<tr>
<td>Y1.3</td>
<td>0.831 4.225</td>
<td>Valid</td>
</tr>
<tr>
<td>Organizational Commitment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y2.1</td>
<td>0.935 40.159</td>
<td>Valid</td>
</tr>
<tr>
<td>Y2.2</td>
<td>0.902 14.445</td>
<td>Valid</td>
</tr>
<tr>
<td>Y2.3</td>
<td>0.879 12.029</td>
<td>Valid</td>
</tr>
<tr>
<td>Unethical Behavior</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y3.1</td>
<td>0.872 17.825</td>
<td>Valid</td>
</tr>
<tr>
<td>Y3.2</td>
<td>0.874 30.653</td>
<td>Valid</td>
</tr>
<tr>
<td>Y3.3</td>
<td>0.925 50.204</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Table 2: Test of Reliability

<table>
<thead>
<tr>
<th>Variables</th>
<th>Composite Reliability</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception of Money</td>
<td>0.901</td>
<td>0.70</td>
</tr>
<tr>
<td>Salary Satisfaction</td>
<td>0.845</td>
<td>0.70</td>
</tr>
<tr>
<td>Organizational Commitment</td>
<td>0.932</td>
<td>0.70</td>
</tr>
<tr>
<td>Non Ethical Behavior</td>
<td>0.920</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Table 3: Result For Weights

<table>
<thead>
<tr>
<th>Influence</th>
<th>Original estimate</th>
<th>sample mean of sub samples</th>
<th>Standart deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception of Money → Salary Satisfaction</td>
<td>-0.213</td>
<td>-0.218</td>
<td>0.170</td>
<td>1.252</td>
</tr>
<tr>
<td>Salary Satisfaction → Org. Commitment</td>
<td>0.301</td>
<td>0.332</td>
<td>0.093</td>
<td>3.248</td>
</tr>
<tr>
<td>Perception of Money → Unethical Behavior</td>
<td>0.615</td>
<td>0.623</td>
<td>0.111</td>
<td>5.557</td>
</tr>
<tr>
<td>Salary Satisfaction → Unethical Behavior</td>
<td>-0.143</td>
<td>-0.140</td>
<td>0.098</td>
<td>1.463</td>
</tr>
<tr>
<td>Org. commitment → Unethical Behavior</td>
<td>0.142</td>
<td>0.125</td>
<td>0.102</td>
<td>1.396</td>
</tr>
</tbody>
</table>

R-Square Value ($R^2$)
Figure 1: Results of Inner Model

![Inner Model Diagram]

Table 4: R-Square Value (R²)

<table>
<thead>
<tr>
<th>Variables of Perception of Money</th>
<th>R-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Satisfaction</td>
<td>0.045</td>
</tr>
<tr>
<td>Organizational Commitment</td>
<td>0.091</td>
</tr>
<tr>
<td>Unethical Behavior</td>
<td>0.420</td>
</tr>
</tbody>
</table>

Discussion

**Hypothesis 1: The Influence of the Money Perception toward Unethical Behavior of Employee**

Finding of the study shows that there is a significant influence of the money perception toward Unethical Behavior of employee. The correlation result value in this study shows that the love of money will encourage the high tendency of unethical behavior. This is consistent with the theory in the discussion of literature review. As suggested by Lewicki (1983) which states that a person's decision to engage in unethical behavior such as corruption and fraud is largely determined by the perception toward the advantages that will he get when doing so. Pendse (2012) also explains further that unethical behavior is closely linked to the Motive, Means, and Opportunity (MMO) where a person who will do measures deviations in the workplace will have a specific motif associated with benefits that will he get and the opportunities available. The benefits in this study is closely related to the consideration of material benefits. Perceptions of the money is the perspective or the way of someone to positionate the money in his life (Easterlin, 2001). The differences in perceptions of the money owned by each person will direct them to a different behavior with regard to money. Sense of love of money will make someone to place money in high cash position as the most important thing in his life above anything else, including aspects of morality and ethics. This phenomenon will create a high desire or willingness to money which in turn may encourage them to have a tendency to the high unethical intentions (Tang and Chiu, 2003).

**Hypothesis 2: The Influence of the Money Perception toward Salary Satisfaction**

The results shows that the influence of money perception toward salary satisfaction is negative and not significant. In the literature review has been outlined that the high perception of money is one of the triggers for the perception gap of the salary feasibility (Tang et al, 2003). Love of money will reflect the standards, limits choice, and expectations toward the salary which would then be used to measure the satisfaction of salary received by a person (Tang et al, 2003). Yet, in this study, the hypothesis test finding describes that the much love of money owned by the scope of the prosecutor in the High Court Southeast Sulawesi Office does not have a significant influence on their satisfaction on the salaries. Referring to the research context of open-ended questions and the answers given by the respondents, the researcher can explain that the causes of not significant influence of money toward salary satisfaction perceptions held by respondents can be derived from factor such as status work and acceptance of respondents to the
organization for which they work. They are totally aware that the amount of salary they will receive as a civil servant has set by the government, so that even though they have a high perception of money, they must try to keep their great expectations towards their salaries. They are also aware of the consequences that to live as a government employee can prevent them to hang high expectations of the salary they would receive. This is consistent with Tang et al. (2004) who states that the satisfaction with salary perceived by a person can be caused by the onset of awareness of the condition and reality where she or he works, so that, he or she will try to receive such conditions and does not hope to get excessive salary to be received.

**Hypothesis 3: The Influence of the Salary Satisfaction toward Organizational Commitment**

Result of loading between the Salary Satisfaction and Organizational Commitment shows a significant values of 3.248 and has a positive influence. This value indicates that if one's satisfaction on salary is high, the organizational commitment will also increasingly high. In line with a positive and significant influence of this, Luthans (2002) states that organizational commitment is a desire or motive to remain as a member of organization; a desire to demonstrate a high level of effort on behalf of the organization; and strong beliefs in accepting the values and objectives of the organization which can be affected by several factors both internal and external. Furthermore, one of the influencing factors is the satisfaction of the salary received by the employee. Tang et al (2003) states that commitment arises as consequences from the fulfillment of employee's satisfaction in the organization. The satisfaction on salary will have a positive influence to the organization in the form of employee high commitment to the organization (Hom and Griffeth 1995).

**Hypothesis 4: the Influence of the Organizational Commitment toward Unethical Behavior of Employee**

The finding shows that the influence of Organizational Commitment on Unethical Behavior of employee has a value that is not significant. This indicates that unethical behavior tendencies of employee are not severely affected by their organizational commitment. In other words, even if a person has low organizational commitment, he does not necessarily have a tendency to deviations of behavior in the organization and so that for the opposite. The not significant influence of Organizational Commitment toward unethical behavior in this study is supported by the study conducted by Tang and Chiu (2003) which finds that the unethical behavior is not influenced by organizational commitment of human resources.

**Hypothesis 5: the Influence of the Salary Satisfaction toward Unethical Behavior**

The finding shows that the influence of the salary satisfaction toward unethical behavior is negative and not significant. This indicates that the trend of respondents to engage into unethical behavior is not affected by the salary satisfaction they have. Referring to the context of the study, the researcher can explain that satisfaction of the salary is not a trigger to unethical behavior within the organization. This is happening because the respondents try to receive the salary they receive as something that it should be, so that they can achieve a certain level of satisfaction and avoid feelings of being treated unfairly by organization. In conclusion, they respond to the salary satisfaction by accepting the logical consequences of becoming civil servant. This complacency gives a positive perception toward the organization that led to the effort of human resources to maintain the continuity of the organization where they work.

<table>
<thead>
<tr>
<th>The Correlation Among Variables</th>
<th>Direct Influence</th>
<th>Indirect Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Satisfaction – Unethical Behavior</td>
<td>-0.143</td>
<td>-</td>
</tr>
<tr>
<td>Salary Satisfaction – Org. Commitment</td>
<td>0.301</td>
<td>-</td>
</tr>
<tr>
<td>Org. Commitment - Unethical Behavior</td>
<td>0.143</td>
<td>0.043</td>
</tr>
</tbody>
</table>

The results of the analysis show that the salary satisfaction can directly influence unethical behavior of employee and influence indirectly to organizational commitment with implications to the unethical behavior. The value of the direct influence is -0.143, it indicates that if the salary satisfaction of employee is high, then, their unethical behavior will decrease. Instead of indirect influence (0.301 x 0.143) = 0.043 indicates a positive influence, where if the variable of salary satisfaction goes through the organizational commitment, the salary satisfaction variable will positively influence the unethical behavior of employee, which means that if the the satisfaction is high, the unethical behavior will also be high. The results of this intervening correlation is contrary to the theory that if the satisfaction felt by employees is high, the employees will create a positive perception of the organization that led to the effort of employee to
The influence of salary satisfaction is high, it will generate a low unethical behavior. It can be concluded that the value of direct influence among variables of the salary satisfaction to the unethical behavior is better than the indirect ones. It means that the organizational commitment is not the path of correlation between salary satisfaction and unethical behavior of employee.

5. Conclusion

This study attempts to examine the influence of the money perception construct, consisting money as something important, a factor of success, a motivator, a factor of wealth toward the salary satisfaction construct which consists of the level / amount of salary, salary increases, salary benefits, payroll procedures; organizational commitment construct consisting of affective, normative, sustained commitment, and unethical behavior constructs of employee which consist of misappropriation of office, misuse of authority, the omission of the behavior unethical, and a misuse of resources. This study is conducted at the office of the Supreme Court in Southeast Sulawesi with a number of sample sizes of 84 prosecutors working in the court.

This study develops 5 (five) hypotheses with SEM analysis method with PLS statistical analysis assistance, and uses the traditional software of smartPLS 1.1. The finding of 5 hypotheses proposed, it is found only 2 (two) hypothesis in which H1 and H3 are received, while 3 others are rejected. The results show that the unethical behavior tendencies of employee within the organization can be influenced by their perceptions of money. This is in line with the study by Pendse (2012) which reveals that unethical behavior is associated with Motive, Means, and Opportunity (MMO). When a person tries to do unethical behavior in the workplace, he or she will have a particular motive associated with benefits that will be get and opportunities available. Sense of love of money will make a person places the money as the most important thing in his life above anything else including aspects of morality and ethics. This is supported by study conducted by Martin et al. (2007), and Ashfort et al. (2008) which also reveal that unethical behaviors such as deviations in the workplace, counterproductive behavior, corruption, fraud, embezzlement, bribery, and fraud, and corruption have a significant correlation with income and a love of money.

The influence of the salary satisfaction toward organizational commitment in this study is a positive significant. It is clear that a strong commitment is influenced by the level of satisfaction of employee to the salary received. This is consistent with Tang et al (2003) that states that the commitment arises as the consequence of the fulfillment of an employee satisfaction in an organization. Satisfaction with the salary will have a positive impact to the organization that is through the high commitment of employees towards the organization (Hom and Griffeth 1995). From the findings of this study also note that the highest loading variable of the money perception variable is on the third indicator, namely the omission of unethical behavior with the value of loading factor of 0.925. This indicates that the employees in the supreme court is lack of moral sensitivity toward unethical behavior done by their fellow workers. Most respondents agree and strongly agree if they are not concerned about the unethical behavior done by their co-workers. This is caused by the assumption that the responsibility to take action against this unethical behavior done by a co-worker is carried out merely by their leaders. So, this should be an important concern for organizations. Leaders need to raise employee awareness that the monitoring of unethical behavior occurring within the organization is not solely the responsibility of the leadership but it is a shared responsibility. Employees should be encouraged to participate in minimizing unethical behavior in the workplace by implementing peer control among fellow employees.

The highest loading for the variable perception of money is at the third indicator, that is money as a motivator with a factor loading value of 0.913. Most respondents consider that money can motivate them to work more optimally. Recognizing this, the party organization, in this case is Supreme Court institutions in Southeast Sulawesi, needs to pay more attention to the amount of incentives or compensation received by the employees so that they can be motivated to provide better performance for the organization. The Lowest loading for the variable of the salary satisfaction is at the first indicator that is at the level of salary with a value of loading factor of 0.718. Most of the employees in the scope of supreme court in the Southeast Sulawesi state that the amount of salary received is still less or not in accordance with the needs and workload they have. The supervisory duties including duty service in outside the city is felt unbalanced with the salary received. Therefore, the organizations need to pay attention to this indicator by providing adequate incentives including a sufficient operational funds to
carry out their activities so that they can avoid the high dissatisfaction which can lead to the emergence of unethical behavior tendencies. The lowest loading for the variable of organizational commitment is at the third indicator that is the ongoing commitment with the value of loading factor of 0.879. Recognizing this, the organizations, especially organizations of Supreme Courts at the Southeast Sulawesi needs to raise the ongoing commitment held by employee. The existence of high awareness of the noble values of the organization and the strategic role held by the Supreme Court as a law enforcement agency can encourage the creation of high commitment of the employees.

The Future Research
1. The findings of this study indicate that the $R$-square value of each variable explaining the perception of money variable is relatively small and only unethical behavior variable that has a value of 45%. It means that the other variables in this study are not enough to explain the perception of human resources on money. So that, the future research agenda needs to explore other variables that may be more relevant.
2. This study does not explore the influence of morality and spiritual aspects of employee tendency toward their unethical behavior in organizations. The upcoming research can include this aspect in order to determine the influence of it toward the behavior of employee.

References


Improving Entrepreneurs Capability Models of the Creative Industry Through The Triple Helix and Anticipatory Learning

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Abstract: Creative industries have a major role in economic development especially in reducing unemployment, however, the development of creative industries are still having many problems, especially the ability of human resources. As a result, it has an impact on the weaknesses of entrepreneurs’ capability. This study aims to examine the effect of the Triple Helix and anticipatory Learning in improving creativity innovation capability and performance of creative entrepreneurs. The population of this study is the business owner or manager of SMEs on sectors of crafts, fashions and information technology (IT) in central Java. The total samples are 122 with valid questionnaires. The sampling is by using purposive sampling. Beside, the analysis of data is by using the Partial Least Square (PLS). The study results of the three actors in the Triple Helix, it shows that government actors does not significantly affect creativity innovation capability, but business actors and intellectual actors have significant effect on creativity innovation capability. Anticipatory learning has a significant effect on creativity innovation capability. Finally, the anticipatory learning and creativity innovation capability has significant effect on performance of creative entrepreneurs.

Keywords: Anticipatory learning, creativity Innovation Capability, Triple helix, performance of a creative entrepreneur

1. Introduction

In the era of creative economy, the value of goods and services are determined to what extent human resources are able to take advantage of technology, creativity and innovation as well as doing the learning organization to be able to adapt to environmental changes. Industries that will compete in the global market not only rely on price and quality, but also compete on the basis of technology, innovation, creativity and imagination (Esti and Syriac, 2008). Sector of the creative economy is the seventh most important sector of the ten sectors of the national economy. The contribution of creative economy in gross domestic product (GDP) in 2011 are able to create added value of Rp. 256 trillion and estimated to reach Rp 573.4 trillion in 2012. According to the Department of Commerce (2008), the problems faced by the creative industries are: the quantity and quality of human resources as creative industries, climate conducive to starting and running a business, appreciation or participation of the creative people and the creative work produced, the acceleration of the growth of information technology and communications and financial institutions that support the creative industries. The creativity and innovation of human resources is indispensable for the development of creative industries to be able to grow and compete. The good creative industry actor is an individual which has ability to take the challenge, competitive, strategic and has a strong desire in business achievement (Halim, 201). Creative industries have a significant contribution to the national gross domestic product, employment, export value, so that efforts to improve and develop creative industries must continue to be pursued. The integrated collaboration among intellectual, government and business, as well as anticipatory learning by creative industries will be able to foster an entrepreneurial spirit to improve business performance. The developing of creative industry has not received optimal attention from various parties which are capable of doing assistance. The parties are such as intellectual (scholars), government and business, which are called by Triple Helix. The collaboration of three actors of Triple Helix is considered to be capable of improving creativity, the idea of innovation and skills (Etzkowitz, 2008). The collaboration of these three is still not optimal, so that, the development of creative industry does not fit what is expected. Creative industries in Central Java development has not been as expected, it is seen from the growing number of creative industries and employment over the last four years (2008 - 2011) which is still very small, where the increase in the number of creative industry average is only 0.06% and the increase in employment is on average 0.07% (Department of Cooperatives and SMEs, 2012). Integrated collaboration among triple helix (intellectual, government and business, as well as learning anticipatory organization by the creative industries) is expected to be able to foster an entrepreneurial spirit that will enhance the company's performance.
The study is conducted in a creative business which is mostly done by SMEs, in the fashion sector, craft and IT. Small businesses in Indonesia are lagging and having many disadvantages if compared with the big ones, hence, they need for the ability to learn. Resources Based Theory (Hunt and Morgan, 1995) states that to achieve success through information and knowledge. Several studies have been conducted on small businesses that suggest a link between organizational learning on the performance of the company with the possibility to achieve high performance (Anna Michna, 2009). The significance of the positive influence of organizational learning with the company’s performance has also been stated (Prieto and Revilla, 2006; Molina, C and Jamie L. 2009). While studies on SMEs done by Christon et.al (1999) states that organizational learning does not have correlation with the performance of the company. The purpose of this study is to contribute thoughts on the creative industries, the influence of anticipatory learning and triple helix on the capabilities of innovation and creativity and its impact on the performance of creative entrepreneurs. Some studies show that there is a correlation of the organizational learning and performance of the company while the other study results do not support such correlation. Issues raised in this study are to build a model of organizational learning anticipatory and triple helix in an effort to enhance the performance of a creative entrepreneur. The development of entrepreneurial innovation capability built by anticipatory learning and triple helix is interesting to study.

2. Literature Review

Creative industries: Information and communication technology is developing rapidly. In the era of economic globalization, it has encouraged entrepreneurs in the field of creative industries to do more creative innovation. Industrial development has created employment patterns, patterns of production and distribution which are cheap and efficient, so that the development of technology makes an individual becomes more productive (value added) and innovative. Creative industry focusing on the creator of goods and services by relying on the expertise, talent and expert creativity as intellectual property need support to be able to thrive. According to the Ministry of Trade of the Republic of Indonesia (2008), the creative industries are defined as industry derived from the use of creativity, skill and talent of individuals to create wealth and jobs through the creation and utilization of creativity and inventiveness of the individual. There are 14 creative industry sub-sectors, namely: advertising, architecture, art market, crafts, design, fashion, video / film / photography, interactive games, music, performing arts, publishing and printing, computer software services, television and radio, research and development. In developing the creative industries, each region should have the competence, capability, local wisdom, unique characteristics as strength lasting competitiveness (sustainable). The resources based view states that success will be achieved by the ability of the resources available (Penrose, 1959; Barney 1995). While market-based view oriented efforts to meet the market demand to make an existing product market.

Triple Helix: The development of creative industries needs support cooperation from scholars (intellectuals / academician), business (business) and the government (government), which is called Triple Helix. All three main actors in the Triple Helix are driving the birth of creativity, ideas, science and technology for the growth of the creative industries. According to the Ministry of Trade (2008), a close relationship, mutual support and mutual symbiosis among the three actors are the foundations and pillars of the model of the creative industries that can stand firm and continuous. The role of scholar / academician / intellectual in the context of the creative industries is the desire to apply knowledge and pass it on. Include cultural scholars, artists, educators in educational institutions, the pioneer in the community, hermitage, cultural centers and art, an individual or group study and a researcher, author, and other figures in the fields of art, culture and science. The role of business or company is as organizational entities created to provide goods or services to customers. Generally, business is owned privately and formed to generate profit and increase prosperity for the owner, and in the form of a sole proprietorship, partnership, corporation and cooperative. The role of government is as an institution that has the authority development of creative industries, both by the central and local governments, as well as linkages in the administration of substance and relevance. The synergy between departments and agencies at the central government and the synergy between central and local governments are essential to achieve the vision, mission and goals of the development of creative industries. The seriousness to build innovation at the national level is legalized by the presence of Presidential Decree No. 32 of 2010 on the National Innovation Committee.

It is a premise that the triple helix circulation is in an area that can move people to improve creativity, ideas and skills (Etzkowitz, 2008). Higher Education as a provider of human resources and knowledge, as
well as socio-economic development actors is important. Triple helix model of development is based on a premise on the importance of cooperation between the University or other education institution, government and industrial or traditional leading institutional (business). Institutions of higher education have the mission of teaching, researching and transferring knowledge to each community, e.g. by giving a training model to all sectors of society through interaction with the alumni. In developing countries the concept of triple helix has a prominent role, especially on educational institutions. The Triple helix key development is by improving circulation among university, industry and government as an agent of development and vice versa, blockage of circulation is an indication of the failure of society, retardation, ideas and innovation. Based on the description above, the hypothesis can be constructed as follows:

H1: The better the role of the intellectual actor is, the better the innovation creativity capability will be.
H2: The better the role of the government is, the better the innovation creativity capability will be.
H3: The better the role of the actor is, the better the business creativity innovation capability will be.

Anticipatory Learning: Anticipatory Learning is a learning process that occurs not only adapts the environment, but also the development of a system of thought which focuses on the dynamic interrelationship with the environment that generates creativity and innovation to seek opportunities (Tatiek N, 2009). According to Peter Senge (1990), the organization should focus on fundamental trends and forces of change, so that it is necessary to have anticipatory learning in organizational learning. Adaptive learning is learning which does not directly cause a change or innovation. Anticipatory learning will generate competence to encourage a wide range of innovations that will create competitive advantage (Garvin, 1991). Organizational learning is a process of creation, acquisition, sharing and application of knowledge, and making changes and innovations in the entire level to produce optimal and competitive performance (Chinowsky, 2007). The ability to improve learning for entrepreneurs can improve the efficiency and capability of innovation activity in the company, as well as companies with strong tendency on learning that can enhance better performance (Dodgson, 1994). Organizational learning will encourage a person to undergo a skills and knowledge to overcome the problem that result in capability or competence increases, as well as the antecedent capability or competence of the organization (Chaston and Badger, 1999; Wang and Loo, 2003). From the description above, the hypothesis proposed is:

H4: The better the anticipatory learning is, the better the creativity innovation capability will be.

Creativity Innovation Capability: One important feature for someone who will do entrepreneurship is the ability to innovate (Larsen, P and Lewis, 2007). Companies without innovation will not compete and survive in the era of increasingly intense competition. The changing needs and desires of customers to satisfy themselves will spur companies to innovate constantly in order to create products that comply with the wishes of customers. Hills (2008) states that innovation is an idea and a practice that are considered to be new to individual or other units. Keeh, et.al. (2007) describes the importance of innovation for companies as: 1) the development of rapid technological change, so companies must adapt to changes in the technology, 2) rapid environmental changes caused by the presence of creativity and innovation, 3) customer intelligence to meet needs, so that there is a necessary innovation in meeting customer expectations, 4) changes in market tastes and technology products that require fast service, 5) innovation are capable of creating growth market segments, forming corporate position as well as enhance the company's growth. Zimerer (2008), describes the creativity is the ability to develop new ideas and find new ways of looking at problems and opportunities, while innovation is the ability to find creative solutions to problems and opportunities to improve the lives of people or self-enrichment. A study by Ali Ekber Akgun et.al. (2011), innovation has strong influence on the performance of the company. Moreover, a study by Wingwon et.al (2012) states that innovation affects the competitive advantage and firm performance. Innovation has an important role in the competitive industry to develop the economy and improve living standards. From the description above, the hypothesis proposed is as follows:

H5: The better the creativity innovation capability is, the better the performance of creative entrepreneurs will be.

Creative Entrepreneur Performance: Performance measurement should use a variety of sizes (Bhargava et. Al, 1994). Pelham and Wilson (1996) define that the performance of the company as a successful new product and market development can be measured through sales growth and market growth. Corporate performance is measured in a specific time and show the success and efficiency of a company. The study on performance measurement is conducted by Stamp et.al (2008) with dimensions of sales growth, employment growth, market share, gross profit, and profit margin. Corporate performance indicators
developed by Dibrell (2008) include market share growth, sales growth, profit growth, and Return on Assets (ROA). To improve the performance, it can be constructed from learning orientation as part of the learning organization (Wolf and Reff (2006). Learning anticipatory, in addition to adapt the environment, also explores the search for opportunities. E. Baker & Sinkula (1999) in their research state that the company organization with a high learning process will be able to improve performance. Furthermore, Zheng Zhou et.al (2005) states that organizational learning has a positive effect on the performance of the product and the performance of the company. From the description, the hypothesis proposed is as follows:

H6: The better the anticipatory learning is, the better the performance of a creative entrepreneur will be.

Based on the hypothesis 1 until 6, it can be illustrated in the graphical model as follow:

3. Methodology

A study can start and end in a clear destination; hence the study needs to be simplified in variable construction (Ferdinand, 2011). A study variable is everything in any kind of form which is set by the researcher so that information about the object can be obtained, and then can be concluded (Sugiyono, 2009). The variable observed in this study is Triple Helix, anticipatory learning, entrepreneur capability, innovation creativity, productivity and work. Population is the whole study subject, while sample is a part or the representation of the observed population (Arikunto, 2002). The population of this study is the conductor of creative industry in sub-sector of handicraft, fashion, IT in Central Java. Sampling technique is by using purposive sampling method and the number of sample is 122 respondents from 6 regencies/ the chosen city. The objective of this study is to test the effect of Triple Helix and anticipatory learning to the entrepreneur capability and the performance of creative industry. Then, the variable and indicator will be tested the validity and also the reliability. Measurement scale value is 1 to 10, (1: absolutely disagree, 10: absolutely agree). The data is analyzed by using Partial Least Square (PLS) program.

Data Analysis: The test is done through 2 stages to value fit model from a study model and the stages are done are such as follows:

1. Measurement Model (Outer Model): Outer model is used to test data validity, and can be done through three testing criteria, namely convergent validity, Discriminant Validity and Composite Reliability.

Convergent validity: Convergent validity is a measurement model with indicator reflection and scored by using the correlation among value items. Individual reflection scale is considered high if the correlation is more than 0.70 with the measured construct. But, according to Chin, 1999 (in Ghozali, 2006) for the early stage of study from the scale development of loading value of 0.50 to 0.6, it is regarded to be sufficient. The test result shows that the value of outer model or correlation between constructs and variable shows that all loading factors have value above 0.50, so that construct for all variables are proven to be valid.
Discriminant Validity: Discriminant validity is aimed to ensure that every concept of each latent variable is different from other variables. Model is said to have good discriminant validity if every loading value in the indicator of a latent variable has the highest value from other loading value to the other latent variables. It means that every latent variable has fulfilled good discriminant validity criteria where several latent variables still have measurement which is highly correlated with the other construct.

Composite Reliability and Average Variance Extracted: To test the reliability can be seen from the average variance extracted (AVE) value. Construction is said to have high reliability if the composite reliability > 0.60 and AVE is above 0.50. Testing result can be concluded that all constructions fulfilled reliable criteria, it is proven with Composite Reliability value is above 0.60 and AVE is above 0.50.

2. Structural Model (Inner Model): Inner model or structural model is done to see the significance of the correlation between construction and R-square of the study model. The result of study shows that R-square value to the innovation creativity variable is 0.747, for entrepreneur capability the value is 0.864, it shows that innovation creativity variable can be explained by Triple Helix variable (intellectual, government, business) and the anticipatory learning is 74.7 % while the rest (100%-74.3%=25.3%) is explained by the other causes outside the model. R-square to variable of entrepreneur capability is explained by triple helix (intellectual, government, business), anticipatory learning and innovation creativity as much as 86.4%, while the rest (100%-86.4%=13.6%) is explained by the other causes outside the model. To know the correlation of among variables in this study, it can be determined by the significant value of effect among variables, while the result of data analysis can be seen on the output result of inner weight. Based on the data analysis, so analysis correlation among variables can be determined as follow as seen on table 1:

<table>
<thead>
<tr>
<th>Effects variables</th>
<th>among original sample estimate</th>
<th>mean of sub samples</th>
<th>Standard deviation</th>
<th>T-Statistic</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectuals creativity capability actors-&gt; innovation</td>
<td>0.240</td>
<td>0.248</td>
<td>0.073</td>
<td>3,287</td>
<td>Significant</td>
</tr>
<tr>
<td>Government Creativity Capability Actors-&gt; Innovation</td>
<td>0.126</td>
<td>0.133</td>
<td>0.071</td>
<td>1,759</td>
<td>Not Significant</td>
</tr>
<tr>
<td>Business creativity capability actors -&gt; innovation</td>
<td>0.316</td>
<td>0.305</td>
<td>0.065</td>
<td>4,844</td>
<td>Significant</td>
</tr>
<tr>
<td>Anticipatory creativity capability learning -&gt; innovation</td>
<td>0.328</td>
<td>0.321</td>
<td>0.099</td>
<td>3,311</td>
<td>Significant</td>
</tr>
<tr>
<td>Creativity capability Performance of creativity</td>
<td>0.610</td>
<td>0.612</td>
<td>0.064</td>
<td>9,603</td>
<td>Significant</td>
</tr>
<tr>
<td>Anticipatory learning-&gt; Performance of creativity</td>
<td>0.364</td>
<td>0.364</td>
<td>0.068</td>
<td>5,365</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Discussion: Intellectual actors are the main actor of Triple Helix and have big role in developing innovative creativity to those who conduct creative industry. The cooperation between businessman and intellectuals help much to develop business, therefore the role of intellectuals is optimized more so that their thought can be useful to other people. Intellectuals are the main actor who encourages creating creativities, ideas, knowledge and technology for developing creative industry. However, this should be developed more and more. A strong correlation among them who complete and support one to each will help much to create a sturdy creative industry. Intellectuals have a big capacity in strengthen a basis of
innovation both formal and non-formal, ability in accomplishing concepts of innovation, and a capacity in creating business network. Creativity is individual activity which leads to create innovation, while an innovation tends to be sector activity which focuses on a particular target of problem solving but rarely does it lead to creativity. Higher education which is a part of intellectuals is hoped to have big role in developing creative industry through such activities reflecting Tri Dharma Perguruan Tinggi (the three principles of higher education). Intellectuals are those who have many ideas related to their own field, so that they have duties and responsibilities for helping other people through the three principles of higher education. Intellectuals have role as an agent of spreading knowledge, art, and technology, and also an agent who can develop creative industry in society. Developing business management, intellectuals can conduct their activities through continuously mentoring in order to meet management improvement for those who have creative industry. Intellectuals also have big role in helping to strengthen cooperation network to business partners, as an implantation of the third principle of the three principles of higher education. Intellectuals have one of Triple Helix Actors who encourage creating creativities, ideas, knowledge and technologies to the development of creative industry, so that it will produce developed creative industry which is sturdy in facing competition, therefore it can provide job vacancies and reduce jobless.

The role of government in developing creative industry does not meet the expectation of those who run creative industry. This has been proven that it has no significant effect on developing innovative creativity. Creative industry is a part of small micro enterprises, which generally does not care or lacks understanding rules, policies made by government. As an institution which has authority of creating and implementing law and regulations, either central or local government should have decided a policy which supports the development of creative industry. A synergy among departments and central and local government, is really needed to reach the vision, the mission and the target of the development of creative industry. The beneficial policy and regulation for the creative industrial entrepreneur are truly needed, considerably towards the well development of the local autonomy, democrational straightening, and good governance principals. The development of the creative industry is importantly affected by the current location and mindset in order to implement the good governance principle, law empowerment, transparency, responsiveness, professionalism, accountability, effectiveness and efficiency with qualified supervision shall support truly in the development of the creative industry. The main actor in business is the entrepreneur, investor, inventor of the new technology and the creative industrial customer which support the continuity of the industry. The claimed privileges are as followed: 1) as the creator, which stand as a product creator and creative service, the new market which can apply the provided service and product, also creates a new job vacancy for creative individuals or other supportive elements. 2) as the creator of the community and creative entrepreneur, it must be supportive in establishing public sphere so intimate mindset sharing can be done which stimulates the creativity in running the creative industry business and conveying sharing methods in developing the managements.

The business role is determined to use the high conceptual ability, create innovation so new products and HAKI can be established, develop a multi business relationship so conducive circumstances can be conducted. The collaboration between the intellectuals, government and business (triple helix) is truly expected by the development of the creative industry. Triple helix appears as a dominant factor which generates innovational creativity among the society by creating dynamical interaction and communication. The basic task from the three main roles in triple helix is to establish creative society and pursuing them to be active in creating design, and generating creativity and innovation. Triple helix appears to be a concept which can increase creativity, idea, and skills (Etzkowitz, 2008). The fast transformation of the environment acquires innovative creativity in order to implement transformation which can fulfill the needs of the clients, thus, the entrepreneur must conduct anticipatory learning to adapt towards the transformation of the environment. The transformation and willing of the client in self fulfilling satisfaction triggers the industry to continuously innovate, so relevant products can be created as wished by the clients. The non creative companies tend to innovate yet not able to survive and compete in this vast era. The anticipatory learning can increase the innovative creativity; this can be done by increasing new technology control, experimenting on the developments of new products, and multi business relationship.

The intellectuals have a vital role in spreading and implementing the knowledge, art and technology towards the developing creative industry among the society. The academicians among the intellectuals are expected to be involved in such big role in developing creative industry through research institutions and volunteering programs. While developing the roles, the intellectuals are expected to assist in
increasing the entrepreneurial ability of the creative industry individuals. The intellectual that possesses such ability is expected to increase the entrepreneur capability. This program can be done in forms of training, supervision in increasing the ability of imagination, practical knowledge, communication, and social skills. Such matter appears towards the involvement of the government in developing creative industry which is needed towards the management of the local autonomy, democrotical straightening, and good governance implementation. The providing of intrigues, challenges, and supports so business ideas can be mobilized in such competence level is truly needed. The government is expected to have such sensitivity towards the development of creative industry, thus the development of creative individuals is oriented by the development of intelligence through learning. The correct learning process and oriented by the establishment of characteristic and entrepreneurial intelligence is aimed to increase the entrepreneur capability. By speeding up its establishment, the government may create policies, providing facilities which support the entrepreneur capability. The main elements of the triple helix are business (business individual, investor, the new technology inventor, and clients), as they are determined to use their high conceptual abilities in order to create the entrepreneur capability. This program may appear as a local gathering, community establishment, seminar and a business relation which support the self knowledge, increase the ability of imagination, practical knowledge, inventing comprehension, search skill, and communication skill.

Companies apply anticipatory learning results competence in supporting various innovational creativity which establish the quality of compete (Garvin, 1991). The anticipatory learning which is implemented due the development of the environment, by adapting the development and control of the vast developing technology, the programs in experiments in creating new products relevant towards the client’s wish with the beneficial relation are pivotal to be established. The learning of organization appears as the process of creation, achievement, sharing and implementing knowledge to gain transformation with innovation towards the whole maximum work and the quality of compete (Chinowsky, 2006). The ability to increase the learning from entrepreneurial level can increase the efficiency and ability in innovating inside the industry, with the strong tendency towards good learning and team work (Dodgson, 1994). The company must apply the anticipatory learning activity in a continuous level in order to increase the competence. The anticipatory program appears as the development and control of the new vast evolving technology, so the program can become experimental and resulting new products as requested by the market and creating new team working. The implementation of the anticipatory learning can be done by creating local gathering, seminar, community establishment, and team work which supports the development of entrepreneurial capability such as: self knowledge, increase the ability of imagination, practical knowledge, inventing comprehension, search skill, and communication skill.

A business man is a person who possesses the will and ability to create and innovate. They have the ability in creating different items creatively and innovatively. The creative and innovative ability is applied by the will in starting a business, starting new activities, the ability and will to search for chances, handling risks and develop new ideas. Businessmen are dedicated as the owner or manager who must have investment, the ability of managing, supervising, enjoying, and handling risks. Thus, entrepreneurs must have basic principals such as a clear vision and goal, a strong ability and commitment, financial aid, time, energy, and mind. Those elements are still not enough if not with the knowledge of the entrepreneur capability such as: self knowledge, imagination, ideas that does not reflect the past, practical knowledge such as: technical practice, design, processing, inventorying, marketing and administration, the ability in inventing, creating and imagining (search skill), and social relation to communicate with others (communication skill). The company without innovation cannot compete and survive towards the more difficult condition of the world’s competition. The transformation needs and triggers the company to continuously innovate and create the products that are requested by the clients. The value of creativity and innovation is the element of originality, thus an innovative entrepreneur is a person who creatively believe in better innovation. Creative entrepreneurs cannot be satisfied easily, even though the facts of good process, imagination inside the work, they tend to think differently than others. Creative and innovative entrepreneurs always orient themselves as innovative individuals.

Creative industry that cannot adapt towards the transformation must creatively adapt towards it. The vast evolving technology forces the company to adapt towards it, by innovating and fulfilling the client’s needs. The creativity in innovating is always oriented towards the increase of productivity, which by resulting effectiveness and affiances production and resulting the quality and quantity of the products. The entrepreneurial process of creative industry can be successful by having the soul and mind of the entrepreneur. They are affected by the skills, ability, and competence. The entrepreneur should be able to
manage, supervise, enjoy and handle the risks. Those elements are still not enough if not with the knowledge of the entrepreneur capability such as: self-knowledge, imagination, ideas that does not reflect the past, practical knowledge such as: technical practice, design, processing, inventorying, marketing and administration, the ability in inventing, creating and imagining (search skill), and social relation to communicate with others (communication skill). Businessmen are dedicated as the owner or manager who must have investment, the ability of managing, supervising, enjoying, and handling risks. Thus, entrepreneurs must have basic principals such as a clear vision and goal, a strong ability and commitment, financial aid, time, energy, and mind. Those elements are still not enough if not with the knowledge of the entrepreneur capability such as: self-knowledge, imagination, ideas that does not reflect the past, practical knowledge such as: technical practice, design, processing, inventorying, marketing and administration, the ability in inventing, creating and imagining (search skill), and social relation to communicate with others (communication skill). With the ability, an entrepreneur may be able to manage the business in good hands. The good understanding of the business, and control of the practical field in increasing the quantity and quality of the products, affects the growth of the production. The increase of production affects the quantity and increase of the gross and market share. Ultimately the entrepreneur capability becomes better and increases the work of the whole company.

4. Conclusion

The creativity capability of the creative individual innovation company can be developed by the relationship networking between the main Triple Helix elements (Intellectuals, government, business) also by implementing the anticipatory learning continuously. On the other hand the role of the government in guiding and communicating, understanding the local policy, central law which should be more specialized in its implementation in order to increase the creative business. It appears similar with the innovation implementation increase of the creative industry individuals is necessarily needed for the Triple Helix also in the anticipatory learning. This research is only focused on the creative industries. The data sampling from the handmade sector, fashion, and Information technology is only limited in six local regencies, with the sample of 122 respondents, which affects the still not perfect research this may be appearing. In the coming future, the research is expected to add more other variables which can affect the entrepreneur capability and the work of the creative industry, also can be more focused on specific fields in order to achieve better and more perfect results.

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**Appendixes**
Change Management in the Higher Education Landscape: A Case of the Transition Process at a South African University

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Abstract: The South African Higher Education system in the post-apartheid period had to respond to the various discriminatory practices that existed during the apartheid era. This entailed responding to inequalities in the education system at various levels. With respect to Higher Education there was an imperative to serve society that was based on the principles of equality, equity and inclusivity. One such response was to merge higher education institutions such as ML Sultan Technikon and Technikon Natal to form the Durban Institute of Technology now referred to as the Durban University of Technology (DUT). This paper is concerned with the process of change in the Higher Education context and examines a South African case study. The paper begins with a review of literature on the South African Higher Education system in the post-apartheid period, and change management in higher education institutions during this time. The theoretical analysis is followed by a case study of the transition process at the Durban University of Technology in South Africa. The merger process revealed numerous challenges one of which was the human resource issue that underpinned the merger of staff between the two technikons which differed in practice. The rationale for this study was that staff at the merged institution experienced alienation; mistrust and a lack of shared purpose. The study was conducted within a quantitative paradigm which enabled an evaluation of the role of internal communication in a higher education setting during the transition process. The sample population was 400 administrative and academic staff from across the seven campuses. Staff were assessed via a survey questionnaire. The data was analyzed using SPSS. The study found that living and coping with change in the work environment is a fact of life for organisations and individuals. The success of any change programme depends on the organisation's ability to communicate effectively with its employees; therefore internal communication plays a pivotal role in any change programme.

Keywords: Change management, higher education, internal communication, mergers
The Influence of Audit Committee Efektivity toward Earning Management Practices

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Abstract: Earning Management practices caused a lot of money scandals toward big companies, like enron scandals. To overcome those impact, stakeholder parties asked monitoring focus on management and operational company activities. Audit committee played important role in the monitoring company process. Audit committee had to make sure that company activity and management business on the right track. So that, earning management practices could be minimized and investor obtained reliable information about the company. The purpose of this study was to examine whether Audit Committee Size, Meeting Frequence, Audit Committee Independence and Audit Committee Financial Expertise influenced earning management practices. Earning management was proxied by discretionary accruals. This research used manufactures company annual report as population. Using a purposive sampling method, 143 companies data were selected as samples. Three years companies annual report, during 2011 to 2013 are used as secondary data. The data was analyzed by multiple regression. The results indicated that 125 data, about 87,4% companies sample proper based on Bapepam rules. Those data were free from outliers and met the classic assumption criteria. Other result showed that Audit committee size, Meeting Frequence and Financial Expertise did not have any influence toward earning management. While, Audit Committee Independence had influence.

Keywords: audit committee, corporate governance, earnings management

1. Introduction

Background of Problems: Earnings management companies issue have started to develop since the financial crisis that occurred in 1997. Earnings management increasingly attracted attention since accounting scandals committed by Enron and Big 5 Accounting Office, Arthur Anderson appeared. The scandal eventually led to other cases were also carried out by high-profile companies such as Worldcom, HealthSouth, and Tyco (Rani, 2011). In Indonesia also happened several cases of earnings management, such as PT Kimia Farma inflated (overstated) corporate profits in the 2001 financial statements. This case caused imposition sanctions on PT Kimia Farma auditor, because audit risk failed to detect the presence of profit bubbles, although it has been doing the appropriate audit procedures SPAP (Generally Accepted Accounting Standards). In other case, Indofarma company did earning management practices. They presented net profit overstated by manipulating inventories higher than before. So that, sales in that year had understated. According to Palestine (2009) earnings management can be interpreted as an management act that affected the earning report and provided wrong economic benefits for the company, so that in the future it will be very annoying and even harmful to the company. Company Efforts or certain parties to change, information manipulate, even earnings management actions that could lead financial statements no longer reflect the fundamental value, the financial statements should be serve as a communications management media with external parties or between the company and its stakeholders (Subhan, 2011).

Earnings management practices could be prevented by apply the corporate governance mechanism (Pujiningsih, 2011). Corporate governance mechanism consists of commissioners, independent directors, board of directors, and audit committees. Some audit committee characteristics are used as performance parameters, namely the audit committee independence, the audit committee expertise (financial expertise), the frequency of audit committee meetings, also the size of audit committee. Independence was needed to gave internal auditor performance value, to overcame external auditor conflict also to gave objectivity and external auditor independence value. Audit committee size connected to audit committee total member. Audit committee financial expertise was needed, because this matter related to audit committee objective which were examined and watched out financial reporting process. While audit committee total meeting frequency was to measure audit committee diligence level (IKAI 2004 in Rani 2011). The existence of some audit committee characteristics which was connected to each other, hopefully could enhanced audit committee performance and effectivity, so that could overcame earning management practices in the company. Research on the effectiveness of the audit committee have been carried out. Several previous studies proved the relevance of audit quality with earnings management.
practices. Lin (2006) in Putri and Laksito (2011) provided evidence that size of audit committee negatively affected on earnings management practices, measured by whether the company did restatements or not.

Research conducted Rahman (2006), quoted in Putri and Laksito (2011), indicated that the audit committee has not have a central role in preventing earnings management insident. This things showed that the formation of an audit committee in listed companies have not been able to achieve its objectives. Pamudji dan Trihartati (2010) successfully tested on the effect of the independence and effectiveness of audit committee on earnings management. The results indicated that the audit committee independence effect on earnings management. But, on the expertise of the audit committee, the frequency of audit committee meetings, reputable auditors, and external financing had no effect on earnings management. The study differs from Gradiyanto (2012) which stated that the frequency of audit committee meetings have a significant effect on earnings management. In contrast to research conducted by Prastiti (2013), this study showed no effect between audit committee characteristics on earnings management. The results of the studies were still diverse, this research intended to re-examine according to Pamudji and Trihartati (2010). But there were several differences with the previous research studies, which were (1) the time commitment of the audit committee as an independent variable was omitted (2) (2) size of audit committee was added as independence variable, because Putri and Laksito (2011) also Suaryana founded that size of audit committee influenced earning management practices and (3) differences in the time of study, namely the year 2011 to 2013.

**Hypotheses Formulation**

**Size of Audit Committee Affected on Earnings Management:** In Indonesia, Good Corporate Governance guideline explained that one company should be had at least three audit committee member, which independence commissioner as the head and two member external that had financial and accounting background (Anggarini, 2010). Yang and Krisnan (2005) in Putri and Laksito (2011) proved success that there was negative relation between size of audit committee and earning management. The result showed that the bigger size of audit committee thus financial reporting quality could be guarantee. So that, the size of audit committee could minimize earning management practice on the company.

\[ H_1: \text{size of the audit committee affected negatively on Earning Management} \]

**Audit Committee Frequency Meeting Affected on Earnings Management:** Effectiveness the role of the audit committee in carried out oversight the financial reporting process and internal controls required regular meetings (McMullen and Raghunandan, 1996) in Anggarini (2010). Bapepam (2004) and the Forum for Corporate Governance in Indonesia (FCGI) required audit committee to hold meetings three to four times in a year. Frequency of these meetings should be clearly structured and well controlled by the chairman of the committee. Beasley et al. (2004) in Pamudji and Trihartati (2010) found that the company's audit committee who made mistakes in financial reporting had frequency less than audit committee who had no mistakes in financial reporting. Therefore, this study examined the relationship between the frequency of audit committee meetings with earnings management.

\[ H_2: \text{The frequency of audit committee meetings affected negatively on Earning Management} \]

**Audit Committee Independence Affected on Earnings Management:** In the Idx rules and corporate governance policies on the effective audit committee formed said that, audit committee consist of less than three majority independence member, which was one independence commissioner and at least two outside member. Audit committee member was required came from independence external company, must be consist of independence persons and did not involve with management daily activities, also had enough experience to run monitoring function effectively. Several studies have been conducted to prove the effect of audit committee independence on earnings management. Xie et al. (2003) in Pamudji and Trihartati (2010) states that the audit committee independence is negatively related to fraud in the financial statements. This is also supported by Ebrahim (2007) in Gradiyanto (2012) proved that there is a negative correlation between the occurrence of earnings management with audit committee which composed of independent members.

\[ H_3: \text{The independence of audit committee affected negatively on Earning Management} \]

**Audit Committee Skills Affected on Earnings Management:** Securities and Exchange Commission required that each audit committee must consist of at least one member who has a financial expert. Financial expertise was important for the audit committee because the primary function of the audit
committee was to oversee the company's financial reporting process (Pamudji and Trihartati, 2010). Xie et al. (2003) and Choi et al. (2004) in Pamudji and Trihartati (2010) stated that audit committee members were independence commissioners which had financial skill were effective parties to minimized earning management.

H0: Audit committee expertise affected negatively on Earning Management

3. Methodology

**Population and Sample:** Population in this study was manufacturing companies listed in Indonesia Stock Exchange in 2011-2013. The samples in this study were done by using purposive sampling method, with the following criteria: (1) The company published financial report and annual report for the ended period December 31, during 2011 - 2013. (2) The companies were manufacturing companies listed in Stock Exchange and its shares are traded during 2011-2013. (3) The company had the relevant data concerning this research, such as regarding the independence, audit committee backgrounds members, frequency of meetings between the audit committee, the size, and other data needed to detect association with earnings management.

**Definitions of Operational Variables**

1. **Dependent Variable**

   **Earning Management:** Measurement of earnings management was done by calculating discretionary accruals as a proxy for earnings management. So far only the aggregate accrual-based model that was generally accepted as a model that provided the most powerful results in detecting earnings management (Sulistyanto, 2008) in Pamudji and Trihartati (2010). Model Jones (1991) modified by Dechow et al. (1995) was used as aggregate accrual-based model. This model was used because it was considered the most powerful tool for detecting earnings management.

2. **Independent Variables**

   a. **Size of Audit Committee:** Based on Circular Letter of the Board of Directors of the Jakarta Stock Exchange No. SE-008 / BEJ / 12-2001 dated December 7, 2001 and audit committee guideline formed by Bapepam about audit committee member, explained that audit committee should had more than three members, include the chief. So that, audit committee could had meeting and discussion each other (Anggarini, 2010). This variable was measured based on audit committee total member, the formula as followed:

   \[ ACSR = \text{number of audit committee members} \]

   b. The frequency of audit committee meetings should be conducted at least 4 times a year, had mentioned in audit committee guideline, in order to discussed financial reporting with external audit. This variable was measured based on total audit committee meeting frequency in related year. The formula as followed (Gradiyanto, 2012):

   \[ ACMEET = \text{number of audit committee meeting frequency} \]

   c. **Audit Committee Independence:** Audit committee Independence was a condition which audit committee member should be recognized as an independence party or free from any obligation to the company recorded (Putri and Laksito, 2011). Audit committee independence was eligible to Bapepam No. Kep-29 / PM / 2004, as followed:

   1. Insider person who did not give audit and nonaudit service also consultant to company.
   2. It was not a management executive
   3. Did not have shares either directly or indirectly
   4. Did not have a family relationship with board commissioners and board of directors
   5. Did not have a business relationship, directly or indirectly related to the business of the company

   Audit Committee Independence Measurement in this study used percentage audit committee independence member as indicator toward total audit committee member. The formula as followed:

   \[ ACIND = \left( \frac{\text{total members} - \text{non independence total member}}{\text{total members}} \right) \times 100\% \]
Audit Committee Expertise: Accountant expert or financial management expert was someone who experienced in accounting or financial fields, certified public accountant or comparable expertise or Chief Executive Officer (CEO) or others senior officer who had oversee responsible in financial monitoring (Abbott et al (2004) in Pamudji and Trihartati (2010)). Based on these statements, financial expertise in this study was measured by percentage the number of audit committee members who had an accounting or financial background or had held important positions in finance within the organization, the way the calculation by formula (Gradiyanto, 2012) as followed:

\[
ACEXP = \frac{\text{(number of audit committee members with expertise)}}{\text{(number of members)} \times 100}\%
\]

Techniques Analysis: This research used multiple regression analysis. Multiple regression analysis was used to test the effect of the independent variable on the dependent variable. Multiple regression models were developed to test the hypotheses that have been formulated in this study are:

\[
DACC_{it} = \beta_0 + \beta_1 \text{ACSIZE} + \beta_2 \text{ACMEET} + \beta_3 \text{ACINDEP} + \beta_4 \text{ACCOMP} + \beta_5 \text{BIG4} + \beta_6 \text{FINANC} + e
\]

where:
DACC: Directionary Accruals as a proxy for earnings management
ACSIZE: audit committee size
ACMEET: Number of meetings (frequency) among the members of the audit committee within one year
ACINDEP: Audit Committee Independence Member
ACCOMP: Audit Committee Skills Members in Finance
BIG4: Auditors Reputation
FINANCQ: The need for external financing
E: Residual of error

To test this hypothesis test used the coefficient of determination (R2), simultaneous significance test (F test), and the individual parameter significance test (t test).

4. Findings and Discussion

Discussion: The results of this study simultaneously succeeded in proving that the audit committee size, audit committee independent and audit committee meetings influenced on earnings management.

Audit Committee Size Effect: Based on the test results showed that the size of the audit committee obtained no significant effect on earnings management actions. It was consistent with previous studies conducted by Anggarini (2010) and Rani (2011) which stated that audit committee size on earnings management there was no influenced. However, this study did not support Laksito and Putri (2011) also Suaryana (2005) which stated that audit committee size influenced earnings management. In this study some companies fixed indicated in earnings management practices. This matter indicated that audit committee in sample companies lack of monitoring or tight oversee on financial report internal audit. In other word, minimal requirement audit committee member did not guarantee effective monitoring (Gradiyanto, 2012).

Audit Committee Frequency Meeting Effect: The results showed a significant relationship but in a positive direction. Therefore, this research can be said that the frequency of meetings held by the audit committee has no effect on earnings management practices. The results of this study are consistent with Trihartati and Pamudji (2010), Rani (2011), also Putri and Laksito (2011) which stated that there is no influence of the frequency of audit committee meetings on earnings management. But Gradiyanto (2012) did not support the result, he stated that there is a significant influence between the frequency of audit committee meetings with earnings management practices. From these results it can be concluded that the members of the audit committee that meets at least four times a year was not able to reduce fraud in the financial reporting process. It could be explained that management and external parties rarely to present on audit committee meeting. Moreover Sharma et al (2009) in Putri and Laksito (2011) explained that audit committee meeting only a ceremonial also percentage of attendance changes frequently so that, audit committee meeting was not effective.

Influence of the Independent Audit Committee: Based on test results obtained that the independent audit committee significantly had effect on earnings management practices. This result consistent with Pamudji and Trihartati (2010). From the significant influence result showed that independence audit committee was enough mechanism to prevent earning management practices. Pamudji and Trihartati (2010) explained independence audit committee was the most important thing that audit committee
member should had. Audit committee performance became effective if the member had independence in attitude and opinion. However, the results of this study did not support Putri and Laksito (2011) which stated that there was no influence of independent audit committee with earnings management. Anthony (2007) in Putri and Laksito explained the independence of the audit committee might not affect earnings management as long as the audit committee got benefit from the company, they would be difficult to achieve independence.

Influence of the Audit Committee Expertise: From the significant influence result showed that independence audit committee was enough mechanism to prevent earning management practices. Pamudji and Trihartati (2010) explained independence audit committee was the most important thing that audit committee member should had. Audit committee performance became effective if the member had independence in attitude and opinion. However, the result supported Pamudji and Trihartati (2010) also Putri and Laksito (2011). These results indicated that companies that have audit committee with great competence in finance or accounting did not tend to have lower earnings management. The number of audit committee with accounting economy education background seems less to ensure audit committee performance and better oversight to management. Khomsiyah (2005) in Pamudji and Trihartati (2010) stated that based on the facts, this was due to the fact that the establishment of an audit committee with expertise in accounting and finance was only based on the applicable regulations. The role of the audit committee was very important in monitoring the company's financial reporting. Characteristics of an effective audit committee was expected to prevent the occurrence of earnings management in the company. However, it was not supported by existing research, between audit committee characteristics such as the size of the audit committee, meeting frequency, independence, and competence of the audit committee, only audit committee independence which had significant effect on the earnings management practices prevention.

The size of the audit committee has not been able to make an effective contribution to the company's financial reporting. The audit committee frequency meeting members, despite being as required by Bapepam, but still there were companies that are likely to carry earnings management. Audit committee member who had accounting and finance expertise also could not guarantee that they had better performance and control on earning management practices. While audit committee independence had significant influence showed that audit committee independence could prevent enough on earning management. In this condition, audit committee independence was needed for analyzing finance matters, so that could prevent earning management. From the explanation can be concluded that the existence of an audit committee characteristics such as the size of the audit committee, the frequency of meetings, independence, and audit committee members competence in this study can not fully prevent the practice of earnings management in the company.

5. Conclusion and Implications of Research

From the analysis of the data from the previous chapter, it can be concluded as follows:
1. The size of the audit committee did not have a significant effect on earnings management.
2. The meeting of the audit committee did not have a significant negative earnings management but have a positive effect.
3. The audit committee independent had a significant negative effect on earnings management.
4. The audit committee competence did not have a significant effect on earnings management.

Suggestion: Advice can be given with regard to the results of this study were as follows:
1. Companies managements need to give special attention to the phenomenon of earnings management in relation to the implementation of corporate governance.
2. Securities and Exchange Commission need to control for the fulfillment of corporate governance at each company would gave investors calm.

Researchers Limitations and Future Research Agenda: Limitations of this study include:
Model accrual Jones had not been able to separate the components of non-discretionary accruals and discretionary accruals appropriately. So there was a possibility of error classification of non discretionary accruals and discretionary accruals.
Agenda for future research are:
Earnings management measurement had to be more accurate, eg per industry. So that the characteristics of different industries that could affected earnings management could be incorporated into the
measurement model. By developing a model each industry could also identify differences in the pattern of earnings management in each industry.

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The Improvement of Organizational Citizenship Behavior (OCB) Affected By Transactional Leadership Style

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Abstract: The purpose of this research is to examine the improvement of organizational citizenship behavior (OCB) which is influenced by the transactional leadership style through teacher trust and motivation to work in the state high school in Wawotobi. Data are collected by distributing questionnaires to the respondents of all state high school teachers in Wawotobi. Samples of this research are 82 high schools teachers in Wawotobi. This research uses descriptive analysis to determine the characteristics of respondents and distinguish respondents for each indicator variable. The instrument used to test the correlation among variables is SEM methods and analyzed by PLS (Partial Least Square). The results show that: (1) trust has a significant positive effect on organizational citizenship behavior (OCB) (2) work motivation has a significant positive effect on organizational citizenship behavior (OCB) (3) transactional leadership style has a significant positive effect on trust (4) transactional leadership style has a significant positive effect on work motivation (5) transactional leadership styles does not have significant positive effect on organizational citizenship behavior (OCB).

Keywords: Organizational Citizenship Behavior (OCB), Transactional Leadership Style, Trust, Work Motivation

1. Introduction

Human activities, collectively, are always in need of leadership to create a planned and systematic business. Similarly, it happens within organization consisting of a group of people who work together to achieve certain goal, it is important for leaders as central driving of the organization seek to know the desire of employees or members. A teacher who has Organizational Citizenship Behavior (OCB) is highly influenced by the role of the school principal, so that, this research may contribute to the theory of Organizational Citizenship Behavior (OCB). According to Robbins (2006), Organizational Citizenship Behavior (OCB) is a behavioral choice that is not part of the formal labor obligations of employees, but to support the functioning of the organization effectively. A school principal and teachers with Organizational Citizenship Behavior (OCB) will exhibit a high assist voluntarily outside their duty or obligation.

Trust in leaders has a positive correlation with various outcomes such as organizational behavior, performance and satisfaction of members. It is known that trust is a decisive importance factor of satisfaction with the leader because it comes from the affective state (e.g. admiration for leaders) and cognitive state (e.g. leaders have high confidence because of the ability or attributes), not derived from the behavior observed by leadership (Conger et.al, 2000: 34 Untung & Bagus, 2007). Trust can be interpreted as wishes to rely on the others and hope that the other parties reply if the parties cooperate with. The ability to compete is important for leader in order to gain trust between leaders and employees in an organization because employees is not possible to build trust against their leader unless they believe that the leader is able to fulfill his leadership role.

Motivation is a set of attitudes and values that influence individuals to achieve specific things in accordance with individual goals. There are 3 sources of motivation, those are; the possibility to evolve, type of work, and whether they feel proud to be part of the company they work for (sense of belonging). Besides, there are several aspects that influence employee motivation, such as; a sense of security in work, fair and competitive salary, a pleasant working environment, high performance reward and fair treatment from management (Riva, 2009). According to Fuad Mas'ud (2004), motivation is a driving force in a person to act, to be able to carry out tasks and work well. Motivation is the driving forces of one's heart to do or achieve purposes. Motivation can also be regarded as a plan or desire for success and avoid failure of life. In other words, motivation is a process to achieve a goal. A transactional leadership is a style of leadership that emphasis group to be adherence to the leader because of the reward if successful or sanctions if fails. In other words, people come to work or carry out the rules because they want to get a reward or because they are afraid of sanctions or punitive action by their
leaders for failing to carry out the task. This form of reward or sanction is expressly provided in the agreement or transaction between leaders and members.

Alan M. Barnett (2003) reveals that transactional leadership is hypothesized to occur when there is a simple exchange of one thing with another. Moreover, Burns (1978) argues that transactional leadership occurs when someone takes the initiative to make contact with others for the purpose of exchanging value. In this connection, the leader and the employees exchange services to meet the needs and personal goals (independent). Based on the explanation above, the purpose of this research is to analyze the effect of trust on Organizational Citizenship Behavior (OCB); 2) to analyze the effect of motivation to work on Organizational Citizenship Behavior (OCB); 3) to analyze the effects of transactional leadership style on the trust; 4) to analyze the effects of transactional leadership style on work motivation; 5) to analyze the effects of transactional leadership style on Organizational Citizenship Behavior (OCB).

2. Literature Review

Organizational Citizenship Behavior (OCB): The term Organizational Citizenship Behavior (OCB) is created by Organ at the beginning of the 1980s. However, Bernard (1936); in Budiharjo (2004), uses similar concepts Organizational Citizenship Behavior (OCB) and call it as a willingness to cooperate. In 1964, Katz uses similar concepts and refers to it as an innovative and spontaneous behavior. Organizational Citizenship Behavior (OCB) may improve the effectiveness of team-work, such as improving coordination and allowing team members to adapt more effectively to the changing environment. This benefit is advantageous in multidisciplinary teams where there are a variety of characters. On “in-role” style, it is usually associated with “rewards” and sanctions (punishment), while in the “extra-role,” it is usually free of reward and behavior by individuals that is not organized in reward and it will be accepted and there is no additional incentive provided when individuals behave “extra-role” (Morrison, 1994 and Dyne et al., 1994).

Understanding Organizational Citizenship Behavior (OCB) is actually re-conceptual explanation of the nature of citizenship as a political philosophy (Dyne et al., 1994). According to Katz (1964), in Konovsky and Pugh, (1994), one of the behaviors that support the effectiveness of the organization is Organizational Citizenship Behavior (OCB). When employee feels good on organizational treatment, they will respond and improve job performance exceeds the minimum demand by helping others and the organization, on the contrary if the organization sees employees in the short term, they will respond by simply doing the jobs as they are and minimize citizenship behavior (Dyne and Ang, 1998). While according to Organ (1988), Organizational Citizenship Behavior (OCB) is the behavior of employees who exceed their formal duties and contribute to the effectiveness of the organization, which is implicated in four dimensions: 1) sportsmanship; 2) Civic Virtue; 3) Conscientiousness; 4) Altruism.

Trust: Mayer et al. (1995) defines trust as a willingness to grant others to do the desires based on the hope that it will take certain actions to them, regardless of ability to control the other parties. Doney et al. (1998) defines trust as something expected from honesty and cooperative behavior based on mutual shared norms and the same values. Das and Teng (1998) define trust as a stage to which an individual believes to put a positive attitude toward the good desire and the reliability of others to believe in changing circumstances and risk. Bhattacharya et al. (1998) defines trust as the condition in an environment of uncertainty and risk, trust reflects an aspect of the possibility that is a hope. According to Shaw (1997), there are four elements that are necessary to measure the level of trust in teams or organizations. The objective to do measurement in exhibiting trust level is to determine the current level of existing trust (currently exist) on a team or an organization which include: 1) The delegation of authority; 2) Working collaboratively; 3) being open-minded to change; 4) freedom to express ideas.

The findings of Mayer and Gavrin (2005) show that several levels (top management) are positively related to the performance, the ability also has a positive relationship with Organizational Citizenship Behavior (OCB). In a research of workers in China, in the state-owned company conducted by Wong et al. (2006), show that trust in the organization is positively related to Organizational Citizenship Behavior (OCB). A recent research by Singh and Srivastava (2009) reveal that interpersonal trust is positively related to Organizational Citizenship Behavior (OCB). It is implied that the development at the level of interpersonal trust may be used as one of the strategies to motivate employees and improve the performance of individuals and organizations (Hassan, Masoodul; Semerciöz, Fatih,
Rubin, S. et al. (2010) find that trust is positively related to organizational Citizenship Behavior (OCB). Therefore, the hypothesis proposed is as follows:

H1: There is an effect of trust on organizational citizenship behavior (OCB).

**Work Motivation:** Gibson (1997) states that motivation is a concept that describes the forces that exist within the employees who initiate and direct behavior. According to Robbins (2006), motivation is a process that acts on the intensity, direction, and duration of ongoing individual efforts towards the achievement of targets. The keys contained in the definition above are intensity, purpose, and perseverance. The intensity is related to how hard someone tries. This is the element that receives the most attention of motivation. Intensity level should also be directed earnestly to desired direction in order to produce expected results. While the persistence of someone employee is a measure of how long a person can maintain his efforts in achieving the goal. One’s motivation to work depends on the receipt of reward and punishment that will be experienced later (Arep Isaac & Cape Hendri, 2003) as a strengthening factor to be used by a leader to improve or maintain individual-specific response. So, according to this theory, people's motivation to work depends on the award received and the result of what is going to happen later. This theory states that the behavior of a future is shaped by the result of the current behavior.

The concept of motivation is often emphasized in the literature stimuli that arise from someone either from within himself (motivation intrinsic), or from outside himself (extrinsic motivation). Intrinsic factors are internal factors associated with satisfaction, such as; success in achieving something in career, the recognition obtained from institutions, the nature of the work performed, in career advancement, and the professional and intellectual growth experienced by someone. According to Kinman et al. (2001), the elements of intrinsic motivation are: (1) interest on the job; (2) The desire to evolve; (3) Happy at work; (4) Enjoy the work. Conversely, sometimes employees are not satisfied with their work. The emergence of dissatisfaction is generally attributed to extrinsic factors or external source such as organizational policies, administrative services, and supervision of the supervisor, relationships with coworkers, working conditions, salary earned, and peace in the workplace (Cooke, 1999). According Kinman et al. (2001), the elements of extrinsic motivation including: (1) competition, (2) evaluation, (3) status, (4) Money and other awards, (5) Avoiding punishment from managers. Motivation of someone is originated from the need, desire and urge to act to achieve the needs and goals. This indicates how strong encouragement, effort, intensity, and willingness to sacrifice for the attainment of the objectives are. In this case the stronger the encouragement or motivation, the higher the Organizational Citizenship Behavior (OCB) will be. The research by David J. (2000) explains that there is a positive influence of work motivation toward Organizational Citizenship Behavior (OCB). Furthermore, the research conducted by Kim Sangmook (2006) finds that the higher the perceived motivation of employees is, the higher the level of Organizational Citizenship Behavior (OCB) will be. Therefore, the hypothesis proposed is as follows:

H2: There is an effect of work motivation on organizational citizenship behavior (OCB).

**Transactional Leadership Style:** According to Yuki (2000) transactional leadership is an affecting process that emphasizes on the relationship of transactions, bargaining and economic exchanges between leaders and employees. A transactional leader puts more emphasis on rewards to motivate employees. Gibson et al. (1996) defines transactional leadership as the ability to identify the leader and the employees’ desire to help to achieve a higher level of achievement by providing a satisfying reward. According to Burns (1978), on transactional leadership, the relationship between leaders and employees are based on a series of bargaining between them. Clearly, the characteristics of transactional leadership are contingent reward and management by - exception. Contingent reward could be in the form giving reward of leadership because the task has been carried out; this reward is usually in the form of a bonus or increase in income or facilities. It is intended to reward and praise for the employees to his efforts. In addition, leaders usually have transactions with employees by focusing on aspects of the mistakes made by him, delaying decisions or avoiding issues that may influence the occurrence of errors. Meanwhile, management by - exception emphasizes on management function as a control. Leaders only see and evaluate whether there is an error to be corrected, and also, provide intervention if the standard is not met by subordinates (employees). Practically, in management by - exception, leaders delegate responsibility to subordinates and follow up by giving whether subordinates can be commended for encouragement and also the prize if the report made by them meets the standards. According Bycio et al. (1995), transactional leadership is a leadership style in which a leader focuses on attention to interpersonal transactions between leaders and employees involving the exchange relationship. The
exchange is based on an agreement on the classification of targets, work standards, assignments, and awards.

In transactional leadership, the leader and employees act as a principal bargaining chip in a process that involves the exchange of rewards and punishment. The main idea of transactional approach is the presence of an exchange; the leader wishes to what the followers possess and leaders, in return, will give what the followers want. Thus, transactional leaders motivate subordinates to act in accordance with expectations through the establishment of reward and punishment. Transactional leadership has three dimensions which include: (a) Remuneration (contingent reward); (b) Active, leaders supervise and look for irregularities on various rules and standards, and take corrective action; (C) Passive, leader intervenes only when the standard is not achieved (Pounder, 2001). According to Podsakoff et al. (1984), the components of transactional leadership are contingent reward, as an example, a leader praises employees when they do a better job at above average, and, contingent punishment, for example, leader shows displeasure when employees work under the established standards. Gillespie, Nicole A; Mann, Leon (2004) find that transactional leadership is positively related to trust. Rubin, S. et al. (2010) finds that contingent reward is significant and positive on trust but contingent punishment is not. Therefore, the hypothesis proposed is as follows:

**H3:** There is an effect of transactional leadership style on trust.

According to Bass (1985, 1990), a transactional leader motivates employees by way of exchange remuneration for work or task which has been implemented, for example, with awards, raise wages to the employees who do high performance. But otherwise, he will give a penalty (punishment) to employees who have underperformance or are in below the target. According to Bass (1990) and Hughes, et al. (2002) contingent reward (Transactional leadership), will affect the motivation of employees and influence the performance of and employees satisfaction. Exchange about contingent reward is based on agreement on the tasks that must be implemented. Transactional leader always encourage his employees to achieve a level of performance that has been agreed. Therefore the hypothesis proposed is as the following:

**H4:** There is an effect of transactional leadership style on work motivation.

Finding by Vigoda (2006) shows that there is a significant and negative correlation of transactional leadership and Organizational Citizenship Behavior (OCB), there is a significant and positive correlation of transformational leadership with Organizational Citizenship Behavior (OCB). Moreover, a research by Rubin, S. et al. (2010) figures out that the transactional leadership has a significant and positive correlation with Organizational Citizenship Behavior (OCB). Khan, Naveed R et al. (2013) concludes that the transactional leadership has a significant and positive correlation on Organizational Citizenship Behavior (OCB). However, the findings by Ali et al. (2013) concludes that the contingent reward and management by - exception active (transactional leadership dimensions) has a significant and positive correlation with Organizational Citizenship Behavior (OCB), but management by - exception passive (transactional leadership dimensions) has no significant correlation with the dimensions of Organizational Citizenship Behavior (OCB). Therefore, the next hypothesis proposed is as follows:

**H5:** There is an effect of transactional leadership style on organizational citizenship behavior (OCB).

3. Methodology

This research is an explanatory quantitative approach, because this research describes the correlations of the variables through hypothesis testing and, generally, the data is presented in the form of figures and calculated by statistical tests. The population in this research is all high school teachers in the State High School of Wawotobi, consisting of 82 respondents. In details, 54 respondents are from SMA Negeri 1 Wawotobi and 28 respondents are from SMAN 2 Wawotobi.

**Research Variables and Measurement:** Independent variable in this research is transactional leadership style (X1) with indicators: 1) rewards (contingent reward); 2) punishment (contingent punishment); 3) supervision; 4) take corrective action; 5) intervention. Measurements are accomplished by the use of Likert scale of 1-5 where 1 shows strongly disagree attribute levels, while 5 shows strongly agree intervals and is given a score or value. The intervening variable in this research is the trust (Y1) with indicators of: 1) the delegation of authority; 2) working collaboratively; 3) open to change; 4) free to
express ideas. Measurements are accomplished with the use of Likert scale of 1-5 where 1 shows strongly disagree attribute levels, while 5 shows strongly agree intervals and is given a score or value. The next interfering variable in this research is the work motivation (Y2) with indicators of: 1) interest in the work; 2) the desire to evolve; 3) happy on the job; 4) enjoy the work. Measurements are accomplished with the use of Likert scale of 1-5 where 1 shows strongly disagree attribute levels, while 5 shows strongly agree intervals and is given a score or value. The dependent variable in this research is organizational citizenship behavior (Y3) with indicators of: 1) sportsmanship; 2) civic virtue; 3) conscientiousness; 4) altruism. Measurements are accomplished with the use of Likert scale of 1-5 where 1 shows strongly disagree attribute levels, while 5 shows strongly agree intervals and is given a score or value.

Data Analysis: The analysis technique in this research uses the concept of Structural Equation Model (SEM) with a Partial Least Square (PLS) program. Analysis of Partial Least Square (PLS) is a powerful analytical method because it does not have to assume the data with a particular measurement, it can be applied to all data scale, and it does not require a lot of assumptions and sample size. This research uses Smart PLS program assistance (Ghozali, 2011).

4. Findings

The results of the PLS analysis in this research include confirmatory factor analysis for construct with the indicator of reflection to examine the validity of each indicator and the reliability of the construct in which the validity of the criteria are measured by Convergent and Discriminant Validity. While, reliability construct is measured by the Composite Reliability. In details, it is figured out below:
Test on Validity

Table 1: Results For Outer Loadings

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Loading Value</th>
<th>T Statistics</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Leadership Style</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X.1.1</td>
<td>0.760</td>
<td>11.191</td>
<td>Valid</td>
</tr>
<tr>
<td>X.1.2</td>
<td>0.699</td>
<td>5.717</td>
<td>Valid</td>
</tr>
<tr>
<td>X.1.3</td>
<td>0.782</td>
<td>9.296</td>
<td>Valid</td>
</tr>
<tr>
<td>X.1.4</td>
<td>0.678</td>
<td>8.109</td>
<td>Valid</td>
</tr>
<tr>
<td>X.1.5</td>
<td>0.636</td>
<td>5.950</td>
<td>Valid</td>
</tr>
<tr>
<td>Trust</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y.1.1</td>
<td>0.543</td>
<td>3.186</td>
<td>Valid</td>
</tr>
<tr>
<td>Y.1.2</td>
<td>0.714</td>
<td>6.576</td>
<td>Valid</td>
</tr>
<tr>
<td>Y.1.3</td>
<td>0.690</td>
<td>6.190</td>
<td>Valid</td>
</tr>
<tr>
<td>Y.1.4</td>
<td>0.647</td>
<td>5.148</td>
<td>Valid</td>
</tr>
<tr>
<td>Work Motivation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y. 2.1</td>
<td>0.768</td>
<td>10.574</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 2.2</td>
<td>0.605</td>
<td>5.101</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 2.3</td>
<td>0.809</td>
<td>12.080</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 2.4</td>
<td>0.668</td>
<td>5.128</td>
<td>Valid</td>
</tr>
<tr>
<td>Organizational Citizenship Behavior (OCB)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y. 3.1</td>
<td>0.656</td>
<td>5.332</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 3.2</td>
<td>0.713</td>
<td>7.958</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 3.3</td>
<td>0.691</td>
<td>6.849</td>
<td>Valid</td>
</tr>
<tr>
<td>Y. 3.4</td>
<td>0.786</td>
<td>18.382</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Source: PLS Data Output, 2014

Test on Reliability

Table 2: Composite Reliability

<table>
<thead>
<tr>
<th>Variables</th>
<th>Composite Reliability</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Leadership Style</td>
<td>0.837</td>
<td>0.70</td>
</tr>
<tr>
<td>Trust</td>
<td>0.745</td>
<td>0.70</td>
</tr>
<tr>
<td>Work Motivation</td>
<td>0.807</td>
<td>0.70</td>
</tr>
<tr>
<td>Organizational Citizenship Behavior (OCB)</td>
<td>0.805</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Source: PLS data processed, 2014

Test on Structural Model (Inner Model)

Table 3: Result for the inner weight

<table>
<thead>
<tr>
<th></th>
<th>Original estimate</th>
<th>sample Mean of subsamples</th>
<th>Standard deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional -&gt; Trust</td>
<td>0.539</td>
<td>0.546</td>
<td>0.093</td>
<td>5.785</td>
</tr>
<tr>
<td>Transactional -&gt; Work Motivation</td>
<td>0.331</td>
<td>0.344</td>
<td>0.101</td>
<td>3.280</td>
</tr>
<tr>
<td>Transactional -&gt; OCB</td>
<td>0.087</td>
<td>0.074</td>
<td>0.129</td>
<td>0.673</td>
</tr>
<tr>
<td>Trust -&gt; OCB</td>
<td>0.483</td>
<td>0.476</td>
<td>0.119</td>
<td>4.056</td>
</tr>
<tr>
<td>Work motivation -&gt; OCB</td>
<td>0.185</td>
<td>0.208</td>
<td>0.090</td>
<td>2.051</td>
</tr>
</tbody>
</table>

Source: Data processed of PLS, 2014

Table 4: R. Square

<table>
<thead>
<tr>
<th></th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional Leadership Style</td>
<td>0.291</td>
</tr>
<tr>
<td>Trust</td>
<td>0.110</td>
</tr>
<tr>
<td>Work Motivation</td>
<td></td>
</tr>
<tr>
<td>Organizational Citizenship Behavior (OCB)</td>
<td>0.391</td>
</tr>
</tbody>
</table>

Source: Data processed of PLS, 2014
Discussion

Hypothesis I: Table 3 shows that the correlation of the variables of trust and organizational citizenship behavior (OCB) is explained by the value of t statistics of 4.056. This value is greater than t-table of 1.99 ($\alpha=0.05$ and df = 78) or t-statistic (4.056)$>$T-table (1.99). The hypothesis test result shows that the correlation of trust and organizational citizenship behavior (OCB) is significant. The first hypothesis proposed in this research is “there is an effect of trust on the organizational citizenship behavior (OCB)”. Therefore, this hypothesis is supported. The value of the original sample estimate shows a positive value of 0.483 which indicates a positive direction of the correlation of trust and organizational citizenship behavior (OCB) with a coefficient level of 48.3%. Based on the loading factor as found in Table 1, it shows that the highest loading factor values for the variables is in the second indicator of trust that is on working together collaboratively by 0.714. In addition, the variable of organizational citizenship behavior (OCB) has the value of t statistics of 2.051. This value is greater than t table 1.99 ($\alpha=0.05$ and df = 78) or t-statistic (2.051)$>$T-table (1.99). Hypothesis test result shows that the correlation of work motivation on the organizational citizenship behavior (OCB) is significant. The second hypothesis proposed in this research is “there is an effect of motivation to work on organizational citizenship behavior (OCB)”. Therefore, this hypothesis is supported. The value of the original sample estimate shows a positive value of 0.185 which indicates the positive direction of the correlation of work motivation and organizational citizenship behavior (OCB) with coefficient of 18.5%. Based on the loading factor as found in Table 1, it shows that the highest loading factor values for the variables of work motivation is in the third indicator that is pleased to work at 0.809. As for the variable of organizational citizenship behavior (OCB), the highest loading factor value is on the fourth indicator that is altruism by 0.786. The highest loading factor value of each indicator show how strong the correlation of indicators to variable is. The meaning of the value is if a teacher does a collaborative cooperation with others who then will exhibit more help to fellow teachers voluntarily and outside duty and obligation, so that, Teaching and learning process effectiveness in school can run well. The results of this research support the previous research conducted by Kim Sangmook (2006) which finds that the higher the perceived motivation of employees is, the higher the level of organizational citizenship behavior (OCB).

Hypothesis II: Table 3 shows that the correlation of the variables of work motivation and organizational citizenship behavior (OCB) has the value of t statistics of 2.051. This value is greater than t table 1.99 ($\alpha=0.05$ and df = 78) or t-statistic (2.051)$>$T-table (1.99). Hypothesis test result shows that the correlation of work motivation on the organizational citizenship behavior (OCB) is significant. The second hypothesis proposed in this research is “there is an effect of motivation to work on organizational citizenship behavior (OCB)”. Therefore, this hypothesis is supported. The value of the original sample estimate shows a positive value of 0.185 which indicates the positive direction of the correlation of work motivation and organizational citizenship behavior (OCB) with coefficient of 18.5%. Based on the loading factor as found in Table 1, it shows that the highest loading factor values for the variables of work motivation is in the third indicator that is pleased to work at 0.809. As for the variable of organizational citizenship behavior (OCB), the highest loading factor value is on the fourth indicator that is altruism by 0.786. The highest loading factor value of each indicator show how strong the correlation of indicators to variable is. The meaning of the value is if an employee is happy in a job, he will be happy to help other fellow teachers voluntarily although not the duties and obligations. The results of this research supports the previous research conducted by David J (2000), it is found that there is a positive influence of work motivation on Organizational Citizenship Behavior (OCB). Moreover, it also strengthens the research conducted by Kim Sangmook (2006) which finds that the higher the perceived motivation of employees is, the higher the level of Organizational Citizenship Behavior (OCB) will be.

Hypothesis III: Table 3 shows that the correlation of transactional leadership style and trust variable has t-statistics value about 5.785. The value is greater than t table 1.99 ($\alpha=0.05$ and df = 78) or t-statistics (5.785)$>$t-table (1.99). The result of hypothesis test shows that the correlation of transactional leadership style toward trust has a significant effect. The third hypothesis proposed in this research is “there is an effect of transactional leadership style toward trust”. Therefore, this hypothesis is supported. Original sample estimate value shows positive value of 0.539 that indicates to have positive direction of the correlation of transactional leadership style and trust with coefficient of 53.9%. Based on loading factor value as elaborated on table 1, the value indicates that the highest loading factor value for variable of transactional leadership style can be found on third indicator that is supervision at 0.782. While the highest loading factor value of trust variable can be found on second indicator that is work collectively at 0.714. The highest loading factor value of each indicator indicates how strong the correlation of those two indicators toward variable is. It means, if a leader controls employees’ duties, the leader will strengthen employees to collaborate each other for achieving goals targeted. This research result supports the previous one conducted by Gillespie, Nicole A; Mann, Leon (2004). They discover that transactional leadership has positive correlation on trust. Besides, it strengthens Rubin, S. et al’s research (2010) which finds that contingent reward is significant and positive toward trust. But, contingent punishment is not significant on trust.
Hypothesis IV: Table 3 indicates that the correlation of transactional leadership style and work motivation has t statistic value of 3.280. This value is greater than t table 1.99 (α=0.05 and df=78) or t statistic (3.280) > t table (1.99). This hypothesis test results that transactional leadership style and work motivation has significant effect. Therefore, Fourth hypothesis proposed in this research that “there is an effect of transactional leadership style toward career motivation” is supported. Original sample estimate value indicates positive value of 0.331 which directs to positive correlation of transactional leadership style and work motivation with coefficient of 33.1%. Based on loading factor value as elaborated on Table 1, the highest loading factor value for variable of transactional leadership style is on third indicator, controlling at 0.782. Meanwhile, for work motivation variable, it has highest loading factor value on third indicator, pleased to work at 0.809. The highest loading factor value of each indicator indicates how strong the correlation of those indicators and variable is. It means, whether principle as leader controls duties of teachers, the principle will improve motivation of teachers of state senior high school in Wawotobi, so that they will feel fun for doing school duties assigned by their principle. The principle always motivates teaching staffs to achieve the goals by describing their roles and duties. Giving rewards to motivate teachers is really needed. As leader, a principle should be able to identify what teachers want and how to help them to improve their achievement to be better by giving appropriate rewards. Besides that, leader communicates to his employees by focusing on their mistakes, declining decision, or eluding the possible causes of the mistakes. Moreover, leader delegates responsibility to employees in order to take action whether they can get rewards or punishment after finishing their duties. Thereby, principle should motivate teachers in order to work well. This research results strengthens the previous one conducted by Bass (1990) and Hughes, et al (2002) which describes that contingent reward (transactional leadership) will affect employee’s motivation. Then, it will affect their work Pleasants.

Hypothesis V: Table 3 indicates that the correlation of transactional leadership style and organizational citizenship behavior (OCB) has t statistic value of 0.673. This value is less than t table 1.99 (α=0.05 and df=78) or t statistic (0.673) < t table (1.99). The hypothesis test results that transactional leadership style and organizational citizenship behavior (OCB) do not have any significant effect. Therefore, the fifth hypothesis proposed in this research that “there is an effect of transactional leadership style toward organizational citizenship behavior (OCB)” is not supported. Original sample estimate value shows positive value of 0.087 that indicates a positive correlation of transactional leadership style and organizational citizenship behavior (OCB) with coefficient of 8.7%. This research result contradicts with the previous one conducted by Khan, Naveed R. et al. (2013) which concludes that transactional leadership has positive correlation on Organizational Citizenship Behavior (OCB). Besides that, it contradicts with previous research conducted by Vigoda (2006) which concludes that there is a negative correlation of transactional leadership and Organizational Citizenship Behavior (OCB). Based on loading factor value elaborated on Table 1, it indicates that the lowest value of loading factor for variable of transactional leadership style can be found on fourth indicator, doing intervention at 0.636. While for variable of organizational citizenship behavior (OCB), it has the lowest loading factor value on first indicator, Sportsmanship of 0.656. The lowest loading factor value of each indicator indicates that principle still does not believe employees’ (teachers of state senior high school in Wawotobi) work result. It indicates that the principle still needs intervention to prepare teaching administration besides learning activity conducted by teachers. When principle casts a lot with teachers to finish teaching complements, teachers will feel their sincerity is reduced. Rewards (contingent reward), Punishment (contingent punishment), monitoring, and correction of principle for teachers who cannot do their duties well do not affect their organizational citizenship behavior (OCB) improvement. Thereby, teachers of state senior high school in Wawotobi must do their duties and help their colleagues’ works although they are not their main responsibility. They do the duties merely for their students in order that learning process can run effectively.

5. Conclusion

To answer problems in this research as elaborated above, the results of this research can be concluded as follow:

1. There is an effect of trust on organizational citizenship behavior (OCB). It means that the better or the higher the trust is, the better or the higher the organizational citizenship behavior (OCB) of teachers of state senior high school in Wawotobi will be.

2. There is an effect of work motivation on organizational citizenship behavior (OCB). It means that the better or the higher the work motivation is, the better or the higher the organizational citizenship behavior (OCB) of teachers of state senior high school in Wawotobi will be.
3. There is an effect of transactional leadership style on trust. It means that the better or the higher the transactional leadership style is, the better or the higher the trust of teachers of state senior high school in Wawotobi will be.

4. There is an effect of transactional leadership style on work motivation. It means that the better or the higher the transactional leadership style is, the better or the higher the work motivation of teachers of state senior high school in Wawotobi will be.

5. There is no effect of transactional leadership style and organizational citizenship behavior (OCB). It means that the better or the higher the transactional leadership style is, it does not improve organizational citizenship behavior (OCB) of teachers of state senior high school in Wawotobi.

**Managerial implication:** Managerial implications given in this research are:

1. Transactional leadership side needs to be improved through giving intervention to teachers who cannot finish their duties well in order that learning process can run effectively.

2. Trust needs to be improved in order that teachers are facilitated to collaborate with colleagues, so that, their duties can be well-finished.

3. Work motivation of teachers needs to be improved to develop their qualities to achieve better education qualities by feeling fun with their duties.

4. Organizational citizenship behavior (OCB) needs to improve sportsmanship through altruism, so that, attitude of teachers gets changed to be better.

**Limitations of Research**

1. What respondents have answered on open questions is not suitable with real condition.

2. Transactional leadership style is not significant to organizational citizenship behavior (OCB). Therefore, the next research related to this research results is needed.

**Future Research Agenda**

1. Based on R-square value of each construct, the next research should add other variables such as professionalism and Islamic career attitude.

2. There are limited answers given by respondents through questionnaire in this research. For the next research is suggested to use qualitative approach through direct interview to respondents in order to get more information in the field of research. This research also can be conducted in other region.

**References**


Gillespie, Nicole A; Mann, Leon. 2004. *Transformational Leadership And Shared Values: The Building Blocks Of Trust. Journal of Managerial Psychology; 2004; 19, 6; ABI/INFORM Research*


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Entrepreneurial and Relationship Marketing toward Innovation and the Impact on Business Performance on Small Industries of Wearing Apparel in West Java

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Abstract: The purpose of this paper is to examine the concept of entrepreneurial marketing, relationship marketing, and innovation, and to propose a conceptual model of entrepreneurial and relationship marketing to innovation and the impact on business performance of wearing apparel small industry in West Java. The approach of this paper is a dimensional approach, conducting an assessment of the dimensions of the variables contained in entrepreneurial marketing, relationship marketing and innovation. A conceptual model of the entrepreneurial and relationship marketing created increasing innovations, and the impact on business performance. Academic implications of this paper in exploring the concept of entrepreneurial and relationship marketing increasing innovation and their impact on business performance of wearing apparel small industry in West Java. The practical implication will give some ideas and practical suggestions in the decision to implement its entrepreneurial marketing, relationship marketing and innovation. Original contribution of this paper is the establishment of a conceptual model of the dimensions of entrepreneurial and relationship marketing can increase innovation, and the types of innovations that can be applicable in increasing business performance of wearing apparel small industry in West Java.

Keywords: Entrepreneurial marketing, Relationship marketing, Innovation, Business performance, Wearing apparel small industry

1. Introduction

Background: Micro and Small Industry (MSI) is an important and strategic strengths to accelerate regional development. This sector is shown to contribute significantly to the GDP (Gross Domestic Product) and employment in Indonesia. In addition, MSI has an important position in terms of the distribution of public welfare in the region and reduce the income gap. Results of Micro and Small Industry Survey in 2014 nationally, there are 354,5064 micro and small industries, including wearing apparel industry are 354,583 (10:12%) (Sub Direktorat Statistik Industri Kecil dan Rumah Tangga, 2015). The wearing apparel industry, as part of fashion industry, is the leading industry in West Java as stated by Regulation of Ministry of Industry No. 139/M-IND/PER/12/2011. Based on data from Badan Pusat Statistik (BPS), performance on wearing apparel industries in West Java as follows.

Table 1.1: Total Business Unit, Employment and Value Added (Market Price) Wearing Apparel Industries in West Java Year 2007 - 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Unit</th>
<th>% Growth</th>
<th>Employment</th>
<th>% Growth</th>
<th>Value Added (Market Price)</th>
<th>Added (Millions Rp)</th>
<th>% Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>732</td>
<td>-9,4%</td>
<td>222,528</td>
<td>-9,6%</td>
<td>7,561,549</td>
<td>222,528</td>
<td>7,561,549</td>
</tr>
<tr>
<td>2008</td>
<td>663</td>
<td>-6,6%</td>
<td>201,140</td>
<td>4,0%</td>
<td>7,052,472</td>
<td>201,140</td>
<td>7,052,472</td>
</tr>
<tr>
<td>2009</td>
<td>619</td>
<td>22,0%</td>
<td>209,178</td>
<td>19,3%</td>
<td>12,201,089</td>
<td>209,178</td>
<td>12,201,089</td>
</tr>
<tr>
<td>2010</td>
<td>755</td>
<td>-4,4%</td>
<td>249,601</td>
<td>9,5%</td>
<td>17,943,571</td>
<td>249,601</td>
<td>17,943,571</td>
</tr>
<tr>
<td>2011</td>
<td>722</td>
<td>-4,4%</td>
<td>273,394</td>
<td>9,5%</td>
<td>17,943,571</td>
<td>273,394</td>
<td>17,943,571</td>
</tr>
</tbody>
</table>

Source: Jawa Barat in Figures Year 2012, Year 2013 and Year 2014 (Processed Data)

Table 1.2: Value of Goods Produced Wearing Apparel Industries in Indonesia and West Java Year 2008 – 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of goods produced Indonesia (Billion Rp)</th>
<th>Jabar (Billion Rp)</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>35,779</td>
<td>9,965</td>
<td>27,85%</td>
</tr>
<tr>
<td>2009</td>
<td>36,292</td>
<td>12,271</td>
<td>33,81%</td>
</tr>
<tr>
<td>2010</td>
<td>42,684</td>
<td>21,067</td>
<td>49,36%</td>
</tr>
<tr>
<td>2011</td>
<td>47,985</td>
<td>22,987</td>
<td>47,90%</td>
</tr>
</tbody>
</table>
From these table shows that, the growth performance of the wearing apparel industries in West Java experienced fluctuating from year to year, both in terms of number of business units, total employment, value-added and market share. Based on preliminary survey, constraints in wearing apparel small industry in West Java consist of capital, marketing and high costs in production. Marketing process in small and medium enterprises is characterized by haphazard, informal, loose, unstructured, spontaneous, reactive (Gilmore et al., 2001:6), more creative, alternative, instinctive actions (O'Dwyer et al (2009) in Resnick et al., 2011:38). According to Egan (2011: 90) production cost constraints can be overcome with relationship marketing (RM). Moreover, innovation can also reduce the cost of production units (OECD Oslo Manual, 2005: 19). While marketing constraints on small and medium enterprises can be overcome with an entrepreneurial approach to marketing called entrepreneurial marketing (EM) (Kraus, et al, 2010: 20). According Chaston and Mangles (1999: 36) entrepreneurial-relationship style firm that operates in a market where customers working in partnership with suppliers to develop new products or innovative services.

Research Zontanos & Anderson (2004: 228), shows that the EM has relationship with RM, they create value and the effect on innovation. The combination of entrepreneurial and RM, making SMEs can assess opportunities and develop, innovative products / services that will allow them to sustain their continued growth through, in essence, delivering value added services. (Reynolds et. Al, 2002: 19). Entrepreneurial - relationship style firm reach sales growth rate of 5.6 and achieve higher revenue growth (Chaston and Mangles, 1999: 38). EM, RM and innovation have an influence on business performance (Kocak & Abimbola (2009:448), Becherer et al (2012:8-9), Sin et.al (2002:669-670), Gummesson (2008:258), Yau et al (2000:1113), Tse et al. (2004:1167), Lin, Peng, dan Kao (2008:761-762), Baker & Sinkula (2009:454), Gunayd et al (2011:29), Hassan et al. (2013:257)). EM is a concept that was developed nearly thirty years ago, but unfortunately there is no unifying theory. There is no generally accepted definition for EM (IONITĂ, 2012:132) and no generally accepted quantitative measurement (dimension), e.g. Bjerke and Hultman (2002:186) four of dimension, Morris et al. (2002:5) seven of dimension, Jones and Rowley (2009:9) fifteen of dimension, Schmid (2012:3) seven of dimension and Mort et al. (2012:558) four of dimension. From this, there are still gaps for further studies of EM, in accordance with the recommendations given by Uslay & Teach (2008:73) about the priority of the research on EM research priority at the primary level associated with the development of the general theory (defining and capture key constructs of EM).

Similar with EM, recent studies of RM have shown that there is heterogeneity in the literature regarding the definition of RM and identification of its components, therefore more research is needed in this area (Sohail, 2012: 236). Moreover there is no generally accepted measurement dimension for RM (Egan (2011: 34). From the description, there are still gaps for further studies of RM, as according to Egan (2011: 34) RM can be investigated further to establish the best definition of a suitable and encouraging marketers to constantly reviewing their business strategies in the light of changing relationships. Adoption cumulative types of innovation from time to time have positively affect organizational performance (Damanpour, et al, 2009: 667). However, research Varis and Littunen (2010: 128) indicates that none of the types of innovation were found to have a positive relationship with the profitability of the company. In addition, the results of the study Lin and Chen (2007: 115) shows that innovation has a weak relationship with the sales company.

**Formulation of the Problem:** Based on the description above, the formulation of the problem in this research is

1. Which dimensions of any of entrepreneurial marketing, relationship marketing and innovation can be applied to the small industries of wearing apparel in West Java,
2. How does the conceptual model of entrepreneurial and relationship marketing toward innovation and their impact on business performance on small industries of wearing apparel in West Java.

**Research Purposes:** This research aims to:

1. Knowing the dimensions of entrepreneurial marketing, relationship marketing and innovation can be applied to the small industries of wearing apparel in West Java,
2. Propose a conceptual model of entrepreneurial and relationship marketing toward innovation and its impact on business performance on small industries of wearing apparel in West Java.
2. Literature Review

**Entrepreneurial Marketing:** Entrepreneurial marketing (EM) is merging the two disciplines, marketing and entrepreneurship, this case arises because of an awareness of the importance of entrepreneurship and innovation to marketing, and marketing for successful entrepreneurship. The emphasis is adapting form of marketing that are suitable for small and medium enterprises (SMEs) and recognizing the important role of entrepreneurs in any marketing activities (Stokes, 2000:47). There are four different approaches to defining the EM (IONITĂ, 2012:146), first focused on the commonalities between “marketing and entrepreneurship”, is “EM is proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation.” (Morris et al., 2002:5). The second approach is “entrepreneurship in marketing”, is “EM is distinguished by a set of strategies for opportunity creation, customer intimacy based innovative products, adaptive resource enhancement and legitimacy for the emerging firm and its products.” (Mort et al., 2012:558) and definition of Bjerke dan Hultman (2002:15) is “EM is marketing of small firms growing through entrepreneurship.” The third approach is “marketing in entrepreneurship”, “EM is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders, and that is characterized by innovativeness, risk-taking, proactiveness, and may be performed without resources currently controlled.” (Kraus et al., 2010:28)

And the fourth approach is the combination of marketing and entrepreneurship creates something distinctive, something new, is “EM as a set of processes of creating, communicating and delivering value, guided by effectual logic and used in highly uncertain business environments.” (IONITĂ, 2012:147). Morris et al. (2002:5) develop seven underlying dimensions of EM: proactiveness, calculated risk-taking, innovativeness, opportunity focus, resource leveraging, customer intensity, and value creation. Dimensions of Morris, et al. is supported by researchers, including Miles & Darroch (2006:490), Becherer et al. (2008:45-47), Morrish & Deacon (2011:117), Hacioglua et al. (2012:874), Becherer et al. (2012:8-9), Al-Manasra et al. (2013:92), Rezvani et al. (2013:299-301). Mort et al., (2012:558) identify the four key strategies of EM: opportunity creation; customer intimacy based innovative products; resource enhancement; and legitimacy. Overall, they find that building legitimacy is a fundamental EM strategy and as a critical dimension of EM bringing through enhanced performance outcomes. Legitimacy is gaining acceptance and trust. In this paper, we adopt dimensions of Morris et al. (2002) and Mort et al. (2012), because this is relating to the formulation of the problem and the object of this study

**Relationship Marketing:** Relationship marketing (RM) is one of the oldest approaches to marketing, and is a broad topic, and many researchers have approached it from different perspectives (Gilaninia et al, 2011:788). According to Sin et al (2002: 656-657) RM as a paradigm that emerged in marketing will continue to grow untill the key dimensions have been identified and operationalized. Harker (1999: 14) conducted a review of the definition of RM, this is done to find out what the researchers perceived as a key conceptualization of their definition. From the results of the review, Harker divide seven "conceptual category" derived from RM literature, which is the basis for defining the relationship marketing. There are different approaches to defining the RM. “RM refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges” (Morgan & Hunt, 1994:22). From their research that the Commitment and Trust in addition to an important variable in the relationship marketing but also a key mediating variables between the five variables predecessor: Relationship Termination Costs, Relationship Benefits, Shared Values, Communication, and Opportunistic Behavior. According to Sin et al (2002:657-658) “RM is viewed as a philosophy of doing business successfully or as a distinct organizational culture/value that puts the buyer-seller relationship at the center of the firm’s strategic or operational thinking.” Definition Sin et al. further emphasize the relationship marketing as a philosophy and culture of the organization, it is not just activities like Morgan & Hunt mentioned. Dimensions of Sin, et al (2002: 658) base on dimension of Callaghan et al.(1995): Morgan and Hunt (1994); Wilson (1995) and Yau et al. (2000), is called "relationship marketing orientation (RMO)", where the RMO is a multi-dimensional construct that contains six components: trust, bonding, communication, shared values, empathy and reciprocity. Dimensions of Sin, et al. (2002) is supported by Sin, et al. (2005: 187) and Hau & Ngo (2012: 224).

Thorough definition of relationship marketing by Grönroos (2004: 101) “the process of identifying and establishing, maintaining, and enhancing, and when necessary also terminating relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and this is
done by a mutual exchange and fulfillment of promises.” Definition of Grönroos (2004) are common to the entire marketing. He gradually expand the definition of which includes the relationship to the many stakeholders, governments and competitors. Even he also points to the need to break away in the relationship and the results achieved through fulfillment and promised reciprocal exchange. According to Gummesson (2008: 5) relationship marketing is “Interaction in networks of relationships.” Furthermore, the concept into a Total Marketing kerelasian (Gummesson, 2008: 40) “Interaction in networks of relationships, recognizing that marketing is embedded in the total management of the networks of the selling organization, and its networks of relationship and the many actors involved. It is directed to long-term win–win relationships with individual customers, and value is co-created between the parties involved. It transcends the boundaries between specialist functions and disciplines.” Definition Gummesson (2008) broadens the 30R approach, the definition does not only rely on the relationship, but further to the network and mutually beneficial interaction, value added creation among actors (customers and other stakeholders). Base on the definitions above, relating to the formulation of the problem and the object of this paper, we adopt dimension of Morgan and Hunt (1994) and Sin, et al (2002).

**Innovation:** Innovation is the lifeblood of the organization and determine in a company. The company’s ability to innovate can help dominate the market today or develop new markets, which contribute to sustainable industry leadership, so that innovation is an important strategy for the company (Datta, et al, 2013). Traditional arguments about innovation has centered around two schools of thought, i.e Social deterministic schools and Individualistic school. Whereas what ‘drives’ innovation has tended to divide into two schools of thought: the market-based view and the resource-based view (Trott, 2005: 21). Varis & Littunen (2010: 130) divides the two types of innovation (1) Based on the object changes, innovation consists of product innovation, process innovation, market innovation and organizational innovation, and (2) Based on the extent of change, which is on basis of their “newness or radicalness”. Peter F. Drucker (2006) defines innovation “as changing the value and satisfaction obtained from resources by the consumer.” According to OECD Oslo Manual (2005:46) “innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations.” There are four dimensions of innovation is product innovation, process innovation, marketing innovation and organizational innovation (OECD Oslo Manual, 2005: 47). This was reiterated in the OECD Innovation Strategy (OECD, 2010: 20). The dimensions of the OECD Oslo Manual was supported by Hassan, et al (2013: 252) and Gunday, et al (2011: 18). Their research shown an effect of innovation on the performance of marketing innovation and financial performance. In this paper we adopt the definition and dimensions of innovation suggested by OECD (2005).

**Business Performance:** The concept of business performance (Venkatraman & Ramanujam, 1986: 803-804) is narrowly centered on the use of simple outcome based on financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm, this concept refers to the financial performance such as market growth, profitability, earnings per share. While the broad concept of business performance, in addition to financial performance indicators also include performance indicators of operational (i.e., nonfinancial). Best (2009: 66) classifies performance into two groups: internal performance (financial) and external performance (marketing).


**Model of Conceptual:** Based on discussion above, to face the challenges of marketing, high production costs and fluctuations in business performance of small apparel industry in West Java, can be overcome with EM, RM approach and innovation. In this paper, the dimensions of EM are six dimensions of Morris et al (2002): proactiveness, calculated risk-taking, opportunity focus, resource leveraging, customer intensity, and value creation and one dimension of Mort et al (2012), that is legitimacy. The dimensions of RM are two dimensions of Morgan & Hunt (1994): commitment, and trust, and four dimension of Sin et al (2002): bonding, communication, reciprocity and empathy. We adopt the dimensions of innovation suggested by OECD (2005), i.e., product, process, marketing and organizational innovation. Finally, the dimensions of business performance we adopt Best (2009) : growth in sales volume, customer retention
(marketing performance) and sales revenue, gross profit percentage, net profit before taxes, Return on Assets (financial performance). Furthermore, the conceptual model can be seen in the picture below.

**Figure 1: Conceptual Model**

![Conceptual Model Diagram]

### 3. Conclusion and Limitations

Small industrial of wearing apparel in West Java experience fluctuations in business performance, and constraints in their business, including capital, marketing and high costs in production. Fluctuations in business performance can be overcome with the entrepreneurial and relationship marketing approaches and innovation. Production cost constraints can be overcome with relationship marketing and innovation. While marketing constraints can be overcome with an entrepreneurial approach to marketing called entrepreneurial marketing. Academic implications of this paper in exploring the concept of entrepreneurial and relationship marketing increasing innovation and their impact on business performance of wearing apparel small industry in West Java. The practical implication will give some ideas and practical suggestions in the decision to implement its entrepreneurial marketing, relationship marketing and innovation. This paper is limited to conceptual models, it is necessary to quantitatively test in order to know the extent to which the strength of the model established.

### References


Peraturan Menteri Perindustrian No. 139/M-IND/PER/12/2011 tentang Peta Panduan (Road Map) Pengembangan Industri Unggulan Provinsi Jawa Barat.


Credit Risk Influence on Systemic Risk in Indonesia Banking System
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Abstract: Credit risk, inviting bank failure (Gonzalez and Hermosillo, 1999), is a source of financial instability (Hauban, Kakes and Shinasi, 2004), which is a systemic risk (Kaufman and Scot, 2003; Adrian and Brunermeir, 2011; ECB, 2010; Billio, Getmansky, Lo and Pelizzon, 2012), however the application credit risk for systemic risk detection is limited. The purpose of this paper is to determine credit risk influence on systemic risk with regression. After applying some proxy systemic risk, in the present of/absence of one month lag, credit risk significantly influences on systemic risk using proxy of (1) ratio of slowdown in credit to asset growths, (2) credit reduction, (3) asset reduction, (4) ratio of credit to asset reductions with α = 5% and 10%. In conclusion, credit risk influences on systemic risk of 4.02% - 14.88% in Indonesian Banking System 2007-2014, while other variables influence the rest. The paper expectedly contributes to bankers in Indonesian banks and central bank in managing credit risk in order to reduce systemic risk.

Keywords: Financial Stability, Systemic Risk, Credit Risk, Credit Reduction, Asset reduction

1. Introduction

Financial crisis of 2007-2009 has created renewed interest in systemic risk (Billio, Getmansky, Lo and Pelizzon, 2011), which had been underestimated across the board. We were faced with the unthinkable when a number of very large institutions failed, despite their previous reputation for balance sheet strength and leadership in risk management (Caruana, 2010). Markeloff, Warner and Wollin (2012) suggest the annual output of researcher publication showing focus and attention to systemic risk topic (see figure 1).

Figure 1: The Annual Output of Publication in The Field of Systemic Risk to The Financial System for The Period 1998-2011
Publication year
Source: Markeloff, Warner and Wollin (2012)

Figure 2: Frequency of Banking Crises
Source: Laeven and Valencia (2012, 2013)
Laeven and Valencia (2012, 2013) exhibit frequency of banking crises 1970-2011 (see figure 2) and table 1 show banking crisis outcome (1970-2011). Indonesia has more serious problem than other countries, because it ranks number 1 of 137 countries in a fiscal cost, number 8 in an increased public debt, and number 16 in an output loss. Thus, it is reasonable to study systemic risk in Indonesia banking.

<table>
<thead>
<tr>
<th>Country</th>
<th>Start</th>
<th>End</th>
<th>Output loss</th>
<th>Fiscal Cost</th>
<th>Peak Liquidity</th>
<th>Liquidity Support</th>
<th>Peak NPLs</th>
<th>Increase in public debt</th>
<th>Monetary expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>1997</td>
<td>2001</td>
<td>69.0</td>
<td>56.8</td>
<td>23.1</td>
<td>17.2</td>
<td>32.5</td>
<td>67.6</td>
<td>4.5</td>
</tr>
<tr>
<td>All</td>
<td>2 Year</td>
<td></td>
<td>23.0</td>
<td>6.8</td>
<td>20.1</td>
<td>9.6</td>
<td>25.0</td>
<td>12.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Advanced</td>
<td>3 Year</td>
<td></td>
<td>32.9</td>
<td>3.8</td>
<td>11.5</td>
<td>5.7</td>
<td>4.0</td>
<td>21.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Emerging</td>
<td>2 Year</td>
<td></td>
<td>26.0</td>
<td>10.0</td>
<td>22.3</td>
<td>11.1</td>
<td>30.0</td>
<td>9.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Developing</td>
<td>1 Year</td>
<td></td>
<td>1.6</td>
<td>10.0</td>
<td>22.6</td>
<td>12.3</td>
<td>37.5</td>
<td>10.9</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Laeven and Valencia (2012)

Systemic risk has synonymous terms. Demirguc Kunt and Detra giache (1998) termed banking crisis, Acharya (2009) termed financial crisis systemic, Gramlich, Miller, Oet and Ong (2010) termed systemic banking risk, Mums and Bijlsma (2011), Laeven and Valencia (2012), Oet, Blanco, Gramlich and Ong (2013), Hosni (2014) termed systemic banking crisis, Li, Wang and He (2013), Kane (2002), Acharya (2009), Busuioc-Witowschi and Cuza(2010) termed banking systemic risk. Systemic risk is not clearly defined yet and it is an ambiguous term (Kaufman dan Scott 2003). It is non-uniform term (Schuler, 2002). The term has different meaning for different people, because it is difficult to define and quantify the term (IMF, 2009). To date, no single definition of the term is widely accepted (Billio, Getmansky, Lo, dan Pellizon, 2012: 537). It is causing a lot of systemic risk proxy. In previous studies, Gonzales and Hermosillo (1999), Evan, Leone, Gill and Hilbers (2000), Hauben, Kakes and Schinasi (2004), Schinasi (2005), Blancher et al (2013) suggested that there is relationship between systemic risk and credit risk, which is positive (Gonzales and Hermosillo, 1999), negative (Oet, Bianco, Gramlich, Ong, 2013), and both (Cikak and Slaeck, 2007; Ponghosyan and Cihak, 2009). The purpose of this study is to determine credit risk influence on systemic risk and direction relationship in Indonesian banking system 2007-2014. Research object is systemic risk derived from credit risk in Indonesian banking industry. Research period ranged from 2007 to 2014. This study applied Explanative Research methodology with type study of verificative research. Proposed problem formulation is as follow:

1. How does credit risk influence systemic risk with proxy of credit reduction? What about one month lag?
2. How does credit risk influence systemic risk with proxy of asset reduction? What about one month lag?
3. How does credit risk influence systemic risk with proxy of slowdown in credit growth? What about one month lag?
4. How does credit risk influence systemic risk with proxy of slowdown in asset growth? What about one month lag?
5. How does credit risk influence systemic risk with proxy of ratio of credit to asset reduction? What about one month lag?
6. How does credit risk influence systemic risk with proxy of ratio of slowdown credit to asset growth? What about one month lag?

This study expectedly contributes to bankers and central bank in managing credit risk in order to reduce systemic risk because Indonesia does not have the law of financial system safety net to anticipate banking crisis with systemic impact.

2. Literature Review

There is systemic risk definition related with proxy systemic risk used:
Credit risk is defined as the risk that a borrower with the obligation to contractual obligations and Bank for International Settlements (BIS, 1999) stated that Credit risk is most simply defined as the potential that a credit risk to those parties with the most productive investment opportunities. 

Systemic financial risk is the risk that an event will trigger a loss of economic value or confidence in, and attendant increases in uncertainty about, a substantial portion of the financial system that is serious enough to quite probably have significant adverse effects on the real economy.

Systemic risk refers to the risk or probability of breakdowns in an entire system, as opposed to breakdowns in individual parts or components, and is evidenced by comovements (correlation) among most or all the parts. Thus, systemic risk in banking is evidenced by high correlation and clustering of bank failures in a single country, in a number of countries, or throughout the world.

The risk that institutional distress spreads widely and distorts the supply of credit and capital to the real economy.

"The risk that the intermediation capacity of the entire financial system is impaired, with potentially adverse consequences for the supply of credit to the real economy."

"It is the risk that the failure and distress of a significant part of the financial sector reduces the availability of credit, which in turn may adversely affect the real economy."

As widespread failures of financial institutions or freezing up of capital markets that can substantially reduce the supply of such critical intermediation.

[The risk] of widespread failures of financial institutions or freezing up of capital markets that can substantially reduce the supply of such intermediated capital to the real economy.

"Systemic risk can be broadly thought of as the failure of a significant part of the financial sector – one large institution or many smaller ones – leading to a reduction in credit availability that has the potential to adversely affect the real economy."

"A risk of disruption to financial services that (i) is caused by an impairment of all or parts of the financial system and (ii) has the potential to have serious negative consequences for the real economy."

"Systemic risk may be defined as the propensity of a financial institution to be undercapitalized when the financial system as a whole is undercapitalized."

"Systemic banking crisis, defined a country's corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may be accompanied by depressed asset prices (such as equity and real estate prices) on the heels of run-ups before the crisis, sharp increases in real interest rates, and a slowdown or reversal in capital flows. In some cases, the crisis is triggered by depositor runs on banks, though in most cases it is a general realization that systemically important financial institutions are in distress."

Sources: compiled by authors

*** (1) Credit reduction; (2) Asset reduction; (3) credit growth, (4) asset growth; (5) Ratio of credit to asset reduction; (6) Ratio of slowdown in credit to asset growth.

In banking terminology, credit risk is defined as the risk that a borrower will default on its debts by failing to make required loan repayments or otherwise meet its contractual obligations and Bank for International Settlements (BIS, 1999) stated that Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Evans, Leone, Gill and Hilbers (2000) used Non Performing Loan
for proxy credit risk as micro-prudential indicator. Sudrarajan, Enoch, Jose, Hilber, Krueger, Moretti and Slack (2002) used nonperforming loans to total gross loans ratio as financial soundness indicators. Hauben, Kakes and Schinasi (2004), Schinasi (2005) used credit risk for sources of financial instability, which is systemic risk (Kaufman and Scot, 2003; Adrian and Brunermeir, 2008, 2011; ECB, 2010; Billio, Getmansky, Lo and Pelizzon, 2012). In general, Indicator credit risk is ratio nonperforming loans to total gross loans.

**Relationship and Influence between Credit Risk and Systemic Risk:** Credit risk, inviting bank failure (Gonzalez and Hermosillo, 1999), is a source of financial instability (Hauben, Kakes and Shinasi, 2004), which is a systemic risk (Kaufman and Scot, 2003; Adrian and Brunermeir, 2011; ECB, 2010; Billio, Getmansky, Lo and Pelizzon, 2012), and should be monitored and mitigated during each systemic phase (Blancher et al., 2013). According to study by Evan, Leone, Gill, Hilbers (2000), non-performing loans are aggregate microprudential indicators for financial stability surveillance. Sundararajan, Enoch, Jose, Hilber, Krueger, Moretti and Slack (2002) used ratio of nonperforming loans to total gross loans as financial soundness indicators. Hence, there is relationship between systemic risk and credit risk. In previous studies, Gonzales and Hermosillo (1999), Evan, Leone, Gill and Hilbers (2000), Hauben, Kakes and Schinasi (2004), Schinasi (2005), Blancher et al (2013) suggested that there is relationship between systemic risk and credit risk, which is positive (Gonzales and Hermosillo, 1999), negative (Oet, Bianco, Gramlich, Ong, 2013), and both (Cikak and Slaeck, 2007; Ponghosyan and Cihak, 2009).

### 3. Methodology

This study applies Explanative research method with research type of verificative research using linear regression. Data on proxy of systemic risk and credit risk are collected from Indonesia Banking Statistics December 2007-November 2014.

**Relationship Model**

Relationship created between credit risk and systemic risk is as follow

\[
\text{SYSTEMIC RISK} = f (\text{CREDIT RISK})
\]

\[\text{SYSTEMIC RISK} = b_0 + b_1 \text{CREDIT RISK} \]

where

\[
b_1 = \frac{n (\sum \text{CREDIT RISK} \times \text{SYSTEMIC RISK}) - (\sum \text{CREDIT RISK}) (\sum \text{SYSTEMIC RISK})}{n (\sum \text{CREDIT RISK}^2) - (\sum \text{CREDIT RISK})^2} \]  \hspace{1cm} (3)

\[
b_0 = \frac{\sum \text{SYSTEMIC RISK} - b_1 (\sum \text{CREDIT RISK})}{n} \]  \hspace{1cm} (4)

**Corelation (r)**

\[
r = \frac{n (\sum \text{CREDIT RISK} \times \text{SYSTEMIC RISK}) - (\sum \text{CREDIT RISK}) (\sum \text{SYSTEMIC RISK})}{n (\sum \text{CREDIT RISK}^2) - (\sum \text{CREDIT RISK})^2} \frac{1}{n} (\sum \text{SYSTEMIC RISK}^2) - (\sum \text{SYSTEMIC RISK})^2} \]  \hspace{1cm} (5)

**Determinant coefficient (R)**

\[
R = r^2 \]  \hspace{1cm} (6)

Proxy SYSTEMIC RISK:
Credit Reduction = CREDIT n+1 - CREDIT n \hspace{1cm} \ldots \ldots \ (7)

Asset Reduction = ASSET n+1 - ASSET n \hspace{1cm} \ldots \ldots \ (8)

Credit Growth = \frac{CREDIT n+1 - CREDIT n}{CREDIT n} \hspace{1cm} \ldots \ldots \ (9)

Asset Growth = \frac{ASSET n+1 - ASSET n}{ASSET n} \hspace{1cm} \ldots \ldots \ (10)

\text{Ratio of Credit to Asset Reduction} = \frac{CREDIT n+1 - CREDIT n}{ASSET n+1 - ASSET n} \hspace{1cm} \ldots \ldots \ (11)

\text{Ratio of Slowdown in Credit to Asset Growth} = \frac{CREDIT n+1 - CREDIT n}{ASSET n+1 - ASSET n} \hspace{1cm} \ldots \ldots \ (12)

Sources: Table 2 and interpretation authors

\begin{table}[ht]
\centering
\begin{tabular}{llllll}
\hline
No & \textsc{Proxy Systemic Risk} & \textit{r} & \textit{R} & \textit{Sig} & \textit{b_0} & \textit{b_1} & \textit{Significance} \\
\hline
1 & Credit Reduction & 0.306 & 0.004 & 62.007,067 & -10.063,113,540 & *** \\
2 & Asset Reduction & 0.210 & 0.040 & 0.052 & 84754,16 & -1.464,655,010 & **** \\
3 & Credit Growth & 0.102 & 0.010 & 0.357 & 0.011 & 0.182 & * \\
4 & Asset Growth & 0.004 & 0.000 & 0.965 & 0.013 & -0.010 & * \\
5 & Ratio of Credit to Asset Reduction & 0.224 & 0.052 & 0.040 & -3,8075 & 203,004 & *** \\
\end{tabular}
\caption{Relationship, Influence, Significance and Equation Model between Credit Risk and Systemic Risk}
\end{table}

4. Results and Discussion

Following some proxy systemic risk, the result presents in table 3 and 4. Table 3 described relationship and influences between credit risk and systemic risk. There are not significant influences between credit risk and systemic risk using proxy credit growth and asset growth.
There are significant influences between credit risk and systemic risk using proxy ratio of credit to asset growth, ratio of credit to asset reduction and credit reduction with significant level 5%, but using asset reduction, significant level is 10%. Credit risk influences on systemic risk of 4.02% - 9.40%. It is significant influences between credit risk and systemic risk using proxy ratio of credit to asset growth, ratio of credit to asset reduction and credit reduction with significant level 5%, but using asset reduction, significant level is 10%. Credit risk influences on systemic risk of 4.02% - 9.40%. Relationship between credit risk and systemic risk using proxy credit and asset reduction are negative, while else relationships are positive. Table 4 described relationship and influences between credit risk and systemic risk with one month lag. Influences between credit risk and systemic risk using proxy credit growth and asset growth is not significant. Influences between credit risk and systemic risk using credit reduction and ratio of slowdown in credit to asset growth and ratio of credit to asset reduction are significant with significance of 1% and 10%, respectively. But, if using asset reduction, significance is 5%. Credit risk influences on systemic risk at 4.30% - 14.88%. Relationship between credit risk and systemic risk using proxy credit growth, credit growth, asset growth are negative, while else relationships are positive.

### Table 4: Relationship, Influence, Significance and Equation Model between Credit Risk and Systemic Risk in The Presence of One-Month Lag

<table>
<thead>
<tr>
<th>No</th>
<th>PROXY SYSTEMIC RISK</th>
<th>r</th>
<th>R</th>
<th>Sig</th>
<th>$b_0$</th>
<th>$b_1$</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Reduction</td>
<td>0.3858</td>
<td>0.1488</td>
<td>0.0003</td>
<td>69,935,410</td>
<td>-1,342,020</td>
<td>**</td>
</tr>
<tr>
<td>2</td>
<td>Asset Reduction</td>
<td>0.3059</td>
<td>0.0936</td>
<td>0.0049</td>
<td>103,141,42</td>
<td>2,126,233.02***</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Credit Growth</td>
<td>0.0018</td>
<td>0.0035</td>
<td>0.8663</td>
<td>0.016</td>
<td>-0.033*</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Asset Growth</td>
<td>0.1431</td>
<td>0.0020</td>
<td>0.1960</td>
<td>0.020</td>
<td>-0.294*</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Ratio of Credit to Asset Reduction</td>
<td>0.2073</td>
<td>0.0430</td>
<td>0.0599</td>
<td>-3,382</td>
<td>188,327****</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Ratio of Slowdown in Credit to Asset Growth</td>
<td>0.2132</td>
<td>0.0454</td>
<td>0.0528</td>
<td>-7,2117</td>
<td>378,5142****</td>
<td></td>
</tr>
</tbody>
</table>

*No sig. ** sig 0.01, *** sig 0.05, **** sig 0.10

Sources: Calculation by Authors

In conclusion, this study is in accordance with Gonzales and Hermosillo (1999), Oet, Bianco, Gramlich, Ong (2013), Cikak and Slaeck (2007), Ponghosyan and Cihak (2009) that positive and negative relationship between credit risk and systemic risk depend on proxy of systemic risk used. Credit risk influences on systemic risk at 4.02% - 14.88% in Indonesian Banking System 2007-2014, while other variables influence the rest. Credit risk variable can be used to detect systemic risk. Credit risk variable can be used as early warning indicator for systemic risk in Indonesian banking system.

**Recommendations:** A lot of variables influence systemic risk, among other, credit risk, which can be used as early warning indicator for systemic risk in Indonesian banking system. This study expectedly contributes to bankers and central bank in managing credit risk in order to reduce systemic risk, because Indonesia does not have the law of financial system safety net to anticipate banking crisis with systemic impact.

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Perception and Expectation of Marketing Mix on Customer Satisfaction and Confidence in Consumer Finance Branch Mandala Multifinance Poleang, Shouteast Sulawesi Province

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Abstract: The development of technology and the increasing quality of financial institutions and banking services as a competitor of Mandala Multifinance Company Poleang branch makes the affiliation share of Mandala Multifinance becomes smaller because customers' trust decrease. In this regard, the researcher wants to know the cause of the decline in enterprise application data fluctuating of Mandala financing Multifinance Poleang branch. This research samples customer of Mandala Multifinance company of Poleang branch by using purposive sampling method with the number of respondents of 100 people by using the program Partial Least Square (PLS) to determine the relationship between the variables that affect customer trust. The results show that customer expectations affect positively but not significantly to customer satisfaction, while the marketing mix has a significant positive effect on customer satisfaction and customer satisfaction has a significant positive effect on customer trust.

Keywords: Customer expectations, marketing mix, customer satisfaction and customer trust

1. Introduction

Today, the company is dealt with increasing competition conditions in the business openness. These conditions require companies to be more innovative and creative by offering something that is worth more than competitors. This is what is demanded by the market focus and target to compete. In general, the company strives to meet customer expectations, by building trust in a long-term relationship between the company and its customers. This relationship should be increased from time to time such as service, quality products, and so on. Thus, the presence of negative perceptions of the company will change customer perceptions, which, in turn, can directly change the perception of satisfaction and commitment to use the products offered by the company in its target market. One of the efforts made by the company in marketing is the marketing strategy (Marketing Mix). The marketing strategy has an important role for the success of the company. Therefore, the marketing strategies should be able to provide a clear and regular description about what is done by the company and use every opportunity in several target markets. The type of marketing strategies used in this study is the marketing mix. Marketing mix is a set of tactical marketing tool that can be applied and combined by company to produce the desired response in the target market. The marketing mix strategy is a strategy that can include product, price, promotion and distribution channels. Furthermore, Downey & Erickson (2008: 230) explains that "the strategic marketing strategy plans to integrate all activities and business resource logically to meet the needs of customers and generate profits."

A satisfied customer is a customer who gets value from the manufacturer or provider. This value is derived from the product, service, system or something related to emotion. If a customer says that the value is a quality product, then the satisfaction occurs when he gets a quality product. If the value is concerned with the convenience, it will be fulfilled if the service is comfortable. If the value of the customers is a low price, then the customers will be satisfied with the manufacturer, which provide the most competitive prices. The value of these customers can be created by marketing company attributes that can be elements of stimuli for the companies to influence customers in the purchase of the products. Mandala Multifinance Poleang branch as a financial service company will not be possible to avoid the reality of the financial services industry competition which is increasing lately. The competition in finance services sector is very tight. Besides competing products, the rate to service both from fellow finance companies, as well as banking institutions are also increasing. Therefore, Mandala Multifinance companies are expected to do something that can attract potential customers to be a good customer in the context of the marketing mix as well as in customer service.

In terms of customer service, in accordance with the vision of "customer satisfaction", Mandala Multifinance company applies installment pickup system, so that, customers no longer need to arrive at the office. Moreover, it is aimed to achieve the process of disbursement which is in accordance with the slogan of the company "sehari kelar (all clear within a day)". Here, the employees work very fast in
serving the needs of customers, so that, their accidental need can be resolved quickly. In addition, the company also opens the service of customers’ complaints which are less satisfied with the services provided by employees of the company. From the implementation of the marketing mix in the context of the product, this company has the main product that is new motorcycle financing and financing cash. If viewed from the implementation of the elements of the marketing mix related to interest rate (price), Mandala Multifinance applies interest at 4% higher than the interest rate applied by other financial or banking institutions. When viewed from the implementation strategy of place, Mandala Multifinance distributes its products through its marketing employees. In addition, Mandala Multifinance Company also has a strategic office location that is on a roadside shaft, so that; it easily supports the distribution channel. Besides that, Mandala Multifinance also takes apart in the exhibition on the football field in Boepinang to strengthen their promotion in order to expand the network.

Because of the increasing competition in the world of the financial and banking institutions, then, it has to be determined appropriate steps regarding the marketing mix and customers’ expectations which aims to create customers’ satisfaction and trust in Mandala Multifinance Company Poleang Branch. The research on customers’ expectations and the implementation of the marketing mix related with loyalty and satisfaction as an intervening is conducted by Hatane Samuel (2006). It results that customer’s expectations significantly influence satisfaction while marketing mix also significantly affects satisfaction. The research on “the Effect of Handling Complaints toward Health Care Trust Patients at General Hospital in Panembahan Senopati, Bantul” shows that satisfaction does not significantly affect the trust. While research on Patient Satisfaction, Trust and Commitment: Mediator Service Quality and Its Impact on Loyalty conducted by Rahayu et.al (2013) shows that the quality of service has a positive and significant effect on patient satisfaction; and the patient trust and commitment significantly affect patient loyalty. However, patient satisfaction has no significant effect on patient loyalty. In addition, patients’ trust and commitment positively are influenced by patient satisfaction.

2. Literature Review

**Customer Expectation:** Customer expectation is customer confidence before trying or buying a product that is used as a reference standard in the performance of a product. Customer expectations are formed and based on a range of factors including past shopping experience, opinions, friends and relatives, as well as information and appointments of company and its competitor (Fandy Tjiptono, 1994; 150). According to Fandy Tjiptono (1993; 223) there are some major causes of non-fulfillment of customer expectations which include: Customers miscommunication with the desired services and misinterpreted signal (price, positioning, etc.), Miscommunication on words of mouth recommendation, poor corporate employee performance, and Miscommunication provided by competitors. Customer expectations evolve over time, in line with the amount of information (non experimental information) received by customers and the increasing experience of the customer. In turn, all of this will affect the perceived level of customer satisfaction. Quality service is one of the factors of customer expectations. It has several elements as follows:

- **Tangible** (It is something real and supports operational services such as physical facilities, employee performance, equipment and supplies used)
- **Reliability** (It is the ability of managers or services in creating, providing services in accordance with what has been promised, such as: accuracy in pricing, keeping a record of accuracy has been achieved, being on time).
- **Responsiveness** (It is the willingness of managers or service to help customers, including responses to the needs and desires of customers, such as answering customer questions, provide services quickly, giving customer the purchase bill, etc).
- **Competence** (It is a guarantee of manager knowledge (competence) regarding services provided and the ability to create confidence in customers such as: knowledge of personal contact, and listening to customer needs).
- **Empathy** (It is a caring attitude, attention, understanding of the manager or services to the needs and desires of customers, such as recognizing the long and loyal customers).

**Marketing Mix:** The marketing program includes marketing actions that can affect the demand for the product such as change in price, modify advertising campaigns, design special promotions, and determine distribution channel selection and so forth. In its implementation, a variety of marketing programs is often integrated or implemented jointly, and sometimes marketing manager must choose the “best” marketing program because of resource constraints. The marketing strategy is a strategy to serve the
market or segment targeted by an entrepreneur. Therefore, the marketing strategy is a combination of marketing mix that will be applied by the employer to serve the market. The marketing mix should be well-arranged, so that, it will be able to serve as an appropriate weapon in comparison in the market against competitors. Therefore, the weapon must be adjusted to market conditions and the conditions of competition faced such as; product, price, promotion, and distribution channels. Utami (2008) states that marketing mix is a combination of product, price, promotion and distribution elements, or better known as the 4P to be sold to customers who become the target market; Product (A product will be associated with several things such as: quality, brand, packaging, durability); Price (There are three parties that must be considered to determine pricing policy by a company; they are a customer, personal and competitors.; Location (The location is a very important factor in the marketing mix, the precise location of a company will be successful if compared with others which are not although they sell the same product and have the same settings); Promotion (Promotion mix is a combination of several elements of the promotion, such as advertising, sales promotion, personal selling, and publicity)

Customer Satisfaction: Actually, the concept of customer satisfaction is still abstract. Achievement of satisfaction can be a simple process, as well as complex and intricate. In this case, the role of each individual in the service encounter is very important and affects the satisfaction formed. In order to determine the level of customer satisfaction, it is necessary to understand the causes of satisfaction. Customers do not like being disappointed more on services rather than goods, even though they rarely complain. One reason is because they are also involved in the creation process services. In general, customer satisfaction is determined by whether or not fulfilled the expectations of customers. The general definition refers to the paradigm of expectancy disconfirmation. Under this paradigm, the customer sets up an expectation and this will be a standard to assess the actual performance of a product or service. According to Zulian Yamit (2005: 75), traditionally, customers mean people who buy and use the products. In a company engaged in the service, customers are people who use services. In the health scope, customer is defined as a customer. Kotler and Keller (2007) defines customer satisfaction is:

"Customer satisfaction is the level of a person's felt state resulting from Comparing a product's perceived performance (or outcome) in relation to the person's expectation".

From the explanation above, it can be concluded that "satisfaction is a person's perception of expectations and performance or results perceived".

Trust: Trust is a major recipe in a mutually beneficial relationship either in person or business. Therefore, trust is very important both for personal and business purposes. Morgan and Hunt (1994) in Akbar Muhammad Muzahid, et. al (2009: 26) defines trust as a condition in which one of the parties involved in the process of exchange trust with the reliability and integrity of the other party. In other words, a trust arises because there is a belief that the parties involved in the exchange will provide consistent quality, honest, and responsible. This belief will lead to better relations between the parties involved in the exchange. According to Mayer et al in Mula Joseph, et.al (2010: 2) there are three factors that shape a person's trust in the others, they are: (a) Ability (Ability refers to the competence and characteristics of sellers/organizations in influencing or authorizing specific region), (b) Kindness (Benevolence, Kindness is the ability of sellers to provide mutual benefits between themselves and customers. Profits achieved by the seller can be maximized, but also by keeping high customer satisfaction), (c)Integrity (relates to how the behavior or habit of sellers in running their businesses. The information provided to customers is completely in accordance with the facts whether it is true or not. Moreover, qualities of products or services sold are also related to trust), Based on the above definition, it can be explained that:

"Trust is a belief in which one of the parties involved in the exchange has the reliability and integrity that can deliver positive results. Trust is the most important variable in building long-term relationships between one party to another.

Conceptual Framework and Hypothesis
The framework of the problems in this research can be described as follows:
Research Hypothesis: Referring to empirical studies and theories described previously as references and basis of reasoning in order to facilitate researcher in explaining the correlation among variables, then it is outlined the pattern of influence among variables constructed in this study as follows:

The correlation of Customer expectation and Customer Satisfaction: Referring to the theory proposed by Fandy Tjiptono (1993; 223) which states that the expectation of customers is believed to have played a large role in determining the quality of products (goods and services) and customer satisfaction. Basically, there is a close relationship between the determination of quality and customer satisfaction. This has been proven by research conducted by Hatane Samuel (2006) which states that there is a direct positive influence between customer expectations of customer satisfaction. Based on the opinions and research results mentioned above, the hypothesis proposed in this study is as follows:

\[ H_1: \text{Customer expectations has a positive and significant effect on customer satisfaction in Mandala Multifinance Company - Poleang Branch} \]

The correlation of Marketing Mix and Customer Satisfaction: Referring to the research conducted by Sembiring et.al (2012), it is found a positive effect of marketing mix to customer satisfaction. Based on the opinions and research results mentioned above, the hypothesis proposed in this study is:

\[ H_2: \text{The implementation of the marketing mix has a positive and significant effect on customer satisfaction in Mandala Multifinance Company - Poleang Branch} \]

The correlation of Customer Satisfaction and Customer Trust: Referring to the theory of satisfaction and trust adopted from the theory of Mayer et.al in Mula Joseph, et.al (2010), it is stated that a satisfaction has a positive correlation with the level of customer trust in services. This has been shown in the research conducted by Patawayati et.al, (2013) which suggests that the higher the customer satisfaction is, the higher the customer trust will be. Based on the opinions and research results mentioned above, the hypothesis proposed in this study is:

\[ H_3: \text{Customer satisfaction has a positive and significant effect on customer confidence in Mandala Multifinance Company Poleang Branch} \]

3. Methodology

This type of research is explanatory research. This research needs to obtain the truth about something based on the consideration that the research is to test specific hypotheses for the purpose of proving the truth. This research is conducted to prove a causal relationship among customer expectations, marketing mix, customer satisfaction and customer trust. Population, According to Sugiono (2002) is a generalization region that has object/subject of quality and specific characteristics established by researcher to study and draw conclusions. In this research, the population is all customers of Mandala Multifinance in Poleang Branch. Sample is part of the population whose characteristics are about to be investigated and considered to represent the entire population. Sampling method used in this research is purposive sampling. It is the sampling technique based on considerations of certain conditions which are deemed to have a close relationship with the characteristics or the nature of the population. According to Sekaran (1992: 235) purposive sampling shows that the information (data) is taken from a specific target with criteria that it has become a customer for 1 year, 1 month transactions and able to communicate well. The samples are taken by accidental sampling, in which samples are selected based on the findings in the field which are eligible. Sample size refers to the approach of Slovin formula (Widayat, 2004: 105).
Moreover, analysis technique used in this study is the concept of Structural Equation Model (SEM) with a program of Partial Least Square (PLS) for its analysis.

**Analysis and Discussion:** From the data containing 100 respondents qualified to analyze further, it can be found out from: Gender, Age, Latest Education, Occupation and The Length of being customer on Mandala Multifinance in Poleang Branch. The characteristic of respondents based on their gender shows that 66 people (66%) of them are men, while the rest is women (34%). Men take domination because psychologically they are braver to take decision of a chance. This is so what happens in Mandala Multifinance Poleang Branch, it has more men who takes finance. The characteristic of respondents based on their age, shows that 17 (17%) of them are 16-25 years old, 47 people (47%) of them are 26-35 years old, 30 people (30%) of them are 36-45 years old, and 6 people (6%) of them are more than 45 years old. Therefore, it can be concluded that most of them are 26-35 years old, which statistically shows 47%. This proves that the customers who take financial help in Mandala Multifinance Poleang Branch are in the productive age where their spirit of work is still high and supported with their strong stamina. These all reflect that they have income to pay the finance.

The characteristic of respondents based on their latest education, shows that 7 people (7%) of them have latest education of elementary school, 75 people (75%) of them have latest educational background of Senior High School, 10 people (10%) of them have latest educational background of D3, 8 people of them have latest educational background of S1. This shows that most of their latest educational background is senior high school (75%) which can describes good enough of intellectual level to take decision in choosing finance. The characteristic of respondents based on their occupation, shows that 46 people (46%) of them are entrepreneur, 13 people (13%) of them are farmer/laborer, 29 people (29%) of them are wiraswasta (running their private business), 12 people (12%) of them are government employees. The respondents are dominated by those whose occupation is entrepreneur. This shows that most of the finance they take is for their additional capital. The characteristic of respondents based on their length of being customers at Mandala Multifinance shows that 64 people (64%) of them has been customers for 12-24 months and 36 people (36%) of them has been customers for 25-36 months. This shows that the service of Mandala Multifinance has been served since long time and can be assessed by the customers. Mandala Multifinance is also an alternative of finance for people beside banks etc.

**Hypotheses Test**

<table>
<thead>
<tr>
<th>Table 1: Result For Outer Loadings</th>
<th>Original sample estimate</th>
<th>mean subsamples</th>
<th>Standard deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expectation of Customer</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1</td>
<td>0.892</td>
<td>0.892</td>
<td>0.017</td>
<td>51.676</td>
</tr>
<tr>
<td>X2</td>
<td>0.783</td>
<td>0.786</td>
<td>0.022</td>
<td>34.934</td>
</tr>
<tr>
<td>X3</td>
<td>0.908</td>
<td>0.909</td>
<td>0.013</td>
<td>71.530</td>
</tr>
<tr>
<td><strong>Marketing Mix</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X21</td>
<td>0.887</td>
<td>0.888</td>
<td>0.018</td>
<td>50.491</td>
</tr>
<tr>
<td>X22</td>
<td>0.928</td>
<td>0.927</td>
<td>0.019</td>
<td>47.941</td>
</tr>
<tr>
<td>X23</td>
<td>0.867</td>
<td>0.866</td>
<td>0.022</td>
<td>39.443</td>
</tr>
<tr>
<td>X24</td>
<td>0.640</td>
<td>0.643</td>
<td>0.058</td>
<td>10.979</td>
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<tr>
<td><strong>Customer Satisfaction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y11</td>
<td>0.887</td>
<td>0.887</td>
<td>0.019</td>
<td>46.657</td>
</tr>
<tr>
<td>X12</td>
<td>0.883</td>
<td>0.886</td>
<td>0.017</td>
<td>52.142</td>
</tr>
<tr>
<td><strong>Customer Trust</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y21</td>
<td>0.779</td>
<td>0.779</td>
<td>0.028</td>
<td>27.361</td>
</tr>
<tr>
<td>Y22</td>
<td>0.878</td>
<td>0.880</td>
<td>0.028</td>
<td>31.332</td>
</tr>
<tr>
<td>Y23</td>
<td>0.910</td>
<td>0.912</td>
<td>0.014</td>
<td>63.245</td>
</tr>
</tbody>
</table>

The result of data analysis shows that the loading factor value of each construct is more than 0.70, so that, each construct has good reliability. The structural model is evaluated by using R-Square for dependent construct of T test and parameter coefficient of structural track. The analysis result on PLS model by considering R-Square value of each latent variable can be seen on the table 5.0 below:
Table 2: Results of Inner Weights

<table>
<thead>
<tr>
<th></th>
<th>original sample estimate</th>
<th>mean subsamples</th>
<th>Standard deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expectation-&gt;Satisfaction</td>
<td>0.071</td>
<td>0.051</td>
<td>0.133</td>
<td>0.533</td>
</tr>
<tr>
<td>Satisfaction -&gt; Marketing Mix</td>
<td>0.882</td>
<td>0.906</td>
<td>0.135</td>
<td>6.537</td>
</tr>
<tr>
<td>Satisfaction of -&gt;Trust</td>
<td>0.940</td>
<td>0.946</td>
<td>0.016</td>
<td>60.167</td>
</tr>
</tbody>
</table>

Source: Data calculated on the appendix.

The table above shows the results of inner weights where among the three correlations tested, it is acquired that T-count value of satisfaction towards the trust value is 60.167 then the correlation value between marketing mix and satisfaction is 6.537. Moreover, the correlation value between customer expectation and customer satisfaction is 0.533; this means that it is not significant because the value is lower than t-table (0.980).

**Structural Equation Model:** To find out Structural Equation Model, the result of data analysis in this study will show a diagram which describes the hypothesis of regression parameter and its significant statistic. Therefore, it can be seen from the figure below:

![Diagram of correlation between effect and hypothesis of parameter value](image)

Based on the test result of PLS toward the first hypothesis, namely the effect of the Customers’ expectation toward the customers’ satisfaction, the test shows that the value of t-statistic is 0.533. The above results indicate that the value of the t-statistic is smaller than the value of the t-table (1.980), which means that hypothesis (H_0) is supported or (H_1) is not supported at the level of error of 10%. So, there is a positive result but it’s not significant to the variable of the Customers’ Expectations on the finance company of Mandala Multifinance-Poleang Branch. This is caused by the high expectations of customers toward the products and services that affect the level of customers’ satisfaction. Therefore, it can be concluded that the higher the expectations of customers is, the lower the level of satisfaction will be.

Based on the test results of the PLS toward the second hypothesis, namely the Effect of Marketing Mix toward customers’ satisfaction, the results show that the value of t-statistics is 6.537. The above results indicate that the value of t-statistics is greater than the value of t-table (1.980), which means that the hypothesis (H_0) is not supported or (H_2) is supported at the level of error of 10%. So, there is a positive and significant effect of marketing mix toward the variables of the customers’ satisfaction on finance companies of Mandala Multifinance, Poleang Branch. Thus, it can be concluded that the marketing mix applied by finance companies Mandala multifinance either of the product, the price (interest rate), promotion or distribution, has a strong effect on the level of
the customers' satisfaction. Based on the test results of the PLS toward the third hypothesis about the effect of the customers' satisfaction on the customers' trust. The testing results gain that the value of t-statistics is 60.167, the above results indicate that the value of t-statistics is greater than the value of t-table (1.980) which means that the hypothesis (H0) is not supported or (H3) is supported at the level of error of 10%. Therefore, there is a positive and significant effect of the customers' satisfaction toward the Customers' trust on the finance company of Mandala Multifinance Poleang Branch. In conclusion, the satisfaction felt by customers in Mandala Multi-Finance Company - Poleang Branch is good in terms of the performance in accordance with customer expectations and feelings of pleasure which are perceived by the customers to have a strong effect on the customers’ trust.

4. Conclusion

The conclusions of this research are as follows:

1. In testing the customers’ expectation toward their satisfaction, it shows positive effect but insignificant. It implies a sense that the high customers’ expectations will reduce the level of the customers’ satisfaction in Mandala Multifinance company-Poleang branch.

2. In testing the marketing mix toward the customers' satisfaction, it has a positive and significant effect, giving a sense that the better the marketing mix applied by finance Mandala Multifinance Company - Poleang branch is, the higher the customers' satisfaction will be.

3. In testing the customers' satisfaction toward the customers' trust, it results in a positive and significant effect, giving a sense that the higher the customers' satisfaction is, the better the customers’ trust in Mandala Multi-finance company - Poleang branch will be.

The managerial implications of this research are as follows:

1. The Finance company of Mandala Multi-finance – Poleang branch can develop the customers’ satisfaction with a particular attention to the marketing mix in interest rates, products and promotions because the results obtained show that most customers still consider the interest rates applied by the company are still too high so that the company need to review the interest rates applied to the detriment of the company for not having regard to the interest rates applied by other finance companies by considering the facilities and level of service provided. In addition, the products offered by the Finance Company of Mandala Multi-finance still do not meet the customers' demand, particularly in terms of the quantity of products. Therefore, the company must provide additional products and pay attention to the availability of more varied stocks in accordance with the needs of customers. Besides, the promotion systems applied by finance company of Mandala Multi-finance - Poleang branch are already effective but still need to be improved, just like a sponsor in a certain event.

2. The finance company of Mandala Multi-finance Poleang branch can develop the customers’ trust with regard to the customers’ satisfaction in terms of the better performance in accordance with the expectations of customers and the customers-perceived sense of excitement over into the customers of finance company of Mandala Multi-finance Poleang Branch because the results of the study show that there are some customers who think that the performance of the employees of Mandala Multi-finance are still not optimal and there are some customers who do not feel happy with the system adopted by the Finance company of Mandala Multi-finance especially dealing with the employees in providing services to clients who have not paid the installment yet.

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The Relationship between Environmental Management, Environmental Performance, and Company Performance at Small-Medium Enterprises

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Abstract: Environmental issues are relevant to study along with the development of industrial activities, especially in Indonesia. Indonesia as a part of Southeast Asian countries will be the destination of industrial activities because this region is claimed to be low-cost industrial area (Rao, 2004), where 70% of industrial activity will be focused on South-East Asia. Industrial activities will cause environmental problems, such as pollutions of air, land, noise, and water, as the impacts of poor environment. This phenomenon is very essential to study, especially on the aspects of environmental management. The first objective of the study is designed to investigate the relationship between environment initiative, employee involvement, and supplier integration to the environmental performance. The second objective of the study is designed to investigate the relationship between environmental and company performances. This study also aims to investigate the impacts of independent variable on the dependent variable that are mediated by intervening variable of environment performance. This investigation uses trimmed model as the ending model of path analysis. The participant of this study consisted of 85 companies where operations at Semarang municipality. All of the variables were measured with four indicators. The data were collected from primary and secondary data. The primary data were obtained from respondent interviews and focus group discussions. The secondary data were obtained from statistics center bureau, journals, text books, and precedence research. The data analysis used path analysis followed by multiple regressions. The results of the study showed that, first: the independent variables of environmental initiative and employee involvement had significant influence to the environmental performance. Second, supplier integration had the influence to the company performance. Third, environmental management had significant influence to the company performance. At last, the results of trimmed model showed that environmental performance was as the mediating variables of the relationship between environment initiative, employee involvement and company performance.

Keywords: Environment Initiative, Employee Involvement, Supplier Integration, Environmental Performance, and Company Performance

1. Introduction

The emergence of environmental issues was reinforced by of Rao (2004) that the manufacturing operations, up to 70 % would be operate in the Southeast Asia since it was considered as a cheaper production house. Pollution as the environmental impacts at various stages of production and consumption activities will become interesting phenomena to study. The concept of Greening supply chain management proposed by Rao (2002) had integrated the environmental initiatives to the environmental performance and the supply chain environmental management to the economic performance. While in the study on greening production, environmental responsibility requires employee involvement and supplier integration in the creation of clean production. The employee involvement has direct impacts on greening production (Rao, 2004). This study examines that environmental management is important concepts to the performance of environment and company. The concepts of environmental management are the combination of study conducted by Rao (2002, 2004), and will focus on variables of environmental initiatives, employee involvement, and supplier integration. Environment initiative is the company management initiative to improve the performance of company environment, complaint rectification, and competitive advantage, Rao (2004). The relationship between the performance of company and environment has become dispute among researchers that it is very much interesting and unique to study in depth. This study merely focused on industrial centers. Industrial centers are industrial grouping based on their similar activities and products in specific location. In the study of environmental managerial encouragement and proactive environmental management (Cahyono, 2006), the results were not significantly effective for policy-making, due to highly heterogeneous respondents of all types of manufacturing. This study will merely focus on the industrial centers.

Different views appeared due to the influence of environmental and company performance. Research conducted by Naffzinger (2003) stated that efforts on environmental fields has the influence to the
company performance, regardless to the indicators of profit, revenue, and operational efficiency. Freeman (1994) in his research found that environmental initiatives have negative impacts to the company performance. Based on findings, the environmental issues still need to be followed up, especially in the environmental management of small and medium enterprises. Management is focused on how environmental management system is able to improve the environmental performance and ultimately influence the improvement of company performance, based on the variable of environmental initiatives, employee involvement and supplier integration.

2. Literature Review

Environment Management System (EMS): Hussey (2003) say that Environmental Management Systems (EMS) is a formal package consisting of procedures and policies that describes how organization manages the potential of environmental impacts. EMS is a structured approach related to the environmental management issues and provides the basis for complaints and company performance guarantees. While the Environment Protection Agency (EPA), Bergeson (2005) defines EMS as the ongoing cycle encompassing planning, implementation, supervision, and repair processes and actions that bind organization to integrate business and environmental purposes. The defined concepts of EMS suggested that environmental management should be integrated with business management organization. Environmental management is the responsibility of all employees in creating a healthy and safe environment. Bergeson (2005) stated that there are four driving force in the development and implementation of EMS. First, the demands of certification require reports and procedures in preparing and reporting the required information. Management should pay attention to the performance standards in managing the company. Second, the innovation needs upon fuels to the development of EMS. Company continuously thinks about the new and better ways to achieve more sustainable development, competition, and prosperity. Design and implementation of EMS is part of innovation process and instrument to save the company resources and to maximize the pollution prevention. Third, incentives are provided for companies to the development and implementation of EMS. Fourth, the demand of changes is to the ways of managing business.

The implementation of EMS may influence the improvements of environmental performance, particularly on fouling reduction, pollution prevention, and organizational efficiency. EMS models have continuously improvement cycles based on the process of plan, do, check, and act. EMS is based on the approach of ISO 14001 which has five major components:

1. **Environmental policy**, a written commitment from the top management that provides guidance to organization as a whole. Ideally, the establishment of policies involves the employee substantial inputs. After adopting, all employees are given information related to the policies, precautions, how policy affects all employees, and what their responsibilities are to the company.

2. **Planning**, that the company shows the process of implementation and evaluation, identification and testing of various environmental aspects and impacts, identifies needs, sets priorities, develops the goals and targets, and describes the relationship between program and the objective achievement in details.

3. **Implementation and operation**, is by involving resources, delegation of responsibility, task exposure that should be done, ensuring that all employees have the understanding upon EMS. Internal and external communications are extremely needed to monitor, supported by documentation, control and operational supervision of EMS.

4. **Monitoring and corrective action**, done by organization in auditing or evaluating performance. Auditing can be done by the internal organization or external parties. The problems found in the implementation of EMS will be identified and documented to determine the required corrective actions, which is then documented and reported.

5. **Management review** is done periodically by the top management to overall implementation of EMS and the determination of subsequent implementation. Review may include the review of policies, environmental aspects and impacts, rules, objectives and performance. All of these changes can be made based on the consideration of review results.

In the era of proactive environmental management started in 1990s, the companies began to think about the anticipations of environmental impacts to the operation of company by measuring the efforts to reduce waste and pollution related to the emergence of various environmental regulations by finding positive efforts in order to achieve the superiority of business through **total quality environmental management** (TQEM). At this stage, company undertakes efforts upon the pollution prevention and
exploration to create new opportunities in the development of green products, green process, and green technology.

**The Relationship between Environmental Initiatives, Employee Involvement, Supplier Integration and Environmental Performance:** The study conducted by Rao (2004) testing of the variables influencing the greening production. There are five variables which are closely related to greening production: company social responsibility, Total Quality Environmental Management (TQEM), supplier integration, employee involvement, and clean production. This study was conducted in Southeast Asia by with the objects of the existing companies in Malaysia, Indonesia, Thailand, and the Philippines. There were 52 respondents with the number of indicators of 64. The result showed that the employee involvement had direct and significant influence to greening production, in addition to the variables of cleaner production. TQEM had indirect influence to greening production, through the variables of employee involvement, supplier integration, and cleaner production. While the company environmental responsibility variables influenced TQEM and worker involvement. The research results conducted by Cahyono (2007) in the manufacturing industry in Center Java, indicated that 34.7 % of respondents did not understand, and 21.1 % were not aware to the various government regulations concerning on environment. Besides, there are differences in the various environmental management practices among large and medium company related to the enforcement of environmental management, proactive environmental management, and environmental management performance. This study involved respondents of 51 big companies and 92 medium companies. The observed Industry groups included: furniture, wood processing, cigarettes, clothing, textiles, medical equipment, fertilizer, mining, batik, dried fish, plastic, and mori blaco companies. The results also indicated positive and significant influence related to the enforcement of environmental and proactive environmental managements to the environmental performance.

Hypothesis 1: The better the environmental initiatives, employee involvement, and supplier integration, will improve the environmental performance.

**The Relationship between Environmental Initiatives, Employee Involvement, Supplier Integration and Corporate Performance:** Cahyono and Sulistyo (2002) investigated the quality of environmental management and competitive advantage to the company performance as the moderating variable. The population in this study is the manufacturing companies that are susceptible to the environment in the province of Center Java, such as: gas, chemical, plastic, fodder, timber, textiles, garments, food and beverages, and pharmaceuticals companies. The results showed that the respond rate was 28%. The company active involvement in the formation of environmental regulations is very low (67 % had never been involved). Approximately 60 % of respondents also stated that they never followed or received counseling about EIA (Environmental Impact Analysis) extension. The other results indicated that the quality of environmental management had no significant influence to the competitive advantage. The second result, after the quality of environmental management interacted with the company performance significantly influenced the competitive advantage.

Hypothesis 2: The better the environmental initiatives, employee involvement, and supplier integration will improve the company performance.

**The Relationship between Environmental and Company Performances:** Freeman (1994) in his research found that environmental initiatives had negative impact to company performance. However, in the other study conducted by Porter and Linde (1995), Ahmed et al. (1998), found that environmental stewardship can proactively create long-term benefits. In his research, Clelland et al., (2000) presented evidence that the pollution prevention practices and waste minimization will be able to achieve the operational efficiency. This research results were supported by the study conducted by Ahmed et. al., (2003) who found positive relationship between the improvement efforts of company environment and operational efficiency. Naffziger study (2003) was motivated by the desire to protect and preserve the natural environment. Initiatives to create green comes in many business organizations. Business organizations are expected to be more environmentally responsible than the previous time. Various traditional beliefs stated that environmental activities had negative impact to the company performance, such as sales and profit growth. However Bandley (1993) stated that there were indications that the implementation of proactive environmental management would influence long-term economic benefits. The research results conducted by Naffziger (2003), suggested that the conceptualization of environmental concern, environmental effort and the company performance were closely related. The improvement of environmental concerns will improve the environmental effort, and also the company performance. Ashrof (1993) concluded that the environmental effort is positively related to the company
performance, in addition to profit, revenue and operational efficiency indicators. Other results indicated that the companies concerning on high top management had better environmental efforts than the companies with low environmental concern. Furthermore, the companies with high environmental concerns tend to have better company performance, especially in profit and operational efficiency.

Hypothesis 3: Better Environmental performance will improve the company performance.

**Research Design:** Based on the research problem, and the literature review described, this study was designed to integrate the variables of environmental initiative, employee involvement, supplier integration, environmental, and company performances as described in the following Research Framework (Figure 2).

**Figure 2: Research Framework**

3. **Methodology**

This study used an analytical descriptive approach focusing on deep identification of the influence of company environmental management through environmental initiative dimensions, employee involvement, and supplier integration to the environmental and company performances. Methods and techniques used in this study is the combination of literature study, respondent observation, and in-depth interviews with the structured company management. The variables of study include: environmental initiatives, employee involvement, supplier integration, environmental, and company performance. The indicators of environmental initiatives are: the efforts to use friendly environmentally raw materials, to reduce waste, pollutions of water, air and sound, and to use cleaner technologies. The indicators of Employee involvement are: the guarantee of employee involvement, training, task clarity, and involvement standards. The population of this study was all the in operation of small and medium companies of Semarang and clustered in the industrial centers. The industrial centers used as the objects of this study include: processing centers of fish (smoked fish, salted fish and fermented small fish or shrimp), tofu and tempeh, batik, and garment. The sampling technique used cluster sampling, which is a sampling technique with the characteristics of heterogeneity among groups and within a group, and then some groups are selected to investigate (Sekaran, 2003).

The primary data in this study is very dominant, which consists of data collected through directly in-depth interviews with the leaders or managers of the company due to the company performance, environmental management, and performance. The instruments used to obtain the primary data are questionnaires consisting of quantitative and qualitative questions in order to gather the valid and complete data. The secondary data of this study were obtained from second hand related to the topic of this study. The secondary data sources were obtained from the Center of Statistics Bureau (CSB) of Semarang in figures, literature reviews. The analysis used in this study is the qualitative and quantitative analysis. The qualitative analysis is intended to examine a variety of variables to obtain the comprehensive information of environmental management in the industrial centers. The quantitative analysis is intended to determine the relationship between the variables in the research models. The analysis used in this study was path analysis.
4. Results and Discussion

Table 2 showed the picture of the industrial centers in Semarang, which are grouped into seven centers, the centers of tofu, tempeh, batik, garment, salted, smoked fish, and fermented small fish or shrimps. The dominant companies in this study are from the industrial centers of smoked fish by 42%, tofu by 14%, and fermented small fish or shrimps by 11%. While the industrial centers of tempeh, batik, garment are by 8%, and the salted fish by 9%. The largest production value is the industrial centers of tempeh with 153,600 kg of tempeh, and smoked fish which used raw materials of 98,700 kg per day. Smoked fish industry is a major industry in Semarang since sufficient numbers of raw materials (tuna, fish pee) are available. The smoked fish centers are mostly located in the north of Semarang (Bandarharjo, Mangunharjo, and Tawang Mas). Tofu Centers are mostly located in Jomblang while tempeh centers are mostly in Krobokan. Tofu centers are also located in Lamper Lor, and Sekayu. Batik centers are mostly located in Bukit Kencana Jaya while fermented small fish or shrimp centers are mostly located in Tawang Mas and Mangunharjo. Garment centers are mostly located in Kauman and Sendangguwo.

The Value of Mean and Deviation Standard: The research results showed that the value of mean upon the respondents’ answers to four indicators of environmental initiative variables showed value of below 3, which were, 2.553. It meant that the environmental initiative activities undertaken by the industrial centers in Semarang had not properly and seriously implemented, since the value was still below the average. However, the indicators of attempts to use friendly environmentally raw materials and to reduce waste showed the results of good, meaning that the industrial centers have the desire or willingness to use raw materials that are environmentally friendly and to reduce waste due to the initial efforts of environmental improvement. The average value of the respondents’ answers to the employee involvement variables was 2.435 and is still below the average value of three, meaning that the employee involvement in the centers of small and medium industries in Semarang was still not optimal. The lack of employee involvement was indicated by the absence of employee involvement standards and guarantee. While the employee task clarity related to the environmental quality improvement had been there, although it was not completely implemented. The employee trainings had actually been done, either by the company management, colleges, or city government of Bapedalda, Semarang. Due to the answers of respondents, the average value of environmental performance variable was 2.812, meaning that the value is still below the average of three. These findings indicated that the environmental performance of industrial centers in Semarang was not optimal yet, meaning that the efforts undertaken by the industrial centers had not completely reduce the pollutions, waste, people’s complaints, and consumption.

Validity and Reliability Test Results: The results of validity test were conducted by correlating indicators with each of the variables. Furthermore, to determine the validity of indicator, it was determined by the significance correlation value. Based on the significance value, it could be concluded that all research indicators were considered valid, because it had the significance value of < 0.05. Meanwhile, the reliability test was conducted by looking at the value of Cronbach's alpha (α). In this research showed that the value of α for each variable was as follows: the environmental Initiative = 0.771, supplier Integration = 0.830, Employee Involvement = 0.621, environmental performance = 0.773 and company performance = 0.664.

Table 1: Regression Analysis Result

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
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</tr>
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<td>(Constant)</td>
<td>12.177</td>
<td>1.604</td>
<td>7.592</td>
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<td></td>
<td>IS</td>
<td>-1.216</td>
<td>.193</td>
<td>-585</td>
</tr>
</tbody>
</table>

Path Analysis Results: Based on the calculation results of multiple regression showed that the variables of environmental initiative had significant influence to the environmental performance (t = 5.563 and
sign. 0.000), but had no directly influence the company performance. The employee involvement variables had significant influence to the environmental performance (t = 2,039 sign. 0.045), but had no direct influence to company performance. The supplier integration variables had no significantly influence to the environmental performance, but had direct influence to company performance (t = 9.041 sign. 0,000). The further Relationship that the environmental performance variables had significant influence to company performance (t = 2,748 sign. 0.007).

**Trimmed Model:** Based on the results of trimmed model, then the previous research model and that demonstrated the relationship between the variables changed as presented in Figure 3. The changes occur as the environmental performance variables mediated the relationship between environmental initiatives, employee involvement, and company performance while the supplier integration had direct influence to company performance.

**Figure 3: Results of Trimmed Model**

![Diagram showing the results of trimmed model](image)

The next step, in path analysis is to examine the model validity. The validity of analysis results depends on whether or not it meets the underlying assumptions. Once trimmed model is acknowledged, then we can determined the coefficient of total determination. The calculation of total determination based on the value of R square of two multiple regression equations. The first equation results the value of R² equal to 0.456 and the second equation resulted the value of R² equal to 0.593. The second is based on both values of R² that the coefficient of total determination can be formulated as follows:

\[ R^2_m = 1 - P_{e1}^2 \times P_{e2}^2 \]

\[ R^2_m = 1 - (0.456)^2 \times (0.593)^2 \]

\[ R^2_m = 0.9269 \]

Meaning that the variety of data can be explained by this model which is equal to 92.69% or in other words, the information available in the data of 92.69 % can be explained by this model. The other 7.31% is explained by the other variables (that is not available in this model) and error.

**Discussion:** The lack of environmental management implementations occurring in the industrial centers of Semarang showed that environmental issues had not become the focus of businessmen. The company goals still focus on how to obtain the highest profits instead of environmental concerns that have not become part of the company strategies. This condition is supported by respondents’ responses to several variables of this study which average values were less than three with a 5 point Likert scale. The Lack of awareness upon the environmental issues will certainly bring the long term greater risks, such as poor air quality, greater waste water, and people's complaints as the influences of company activities. Environmental initiative and employee involvement Variables had no direct influence to the company performance, but were mediated by the environmental performance. These findings meant that the environmental performance as the intervening variable in the relationship between environmental initiative and employee involvement to the company performance. Or in other words that the company performance can be obtained if it is preceded by the environmental performance. Environmental initiative and employee involvement Variables had significant influence to the environmental performance variables. However, environmental initiative variable had greater influence. These findings indicated that the creation of environmental performance is strongly influenced by the environmental initiative. Environmental initiative was measured by four indicators, such as the efforts to use
environmentally friendly raw materials, reducing waste, pollutions of water, air, and noise, and the efforts to use clean technology. The most dominant indicator variable (which had large loading values) was the indicator of: Efforts to use of environmentally friendly materials, to reduce waste efforts, to guarantee employee involvement, employee involvement standards.

From the employee involvement variable, there were two indicators that had dominant influences, the employee involvement guarantee and employee involvement standard. Employee involvement guarantee basically indicated the presence or absence of guarantees granted to employees upon the creation of clean company environment. Employees though that their primary task activities focused on the production of goods demanded by the company, whereas the environmental issues were problems arisen from the impacts of production activities. This condition certainly required the company polices to offer greater roles to the employees and of course with the consequences. The other policies may be given by other companies to attract employees which especially are assigned in the field of environmental hygiene. The employee would actually have double roles, in the field of production, and responsibility to the environment. The next finding is that supplier integration had direct influence to the company performance. Meaning that supplier integration was not only related to environmental issues but also more significantly to the formation of cooperation between company and suppliers. If the cooperation with suppliers got better either by selecting suppliers with environmental criteria, enforcing suppliers, creating the environmental management system, and informing the importance of cleaner production, they will improve the company performance.

Other findings showed that environmental performance had a significant influence to the company performance. It means that the better the environmental performance, it will improve the company performance. These findings indicated that that the company performance can be a good predictor to the company performance. The implication is that environmental performance can be one of the promotional strategies of companies in the industrial competitive environment. The indicators of environmental performance that had high loading factors are: indicators of reduced pollution, and reduced people’s complaints. Both indicators which had dominant influence tend to have direct relationship with the society, such as pollutions and people’s complaints. It means that the environmental performance will influence the company performance if the company is able to create some efforts to reduce pollutions (water, air, and noise) and to minimize complaints from the surrounding industrial center communities.

5. Conclusion

Based on the research results and discussion, it can be conclude that the environmental management practices in the industrial centers of Semarang are still not optimally implemented, related to environmental initiatives, employee involvement, supplier integration, environmental and company performance. Environmental performance variables mediate the relationship between initiative environmental variables, employee involvement and company performance. Supplier integration variables directly influence the company performance. Various data that can be explained by the model is equal to 92.69 % or in other words, the information available in the data of 92.69 % can be explained by the model. The other 7.31% is explained by the other variables (which is not available in the model) and error. The suggestions recommended after conducting the study on environmental management are: it is necessary to improve the roles of company (centers) to the environmental management focusing on the improvement of center roles of environmental initiative variables through the efforts in reduction of water, air, and noise pollutions. It is also necessary to have to use clean technology. In addition, it is necessary to improve the center roles through the involvement of variable emphasizing on the needs of trainings for employees to create clean production and the quality of environment.

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Entrepreneurial and Market Orientation towards Innovation and Marketing Mix Strategy, and their Impact on Business Performance on the Florist Business in Dki Jakarta Province

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Abstract: This literature study aims to examine the concept of entrepreneurial and market orientation, innovation and marketing mix strategy, and propose a conceptual model of entrepreneurial and market orientation towards innovation and marketing mix strategy and their impacts on business performance on The Florist Business in DKI Jakarta Province. The approach of this paper is a multidimensional approach, conducting an assessment of the dimensions of the variables contained in entrepreneurial, market orientation, innovation, and marketing mix strategy and their impacts on business performance. A conceptual model of the entrepreneurial and market orientation created increasing innovations, marketing mix strategy, and the impact on business performance. Academic implications of this paper in exploring the concept of entrepreneurial and market orientation increasing innovation and marketing mix strategy and their impact on business performance of florist business in DKI Jakarta Province. The practical implication will give some ideas and practical suggestions in the decision to implement its entrepreneurial and market orientation, innovation and marketing mix strategy. The original contribution of this paper is the establishment of a conceptual model of the dimensions of entrepreneurial and market orientation can increase innovation and marketing mix strategy, and the types of innovations and marketing mix strategy that can be applied to increase business performance of florist business in DKI Jakarta Province.

Keywords: Entrepreneurial Orientation, Market Orientation, Innovation, Marketing Mix Strategy, Business Performance, Florist Business
Improvement of Human Resources Performance through Empowering Leadership, Intrinsic Motivation, Training and Employee Wellbeing

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Abstract: The purpose of this study to analyze the improvement of human resources performance through empowering leadership, training, intrinsic motivation, and employee wellbeing. The population in this study are all the employee of Food Security Extension and Extension Pekalongan many as 134 people. The sampling technique using census techniques, so that all members of the population sampled. Statistical analysis using regression analysis. The results showed that empowering leadership, training and employee wellbeing have positive and significant effect on intrinsic motivation. Empowering leadership, training, and employee wellbeing have positive and significant impact on the human resources performance. Intrinsic motivation as variables that weakened the influence of empowering leadership on human resources performance. However, the intrinsic motivation as a variable that reinforces influence of training on the human resources performance. Intrinsic motivation as a variable that weaken the influence of employee wellbeing on the human resources performance.

Keyword: empowering leadership, intrinsic motivation, employee wellbeing and human resources performance
Effect of Islamic Based Leadership Style to Motivate Creativity of Syariah Bank Employee

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Abstract: In deep views of Islamic region, the understanding of creativity must always be based on the principle of God and sincerity. Because it is a fundamental principle for Muslim people to build potential creativity. Al Quran gives a signal by godliness in order to human thinking smart and critical, acting creative for finding greatness of God by its verses. These paper discusses how effect of Islamic based leadership style to influence creativity of employee for improvement in reaching of company target. This research uses the quantitative method with questioner test to 150 respondents of Syariah Bank employees in Makassar. Research methodology focuses on aspects of national transform leadership style and combines with principle style of Islamic leadership. Results show that style of Islamic leadership gives the effect to the increase of employee creativity ability. It indicates from results of correlation test using SPSS which value of its correlation 0.86. It means that enhancement of employee creativity caused by style of Islamic leadership which gives a significant relation to the good employee passion. Adoption of Islamic based leadership style has a faith to contract the religion psychology between a leadership and employee. It means a Muslim leadership should attempt to give the best trust for supervising, protecting and managing as well as give a paragon with wisdom. In fact this style of Islamic based leadership as a head is able to perform the good emotion relation to servant.

Keyword: Islamic based leadership style, employee creativity, performance, emotion relation
Analysis the Effectiveness of Cocoa Distribution Channel in the Province of Aceh, Indonesia

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Abstract: Cocoa today become one of the leading commodities, especially for the export market, both nationally and at the provincial level, in the Province of Aceh. At least when the indicator to be seen is the existence the increase in production, export volume and the number of farmers involved. To be able to take advantage of market opportunities and to increase the income of farmers in the midst of increasing competition, it is necessary the measures the problems faced by farmers. As far as the author concern, there are at least three (3) major problems associated with the marketing of cocoa in Aceh, namely: a. The low quality of the product b. Low productivity c. The low level of prices received by farmers. The problem of low levels of prices received by farmers, which was the focus of study in this study, associated with the efficiency of cocoa distribution from the farmer to the wholesalers and exporters. From the results of the pre survey in Pidie Jaya district, it is known that the presence of long chain trading system that must be passed from the traders, wholesalers, to the exporter, causing a big price difference to the reception margins at farm level producers and traders involved in the marketing supply chain of cocoa in Pidie Jaya. The findings in this study was in the distribution of traditional marketing channel, farmers can only sell cocoa at the price of only Rp 27,000 / kg. While prices received by farmers in the partnership scheme was higher at Rp 28,500 / Kg. Thus farmers receive additional income of Rp 1500 per Kg. If we looked the percentage of price, as the portion value received by farmers was also increased by 5.5%. Meanwhile, share prices paid to farmers, compared to the total highest price received by the exporter also increased from 83.7% to 86.4%.

Keywords: Cocoa Quality, Productivity, Level Price, Farmer, Gatherer, Margin, Distribution Marketing

1. Introduction

Background Research: Cocoa today become one of the leading commodity, especially for the export market, both at national and the provincial level, in the Province of Aceh . At least when the indicator seen is the existence of the increase in production, export volume and the number of farmers involved. However, the development of cocoa in Indonesia still encounter many problems and obstacles, especially if cocoa bean is seen as a commodity exports that are largely produced by farmers. In the future because of income growth, population growth and the effect of trade liberalization, the world demand for cocoa is expected to increase. To be able to take advantage of market opportunities as well as to increase the income of farmers in the midst of increasing competition, it is necessary to measures the problems faced by farmers.

Research Purposes: The purpose of this study is as follows:
1. Knowing the large margin received by each party involved in the marketing process of cocoa in Aceh Province, starting from the farmer as a producer to the exporter level. 2. Knowing the influence of intermediaries, sales volume, product quality, and the mode of payment of the price of cocoa at the farm level.

2. Literature Review

Definition and Significance of Distribution Channels: Decisions regarding the distribution channels in marketing is one of the most critical decisions faced by the management. The selected channel will affect the whole other marketing decisions. Distribution channels are agencies or institutions that have activities to deliver goods or services from producer to consumer. (Arlina, 2004)

Factors Affecting Distribution Channel Selection: According Arlina 2004, manufacturers must consider various factors that are influenced the choice of distribution channel. Selection of effective distribution channels will be able to boost sales expected, so the survival of the company can be assured. Such factors include among others:
1. Market Considerations. 2. Product consideration. 3. Company consideration and 4. Intermediaries Consideration

Several market factors that must be considered are: a) consumer or industrial markets. If the market is in the form of the industrial market, the retailer rarely or never use this channel. If the market is in the form of consumer and industrial markets, the company will use more than one channel. b) The number of potential buyers. If a relatively small number of consumers in the market, then the company can conduct direct sales to end users. c) The geographic market concentration. Geographically, the market can be divided into several concentrations such as the textile industry, paper industry, and so on. For areas that have a concentration high population density, the company can use industrial distributors. d) The number of orders. The volume of sales of a company will greatly affect the channel used. If the volume purchased by industrial users is not so large, or relatively small, then the company can use industrial distributors.

Agricultural Business Administration: Business administration is a business activity in which there is the flow of goods and services from the point of production to the point of the consumer. Production is the creation of customer satisfaction, by making the usefulness of goods and services. Satisfaction is formed of a productive process which is classified into the usefulness of the product, place, time and ownership. Khol and Uhl (2002).

Channel Trading System: Different channel trading system will provide different benefits to each of the institutions involved in the activities of the trading system. The actual channel is a series of institutions trading system that performs all the functions to distribute the product and its ownership status from producers to the consumers. Manufacturers have a major role in producing goods and often do most marketing activities, while distributing commodities in appropriate time, place and form to the customer wants. (Kotler 2002).

Margin Trading System: Margin trading system is defined as the difference in price paid by consumers to the prices received by farmers or producers. It also can be expressed as the value of services of the implementation of business administration from the producers to the final consumers. Activities to move goods from point to point consumers manufacturers require both physical and material expenses. Expenditure should be made to distribute commodities from producers to consumers called business administration costs. Margin trading system illustrates the difference in prices at the consumer level (Pr) with prices at the producer level (Pf). Each marketing agencies perform different marketing functions causing price difference from one institution to another to the final consumer. The more marketing agencies involved the greater the difference between producer prices and the price at consumer level. (Hammond and Dahl 2007).

Figure 1: Distribution Line Pattern Cocoa

Source: Dervish Ali, 2011

Based on the conception proposed by Azzaino above, the study of the analysis of the margin trading system is only directed at:
1. Percentage of price received by farmers from the price of the export price
2. The portion of the costs incurred by the agency business administration
3. The portion of profits earned by each institution in the trading system

Research Paradigm: The research paradigm used is as follows:
3. Methodology

**Location and Object of The Research:** Locations of research conducted in Pidie Jaya by selecting one village in each there district which were Bandar Dua, Bandar Baru, Jangka Buya, Meurah Dua, Meureudu, Pante Raja, Trienggadeng and Ulim.

**Population and Sampling:** The population was the farmers and middleman of cocoa in Pidie Jaya. Sampling was carried out by using a convenience sampling technique, a technique of random sampling done by selecting a predetermined location. The samples also take into account the level of accessibility of the respondents, as many respondents who have the plantation away from residential areas, so it was rather difficult to be accessed.

**Data Analysis Methods:** Data analysis method used in this research were the analysis of the margin trading system. Analysis of margin trading system is done by looking at the relationship between the cost of business administration and profit of middlemen. Design of the research using mixed method approach, combining quantitative and qualitative research simultaneously (concurrent procedures). The method used for the quantitative research design is survey by distributing questionnaires. Whereas qualitative research designs using interviews. This approach is employed to obtain comprehensive and complementary data.

4. Results and Discussion

**Cocoa Production Overview:** Indonesia is known as one of the world’s largest cocoa producer along with the Ivory Coast, Ghana and Malaysia. But when talking about the quality of Indonesian cocoa is still below than that other cocoa producers. In addition the Indonesian cocoa is not fermented. Low quality of Indonesian cocoa is also caused by high levels of dirt and a lot of contaminated insects, fungi and mycotoxins, and weak flavor. The low-quality cocoa is particularly produced by small farmers (smallholder) in Sulawesi and Sumatra, including Aceh. In the global market, it is known as an unfermented cocoa.

**Cocoa Description in Pidie Jaya:** In the province of Aceh, Pidie Jaya Districts is one of the largest producer of cocoa beans, along with several other districts such as Southeast Aceh, Aceh Tamiang and Biureuen. The amount of production of cocoa beans from Pidie Jaya region is because of the natural carrying capacity, including land, which does have high suitability for this type of cocoa plantation crops. One indicator of the suitability of land that is often used to look at the suitability of the land and the type of cocoa crop is the slope of land. The slope of land is something "given", and can not be changed, although it can be manipulated for example by terracing. However, to build terrassing need funds and technology. Another consideration that for the flat land (slope <8%) has been largely used for wetland. Cocoa crop, if any, are on flat land also mostly located in the yard area farmers with relatively small area. Thus the land for cocoa classification is based primarily on the nature of the land slope. Based on the steepness slope of the land it be conducted four classes of land:
1. Very suitable (S1), the slope of the land <8%
2. Appropriate (S2), which is the slope of the land between 8-15%
3. In accordance marginal (S3), which is the land that has a slope of 15 to 45%.
4. Not applicable (N), ie land slope > 45%.

Cultivation of cocoa in Pidie Jaya is still done traditionally with productivity before the conflict was 700-800 kg / ha, but during the conflict and its aftermath as well as an attack CPB (Cocoa Fruit Borer) land productivity in cocoa is reported to be living half, although the latter continues to improve productivity levels, but not yet to the level before the conflict in mid-1990s. The quality of cocoa beans produced also still relatively low, not just because of the CPB disease, but also because of postharvest treatments that have not reached the standard stage. In Pidie Jaya, cocoa is an important commodities. Of the 19 major commodities, cocoa area occupies most extensive land, the most widely cultivated by smallholders and
accounted for the highest annual income. Cocoa is cultivated in seven of the eight districts, namely Bandar Baru, Trienggadeng, Meureudu, Ulim, Bandar Dua, Pantai Raja, and Meurah Dua. By paying attention to these conditions, it is appropriate that the commodity was developed and enhanced economic role in this region. Moreover, rainfall and land suitability support for high yielding.

**Cocoa Produce (TM):** The area of cocoa produce usually was not far from the settlement in the yard and in the small hills in the countryside. Its area is adjacent to the rice fields, with relatively gentle topography to slightly wavy. On average holdings covering 1.0 s.d. 1.5 ha per farmer. Plants cultivated in the 1980s and 1990s in the form of several government projects such as P2WK, PRPTe, P2RT and OECF. Planting material of Plantation Office and some of the local. Crop conditions are generally quite fertile, height of 4-5 m with a population of relatively intact. Maintenance pruning plants in particular has been done by almost all respondents, but the frequency is very diverse. Most do so is limited to disposal of water shoots, but non of them doing with a frequency of 3-4 times per year. The performance of cocoa plants is quite lush, many branches overlap and overhanging. By such maintenance and treatment the cocoa fruit rot disease (Phytophthora palmivora), especially during the rainy season is quite heavy and diseases reported horsetail, especially in rural sub-districts Kayee Jatoe and Bandar Baru

**Household Welfare Condition of Cocoa Farmers:** In agriculture, the components that were most responsible for the welfare of farmers is land. The more land owned by farmers and land increasingly Suber, the more prosperous farming family who owns the land. Prosperous farmers means, the production of cocoa can meet the needs of the family for a month plus any saving. However, if production can only meet the needs of the family, without saving, then it can be said the family is almost prosper. But when the results of its cocoa plantations can only meet the needs of his family is less than 100%, then it is considered not prosperous family. Bapeda of Pidie Jaya (2010), in a study mentioned cocoa farming community can be grouped into three levels, namely: "Prosperity", "Medium", and "Poor". Although these levels are not entirely constructed by cocoa farm income, but the level of welfare is also associated with extensive cocoa plantations owned. The farmers who are at the level of "prosperous" generally have a minimum of two hectares of cocoa plantations, while farmers who are at the level of "medium" only has about one hectare cocoa farm. Meanwhile, farmers who are at the level of "poor" his cocoa plantation area less than one hectare. The minimum estimate for cocoa to achieve various levels, namely Survive (family farmers do not starve or equivalent poverty line), Production Plantation (farmers maintain the the plant so that it can produce), Reproduction Economy (farmers can rejuvenate plant and economic life is up, about 25 years), and the Economic Social Reproduction (farmers can prosper family) are different for the condition of intensively reared garden with the one that are not maintained intensively. As shown in Table 5.10, to achieve various levels, cocoa fields intensively reared can be more efficient in the use of land resources.

**Table 4.1:** Minimum Size Estimation Cocoa Plantation to Achieve Survive Level

<table>
<thead>
<tr>
<th>Level</th>
<th>Intensive (Ha)</th>
<th>Non Intensive (Ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survive</td>
<td>0.914</td>
<td>2.088</td>
</tr>
<tr>
<td>Production</td>
<td>1.068</td>
<td>2.276</td>
</tr>
<tr>
<td>Economic Reproduction</td>
<td>1.139</td>
<td>2.689</td>
</tr>
<tr>
<td>Social Economic Reproduction</td>
<td>2.030</td>
<td>5.136</td>
</tr>
</tbody>
</table>

*Source: BAPPEDA Pidie Jaya, 2013*

**Cocoa Marketing Channels:** Commodity marketing channels for cocoa beans in Pidie Jaya, which is known today is composed of two types, namely the traditional channel and partnerships channel. Traditional channels are channels that are formed following the marketing dynamics that occur from time to time, following the law of supply and demand. Forms of distribution channels is a standard form, ranging from farmers to traders, wholesalers and exporters. Partnerships channel is a channel of distribution which is a modification of the traditional distribution channels. This channel has a shorter stages, so the margins are absorbed along the channel is also smaller. As a result, the margin that can be enjoyed by each player along marketing channel is also greater than the traditional channels.

**Traditional Marketing Channels:** In traditional channels, exporters are price setters, because the price of cocoa at the farm level refers to the price determined by the exporter thus exporters is the reference market.
Based on the world cocoa price, exporter and then position themselves to wholesalers as a determinant of the purchase price and quality in Cocoa. While at the level of the underlying distribution, the purchase price is determined by both the merchant wholesalers and traders are invariably subordinate to the price at the farm level. High and low prices are determined based on the moisture content, the size of the seed, the content of impurities, the integrity of the seed, and odor/ aroma.

Farmers (Cocoa producers): Prior to the sale, first seek information from market prices in Beureunun and other farmers who have sold their bean. Selling price farmers to traders range between Rp 27,000, - up to Rp 27,500, - per kg depending on the quality of its cocoa. How to sales, the goods received at the merchant with the cost of unloading and transporting borne by farmers, while the unloading costs borne by the buyer. Payments made in cash or later than about 1 to 2 days after the transaction.

Small Traders: Small traders gatherers and obtain raw materials of cocoa both from farmers and also from his own garden. Cocoa received by them merchants at merchant places, delivery costs borne by farmers while unloading costs borne by the merchant. Used sacks of Cocoa container is returned to the farmers.

Exporter: Exporters gain Cocoa beans from wholesalers in Pidie Jaya. The price negotiated by phone or by delivery of an example. The goods were received at the exporter place so the delivery cost are borne by wholesalers. Payment done between 2 to 3 days after the transaction and paid in cash or through bank accounts. In the process of buying and selling cocoa, quality has always been one of the determinants for pricing agreed by both parties. Quality indicators typically include the amount of moisture that is still contained in cocoa beans, the amount of dirt that is still attached, conditions cocoa bean itself whether is still containing the fungus, as well as the size of the seed. Indicators of cocoa quality and relation with price cuts can be seen in the following table.

<table>
<thead>
<tr>
<th>Table 4.2: Quality Indicators and Discounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa Beans</td>
</tr>
<tr>
<td>Water Content</td>
</tr>
<tr>
<td>Dirt</td>
</tr>
<tr>
<td>Moldy seeds</td>
</tr>
<tr>
<td>Number of seeds</td>
</tr>
<tr>
<td>Total Pieces</td>
</tr>
</tbody>
</table>

Channel Partnership: Partnership is done by Cocoa Cooperative Pidie Jaya (Kopka Jaya), which also has cooperation with Ventura Indonesian Cocoa based in Medan, North Sumatra. Partnership model that is built is to follow the same model that has been done by previous partner Amajaro. Because Amajaro was no longer in partnership business with the cocoa farmers in Pidie Jaya, then this n empty role taken by Kopka Jaya. Kopka Jaya aware, a model partnership involving farmers will not succeed if it is not supported by good market access. Because all cocoa bean collected from farmers, later when it come to be sold and they can not find the right buyer who wants a binding long-term contracts with price and quality agreed upon, then the chances of success of this partnership will be small. Therefore Kopka Jaya invite Ventura Indonesian Cacao to join and support Kopka Jaya, especially in the area to market the bean.
Figure 6: Commodity Distribution Channels Cocoa Partnership in Pidie Jaya

In the marketing cooperation between farmers and exporters, the exporter bias receive dry cocoa purchases. Cocoa farmers sold in dried form to Cocoa Cooperative Pidie Jaya (KOPKA JAYA), weighing activities and delivery to the plant is done by appointed officers and administrators come from farmer groups. Furthermore, logs processed at the processing plant, after the packaged processed products ready for delivery to the exporter. Determination of the selling price of cocoa farmers Kopka members and non-members through the mechanism of purchases through a partnership. To reduce the negative impact of the power of monopsony, regulation of the rights and obligations of farmers and KOPKA JAYA contained in the MOU / agreement cocoa marketing cooperative partnership between KOPKA JAYA Pidie Jaya with chairman of farmer groups, as follows:

1. The obligation of farmers / farmer groups
   a. Sending non-fermented dry cocoa plant to KOPKA JAYA Pidie Jaya
   b. Cocoa sell to the KOPKA JAYA
   c. Receiving payments from KOPKA JAYA sales
   d. Pay the cost of processing
   e. Entitled to receive a loan of fertilizer and transport costs from KOPKA JAYA to exporters

2. Obligations KOPKA JAYA Pidie Jaya
   a. Setting a 10 percent yield
   b. Buying Cocoa with provisions Beureunun market price plus a premium price (between Rp 1500, - up to USD 2000, - higher than the market price Beureunun)
   c. Make a payment of 2 to 3 days after pricing

3. Obligations Cacao Ventura
   a. Cocoa receive appropriate predefined quality
   b. Weighing in at factory
   c. Doing Cocoa processing plant
   d. Other tasks deemed necessary

Cocoa Marketing Efficiency

Traditional Channels
Market participants from traditional channels include cocoa farmers as producers, traders, wholesalers and exporters. Regarding the marketing margin of each actor can be seen in the table above.

a. Traders.
   Collector to pay for the cost of unloading (usually done by family labor), mixing cocoa beans using family labor. Cost of sales done by a family consisting of unloading and delivery using the motor alone. The total cost of marketing middlemen Rp 500 / kg average sales price of Rp 29,000, - and the profit margin of Rp 1500, - per kilogram (4.5%).

b. Wholesalers.
   Wholesalers pay for the cost of unloading (done by the employees), if were hired Rp 500, - per kg, handling activities such as sorting the results of using the seed size sieve machine. Furthermore, the activity of rafting. During the treatment process proceeds until ready to sell about 0.5 percent shrinkage occurs.
Table IV.2: Margin Analysis on Traditional distribution Channels.

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Rp/Kg</th>
<th>Share Price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exporter</td>
<td>32,250</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>32,250</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>750</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>24,500</td>
<td>7.7</td>
</tr>
<tr>
<td>2</td>
<td>Wholesalers Beureunun</td>
<td>30,750</td>
<td>92.5</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>30,750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>500</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>25,750</td>
<td>8.2</td>
</tr>
<tr>
<td>3</td>
<td>Traders Gatherer</td>
<td>29,000</td>
<td>87.2</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>29,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>500</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>23,500</td>
<td>7.9</td>
</tr>
<tr>
<td>4</td>
<td>Farmers</td>
<td>27,000</td>
<td>83.7</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>27,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>500</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>25,500</td>
<td>86.4</td>
</tr>
</tbody>
</table>

Exporter: Exporters to pay the cost of unloading (using force employees). At the level of exporters conducted intensive treatment outcome by following SLI quality standards and adapted to market demand or importer. Marketing costs exporters reached USD 750, - per kilogram of cocoa beans, consisting of the cost of processing according desired quality importers, shipping to the port of Belawan, administrative costs, and procurement sack. The average selling price of USD 32 250, - per kilogram and the profit margin of Rp 750, - per kilogram of cocoa beans (2.3%).

Channel Partnership: In this marketing channel, market participants consisted of farmers as producers, KOPKA JAYA, and Exporter. Regarding the marketing margin each market participants can be seen in the following table:

Table 4.3: Cocoa Commodity Marketing Margin Analysis on Marketing Channel Partnership

<table>
<thead>
<tr>
<th>No</th>
<th>Description</th>
<th>Rp/Kg</th>
<th>Share Price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exporter</td>
<td>32,250</td>
<td>100.0</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>32,250</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>750</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>31,500</td>
<td>93.9</td>
</tr>
<tr>
<td>2</td>
<td>Kopka Jaya</td>
<td>31,000</td>
<td>93.9</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>31,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>500</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>26,500</td>
<td>84.4</td>
</tr>
<tr>
<td>4</td>
<td>Farmers</td>
<td>28,500</td>
<td>86.4</td>
</tr>
<tr>
<td></td>
<td>a. Selling Price</td>
<td>28,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Marketing margins</td>
<td>500</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>c. Margin Advantage</td>
<td>23,000</td>
<td>81.4</td>
</tr>
</tbody>
</table>

Analysis of Farmers' Income Growth: With traditional marketing distribution can sell cocoa farmers only Rp 27,000 / kg. While the pattern of prices received by farmers partnership higher at USD 28,500 / Kg. Thus farmers receive additional income of $ 1500 per Kg her. Or if you look percentage increase is 5.5%. Meanwhile, when seen share prices paid to farmers, compared to the total received by the exporter highest price also increased from 83.7% to 86.4%.

Table 4.4: Analysis of Farmers' Income Growth

<table>
<thead>
<tr>
<th>Item</th>
<th>Traditional</th>
<th>Partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (Rp)</td>
<td>27,000</td>
<td>28,500</td>
</tr>
<tr>
<td>Additional Income</td>
<td>-</td>
<td>1500</td>
</tr>
<tr>
<td>Increase (%)</td>
<td>-</td>
<td>5.50%</td>
</tr>
<tr>
<td>Share of Price</td>
<td>83.70%</td>
<td>86.40%</td>
</tr>
</tbody>
</table>
Mediated Partnership Model (MOTRAMED): Referring to the successful implementation of the commodity MOTRAMED coffee, this model is recommended for cocoa development in Pidie Jaya. In this model of quality improvement and marketing is one package, because based on the experience of the introduction of quality improvement technology without being followed with price improvement will be difficult to be adopted by farmers. This model is made as simple as possible in order to be understood and applied by the parties involved. MOTRAMED goal line with the objectives of partnership as set out in PP 44/1997 that increase revenue, business continuity, improve the quality of partner groups, increase in the scale of business, as well as foster and enhance the ability of self-help groups efforts. 4 MOTRAMED concept can be seen in the following figure:

**Figure 7: Motramed Concept With 4 Player**

![Motramed Concept With 4 Player]

With this concept it is expected that cocoa yield of being harvested by farmers in Pidie Jaya will increase along with the increasing productivity of the cocoa plantation. Increasing the amount of cocoa beans produced must also be accompanied by an increase in the quality of cocoa beans, so as to meet the expectations of buyers who want a super quality cocoa products and are willing to pay a higher price.

5. Conclusion and Recommendation

1. The distribution system involving the partner can provide greater profits for farmers, so that the government’s aim to improve the welfare of farmers can be achieved if the distribution channel with this partnership system can be adopted and replicated elsewhere. This an Evident by adopting this system farmers selling price is higher than the traditional marketing system. Thus the income received of course also be higher.
2. To increase the degree of success, in the early stages the Motramed system should be used. Each player in this partnership distribution system accompanied by a mediator who also serves as a consultant to ensure all parties involved have sufficient and adequate knowledge to be able to understand how to work under Motramed.
3. In contrast to the previously existing Motramed concept, in developing cocoa industry in Pidie Jaya, the author tends to involve the cooperative as an arm of the exporter. Cooperative function is not only to ensure the continuity of cocoa beans that can be supplied to exporters, but more importantly the training function to increase the knowledge of cocoa farmers, both associated with the pest, as well as techniques to duplicate the results can be carried out and monitored properly.
4. With higher price would be paid by the buyer, it will apply the concept of trickle-down effect, flowing profits from the wholesalers, traders and also the most importantly of course the farmers.

Recommendation

1. To improve the quality of concept of partnership distribution system which is currently being run by Kopka Jaya, with the support of VCI, in order to increase the quality and quantity of cocoa beans produced in the future.
2. The next step is to replicate this Motramed 4 player model to other production area in Aceh. Thus consistently Aceh will be able to supply quality cocoa with sufficient quantities and done in a sustainable manner.

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The Role of Marketing Environment Audit in Marketing Performance through Index Of Services Marketing Excellence (ISME) in Bandung Stars Hotel

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Abstract: The purpose of this paper is to explain the marketing performance of Stars hotel in bandung city- Indonesia through variables Marketing environment Audit in which their effects are mediated through variable Services Marketing Audit known as Index of services marketing excellence ISME, (Berry, Conant and Parasuraman, 1991). The Population in this study consist of 73 hotels with various stars i.e 3 star hotels, 4 and 5 in the city Hotel in Bandung. From this population 30 stars hotels were collected randomly in which 15 of them are 3- stars hotel, 11 are 4- stars hotel and 5 are 5- stars hotels. Other than that, some informant were interviewed to formed a qualitative aspect of this study. To analyzed the quantitative data we used Partial Least Squares, using SmartPLS-2 and Maxqda-11 to anlyzed the qualitative data. The results of the study show that the influence of marketing audit services (ISME) to the hotel’s marketing performance is not significant, Both variable in marketing environment audit significantly affect the marketing performance, but Macro Environment audit is not significantly affect the ISME, whereas task environment audit significantly affect the ISME. Thus there is no indirect effect of Marketing Environment to the marketing Performance.

Keyword: Marketing audit, marketing performance, Marketing Environment. ISME
Financial Performance: Current Assets, Debt to Equity Ratio, Return on Assets, and Growth towards Dividend Payout Ratio

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STIE STAN Indonesia Mandiri, Bandung Indonesia

Abstract: The research is aimed to investigate the effect of financial performance of the company through the current ratio, debt to equity ratio, return on equity, and growth towards the dividend payout ratio of both simultaneously and partially, on consumer goods industry sector companies listed in Indonesia Stock Exchange. Secondary data is used and collected based on time series and cross section from 2010 until 2013, among 15 public company as unit observation. The ordinary least squares method of regression was employed in carrying out this analysis and come to the conclusion that simultaneously, current asset, debt to equity ratio, return on equity and growth have significant influence toward the dividend payout ratio. Partially, the current assets has positive and no significant effect toward the dividend payout ratio, the debt to equity ratio has negative and no significant effect towards the dividend payout ratio, the return on equity has positive and significant effect towards the dividend payout ratio. The growth has negative and significant effect towards the dividend payout ratio.

Keywords: current ratio, debt to equity ratio, return on equity, growth, dividend payout ratio

1. Introduction

Dividend policy is one of the controversial issues in modern corporate finance, since Lintner (1956) suggests the results of research on the distribution of dividends and try to convey the dividend models. Followed by the work of Miller & Modigliani (1961), who stated there was no effect of dividend policy on firm value. To this day, a lot of research on dividend policy relating to different aspects. Dividend policy is a matter of whether the profit made by the company to be distributed to shareholders as a dividend or profit earned will be retained in the form of retained earnings (Gitman & Zutter, 2012). Too many factors into consideration a company's dividend policy, so it is difficult to conclude which is the most dominant factor affecting the company's dividend policy. The existing literature on the dividend payout ratio, in generally did not mention the level of dividend payments that will maximize shareholder wealth. Therefore, there is still a gap to examine what factors need to be considered by the company in its dividend policy. Although many factors can affect the dividend payout ratio, but in this study will only discuss the financial factors that are measured by using elements of the company's financial performance which is generally used as the basis for analysis. The financial performance of the company is able to give a good overview to management and investors regarding the growth and development of the company, as well as the company's financial condition at a particular period. Financial performance can be measured through financial ratios, because of financial ratios are necessary analytical tools to measure the condition and efficiency of the company's operations to achieve company goals. By looking at the importance of financial ratio information, it is necessary to find the answer whether the current ratio, debt to equity ratio, return on equity and growth has influence toward the dividend payout ratio. Thus it attracted for researchers to determine the effect of current ratio, debt to equity ratio, return on equity and growth toward the dividend payout ratio in the consumer goods industry sector companies listed on the Indonesia Stock Exchange Period 2010-2013.

Consumer goods industry sector is a sector that is attractive to be used as the unit of observation in this study. According to data of the ministry of industry, in 2013 the manufacturing industry grew 7.1% despite various negative factors emerge as rising gas prices, electricity tariff, minimum wage workers, the infrastructure is not reliable, as well as the weakening of the exchange rate, still does not interfere with the growth of this sector. Most of the components forming manufacturing index came from consumer goods industry (44%), basic industries (27%), and various industries (27%). Furthermore, the durability of the manufacturing sector mainly supported the consumer goods sector which grew 28%. This increase is the second highest increase of ten sectors that exist. Consumer goods sector performance is also higher than the other two sectors namely various industry sectors and basic industries that are part manufacturing index. The shares of this company will be an option because they offer the potential increase. Therefore, it is important to understand the factors that influence the dividend policy is proxy by the dividend payout ratio through financial performance factors are represented by current ratio, debt
to equity ratio, return on equity, and growth. The rest of this paper should contain a review of literature on this subject, explains the research methodology in the next section, discuss the results of the research, make conclusions and recommendations on the basis of results.

2. Literature Review

The theoretical principles underlying the dividend policy of firms can be described either in terms of dividend irrelevance or dividend relevance theory. Miller & Modigliani (1961) irrelevance theory forms the foundational bedrock of modern corporate finance theory. Miller & Modigliani argued that dividend policy is irrelevant for the cost of capital and the value of the firms in a world without taxes or transaction cost. They showed that when investors can create any income pattern by selling and buying shares, the expected return required to induce them to hold firm's shares will be invariant to the way the firm packages its dividend payments and new issues of shares. Dividend policy aims at defining the dividend payout ratio, the type of dividend to be paid and the way of maintaining dividend stability. Paying dividends is important to shareholders since it constitutes a return on their investment in the company. Dividend is the share of profits distributed to shareholders. Dividend paid to shareholders depends on the policy of each company, thus requiring a more serious consideration of the management company. The more retained earnings, the less amount of profit allocated to dividend payment. Thus the dividend payout ratio is the percentage of income (cash dividend) which will be paid to shareholders.

Dividend policy plays an important role in determining the value of the company. Therefore companies should consider both factors in making decisions dividend. Rozeff (1982) states that insider ownership (percentage of shares held by insiders), the average rate of revenue growth, the forecast value line for the average rate of growth of income, the beta coefficient, and the number of holders of ordinary shares (stock) effect on dividend payout ratio. Amidu & Abor (2006) results show positive relationships between dividend payout ratio and profitability, cash flow and tax. The result show negative association between dividend payout and risk, institutional holding, growth and market to book value. However, the significant variables in the results are profitability, cash flow, sale growth and market to book value. Malik et al (2013), found that liquidity, leverage, earning per share, and size are positively related to dividend, whereas growth and profitability are found to be insignificant determinant of dividend policy. The results from probit model estimation reveal that earning per share, company profitability, and size increase the probability of companies to pay dividend, whereas growth opportunities decrease the probability of paying dividends. Kania & Bacon (2005) stated that the ROE, sales growth, beta, CR, DTA, insider ownership, institutional ownership and capital spending has a significant negative effect to dividend payout ratio while the variable EPS which has a significant positive effect.

Adelegan (2003) stated that the dividend yield and dividend payout ratio was higher in companies with more debt. Higher levels of dividends increase the levels of leverage. It appears that managers in corporations with higher levels of leverage separate the dividend policies from funding policies. Therefore, they pay dividends without taking account of the level of leverage. This is probably because there is compressed competition among corporations which distribute dividends to attract investors despite their increased debt. Al-Malkawi (2007) examined the determinants of corporate dividend policy in Jordan. The result the proportion of stocks held by insiders and the state significantly affected the amount of dividends paid. Size, age, and profitability of the firm seem to be determinant factors of corporate dividend policy in Jordan. Al-Kuwari (2009) investigates the determinants of dividend policies for firms listed on Gulf Cooperation Council (GCC) country stock exchanges. The impact of government ownership, free cash flow, firm size, growth rate, growth opportunity, business risk, and firm profitability on dividend payout ratios. Result dividend payments related strongly and directly to government ownership, firm size and firm profitability, but negatively to the leverage ratio. Some other considerations that affect the company's decision to take a policy for dividends to shareholders, including through financial ratios of the company (Kania & Bacon, 2005; Al-Malkawi, 2007; Al-Kuwari, 2009).

Financial ratios have been used extensively for modeling purposes by practitioners and researchers. Stakeholders require a financial ratios to analyze the financial statements to evaluate company performance. Generally, the liquidity ratio is the first concern of a financial analyst. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due. The level of liquidity of a company is measured by using a current ratio and acid-test (Quick) ratio (Gitman & Zutter, 2012: 71). In this study, liquidity proxied by the current ratio, calculated by current assets divided current liabilities. Second, the leverage ratio shows the amount of funds received from the lender; this ratio shows the
company's ability to meet long-term obligations, proxied by debt to equity ratio. Third, the profitability ratio indicates a company's ability to generate profits, proxied by return on equity. This ratio indicates a measure a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested. Return on equity illustrate the efficiency of the company in managing assets to generate profits. By analyzing return on equity we are not only able to determine the amount of income derived from capital investments that we spend, but also can find out more about the quality of the income obtained from the company. And finally, the growth ratio measures the amount of a company's ability to maintain its position within the scope of the overall economy and in their own industry sector. The growth rate of the company also includes the one that should be considered in determining the level of dividend payout ratio. In this study, using a proxy asset growth. Therefore, a model designed in this study is as a representation of the company's financial performance and then can be used to take the company's dividend policy.

3. Methodology

**Research Design**: Our study is causality research in nature that we want to investigate the effect of financial performance of the company through the current ratio, debt to equity ratio, return on equity and growth towards the dividend payout ratio in context of consumer goods industry sector companies, which is based on secondary data collected from annual reports of the firm.

**Population and Sampling**: Our population is consumer goods industry sector companies listed in the Indonesia Stock Exchange. The sampling method is a judgment sampling, i.e. sample selection based on certain criteria. These criteria are the consumer goods industry sector companies whose share are always listed and actively traded on Indonesia Stock Exchange during the years 2010-2013, always presenting financial information, all the companies mentioned above should be qualified in earning profits during the period 2010 to 2013 consecutively and paid dividends during the observation period, have the data which is necessary to measure the variables used in study, such as data on dividend payout ratio, current asset, debt to equity ratio, return on equity, and assets growth. From 34 consumer goods industry sector companies, selected 15 companies. This research uses secondary data for the period 2010-2013, obtained from the Indonesian Capital Market Directory.

**Research Variables and Operational Definition**

**Dependent Variable**: Dividend Payout Ratio as a dependent variable, defined as the dividend per share divided by earning per share (Gitman, 2003:570).

**Independent Variable**

**Current Ratio**: The current ratio as a proxy of liquidity is a major consideration in many dividend policy. Current Ratio, which equal to current assets divided by current liabilities (Kanwâl & Kapoor, 2008; Ahmed &Javid, 2009). The higher current ratio indicates the higher ability of the company to payall short-term liabilities. Cash dividends will be distributed only with cash, so if the cash in bank shortage may restrict the distribution of dividends. The higher current ratio shows companies more liquid. If the company is liquid, indicating the company effective in managing cash and other short-term assets, because most of the company’s capital is embedded in the form of cash or cash equivalents, so this is a greater opportunity to distribute cash dividends. Based on the statement, there is a positive relationship between current ratio and dividend payout ratio (Amidu & Abor 2006, DeAngelo et al, 2004). Thus the hypothesis can be formulated as follows:

Hypothesis 1: Current Ratio has positive significant affects towards the dividend payout ratio

**Debt to Equity Ratio**: Debt to Equity Ratio, is the ratio between total liabilities (current liabilities and long term debt) and its own capital. Debt to equity ratio describes the ability of the company to pay all of its obligations, indicated by how much a part of equity used to pay debts. Therefore, the lower debt to equity ratio indicates the higher ability of company to pay all liabilities. The higher proportion of debt in capital structure indicates the higher number of obligations. Increasing the debt will affect the size of net income available to shareholders including dividends to be received, because the interest payments would take precedence than distribute dividends (Sutrisno, 2009). Therefore, the higher debt to equity ratio indicates the smaller ability of company to pay dividends, because companies have to prioritize
paying the interest and the loan (Faccio et al., 2001; Gugler & Yortoglu, 2003; Al-Malkawi, 2005). Thus the hypothesis can be formulated as follows:

Hypothesis 2: Debt to Equity Ratio has negative significant affects towards the dividend payout ratio.

**Return on Equity:** Return on equity measures how much net income can be generated from the investments made by shareholders. Return on equity as a proxy for profitability is the company’s ability to earn income. Companies that have a large profit with a stable net income will be able to get a larger cash flow and therefore the company could pay bigger dividends (Mehta, 2012). Profitability positive effect on dividend policy (Ahmed & Javid, 2009; Thanatawee, 2011). High return on equity reflects the company’s efficiency in using its own capital to produce high profits for the company itself. This ratio indicates management’s success in maximizing the rate of greater return for the shareholder. The higher return on equity of a company, the better its the performance, so that there will be more and more investors who are interested to invest their funds in the company. If the higher net income indicates the higher dividend will be distributed to investors. Thus the hypothesis can be formulated as follows:

Hypothesis 3: Return on equity has a positive significant affects towards the dividend payout ratio.

**Growth:** Growth, proxy by asset growth, the year-on-year percentage change in total assets. Firms with a rapid rate of growth will require greater funding to funds this expansion. Therefore, firms prefer to withhold earnings than pay dividends (Chang & Rhee, 1990). Consequently, firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio (Rozeff, 1982; Ali et al., 1993; Mohammed et al., 2006). Wahyudi and Baidori (2008) founds the large increase in the growth of total assets may lead to a decrease in dividend payments to shareholders, due to the growth in total assets will be financed from internal funding in the form of retained earnings. Thus, the higher growth in total assets led to the payment of dividends decreased. Thus the hypothesis can be formulated as follows:

Hypothesis 4: Growth has negative significant affect towards the dividend payout ratio.

All variables used in this study are defined in Table 1 along with the expected sign.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Symbols</th>
<th>Description</th>
<th>Expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend Payout</td>
<td>DPR</td>
<td>Dividend per share/Earning per share</td>
<td>+</td>
</tr>
<tr>
<td>Current ratio</td>
<td>CR</td>
<td>Current assets/Current Liabilities</td>
<td>+</td>
</tr>
<tr>
<td>Debt to Equity Ratio</td>
<td>DER</td>
<td>total liabilities (current liabilities and long term debt)/Equity</td>
<td>-</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>ROE</td>
<td>Net Income/ Net worth (equity)</td>
<td>+</td>
</tr>
<tr>
<td>Growth</td>
<td>GRO</td>
<td>Total Assets&lt;sub&gt;t&lt;/sub&gt; - Total assets&lt;sub&gt;t-1&lt;/sub&gt; /Total Assets&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-</td>
</tr>
</tbody>
</table>

Computed by author.

**Models and Data Analysis:** Data analysis methods used in this research is multiple linear regression, which aims to test and analyze the influence of independent variables on the dependent variable. Processed by the program Statistical Package for Social Science (SPSS). The formula used is as follows:

\[
DPR = \alpha + \beta_1 CR + \beta_2 DER + \beta_3 ROE + \beta_4 GRO + \varepsilon
\]

Where,

\[DPR\] = Dividend Payout Ratio as dependent variable

\[\alpha\] = constant

\[\beta_1 - \beta_4\] = Coefficient of the independent variable

whereas CR, DER, ROE, GRO represent current ratio, debt to equity ratio, return on equity and growth and all these variables are independent variables.

To ensure that the data obtained deserve to be treated with multiple linear regression, then we do a test of classical assumptions, by using the normality, multicollinearity, heteroscedasticity and autocorrelation. Furthermore, we do a F-test and t-test. F test is a test of the regression coefficients simultaneously, to see the effect of all independent variables on the dependent variable. T test is used to determine whether the independent variables (current ratio, debt to equity ratio, return on equity and growth) partially significant effect on the dependent variable (dividend payout ratio). Finally, the calculated coefficient of determination, to measure how far the ability of the model to explain variations in the dependent variable.
4. Results and Discussion

The research is aimed to investigate the effect of financial performance of the company through the current ratio, debt to equity ratio, return on equity, and growth towards the dividend payout ratio of both simultaneously and partially. The population in this study is the consumer goods industry sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2010 to 2013. From 34 consumer goods industry sector companies, but only 15 companies that meet the requirements to be sampled.

Table 2. Consumer goods industry sector companies as a sample

<table>
<thead>
<tr>
<th>No.</th>
<th>Nama Perusahaan</th>
<th>Kode</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT. Delta Djakarta Tbk</td>
<td>DLTA</td>
</tr>
<tr>
<td>2.</td>
<td>PT. Indofood CBP SuksesMakmurTbk</td>
<td>ICBP</td>
</tr>
<tr>
<td>3.</td>
<td>PT. Indofood SuksesMakmurTbk</td>
<td>INDF</td>
</tr>
<tr>
<td>4.</td>
<td>PT. Multi Bintang Indonesia Tbk</td>
<td>MLBI</td>
</tr>
<tr>
<td>5.</td>
<td>PT. Mayora Indah Tbk</td>
<td>MYOR</td>
</tr>
<tr>
<td>6.</td>
<td>PT. Darya VariaLaboratoriaTbk</td>
<td>DVLA</td>
</tr>
<tr>
<td>7.</td>
<td>PT. Kimia Farma (Persero) Tbk</td>
<td>KAEF</td>
</tr>
<tr>
<td>8.</td>
<td>PT. Kalbe FarmaTbk</td>
<td>KLBF</td>
</tr>
<tr>
<td>9.</td>
<td>PT. Merck Indonesia Tbk</td>
<td>MERK</td>
</tr>
<tr>
<td>10.</td>
<td>PT. Taisho Pharmaceutical Indonesia Tbk</td>
<td>SQBB</td>
</tr>
<tr>
<td>11.</td>
<td>PT. Tempo Scan PasificTbk</td>
<td>TSPC</td>
</tr>
<tr>
<td>12.</td>
<td>PT. GudangGaramTbk</td>
<td>GGRM</td>
</tr>
<tr>
<td>13.</td>
<td>PT. Handjaya Mandala SampoernaTbk</td>
<td>HMSP</td>
</tr>
<tr>
<td>14.</td>
<td>PT. Mandom Indonesia Tbk</td>
<td>TCID</td>
</tr>
<tr>
<td>15.</td>
<td>PT. Unilever Indonesia Tbk</td>
<td>UNVR</td>
</tr>
</tbody>
</table>

Source: Indonesia Stock Exchange

Descriptive Statistics: Table 3 provides a summary of the descriptive statistics of all variables for the 15 listed consumer goods industry sector companies for a period of four years from year 2010–2013 with a total of 60 observations. The table reports the mean, standard deviation, number of observations, minimum and maximum of all variables to give an overall description of data used and to serve as data screening tool to spot unreasonable figure.

Table 3: Descriptive Statistic

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>.58</td>
<td>11.74</td>
<td>3.3920</td>
<td>2.24381</td>
</tr>
<tr>
<td>DER</td>
<td>.10</td>
<td>2.49</td>
<td>.6648</td>
<td>.56303</td>
</tr>
<tr>
<td>ROE</td>
<td>.09</td>
<td>1.37</td>
<td>.3748</td>
<td>.33656</td>
</tr>
<tr>
<td>Growth</td>
<td>-.53</td>
<td>1.22</td>
<td>.1781</td>
<td>.25939</td>
</tr>
<tr>
<td>DPR</td>
<td>.08</td>
<td>1.72</td>
<td>.5534</td>
<td>.35437</td>
</tr>
</tbody>
</table>

Result reported in Table 3 Descriptive statistics overall sample data in the period of 2010 to 2013 as many as 60 data. The average value of the current ratio, debt to equity ratio, return on equity and dividend payout ratio where the standard deviation value is smaller than the average value, then it shows that the current ratio, debt to equity ratio, return on equity in this study have distribution with spread evenly. The growth variables, shows the standard deviation value is greater than the average value then it shows that the growth of data in this study did not have distribution with spread evenly.

Correlation Analysis: Correlation analysis is to discuss the relationship between the variable current ratio, debt to equity ratio, return on equity and growth toward dividend payout ratio.
Results reported in Table 4 indicate that the correlation between the current ratio toward the dividend payout ratio, debt to equity ratio toward dividend payout ratio, growth toward dividend payout ratio included into the category of very low, each of which has a correlation coefficient of 0.023, 0.182, -0.469. Then to the relationship between return on equity toward dividend payout ratio is included in the medium category (0.536).

**Classical Assumption Test**

**The Normality Test:** The normality assumption assumes that the errors of prediction are normally distributed. In this study, normality test used a P-P plot (probability-probability plot or percent-percent plot). P-P plot is a probability plot for assessing how closely two data sets agree, which plots the two cumulative distribution functions against each other.

**Figure 1. Normal P-P Plot**

Computed by author using SPSS.

Result reported in Figure 1 indicate the plot of the data (depicted by dots) is to follow the diagonal line, so it can be concluded that the residual variable data distribution is normal.

**The Multicollinearity Test:** Multicollinearity refers to the situation in which independent variables are highly correlated; resulting in a paradoxical effect, whereby the regression model fits the data well, but none of the independent variables has a significant impact in predicting the dependent variable (Gujarati,
Among several ways of multicollinearity tests, Pearson coefficient of correlation between variables and Variance Inflation Factor (VIF) are used to detect any problem.

**Table 5: Variance Inflation Factor (VIF) of the explanatory variables**

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>.559</td>
<td></td>
<td>1.790</td>
</tr>
<tr>
<td>DER</td>
<td>.363</td>
<td></td>
<td>2.757</td>
</tr>
<tr>
<td>ROE</td>
<td>.520</td>
<td></td>
<td>1.923</td>
</tr>
<tr>
<td>Growth</td>
<td>.989</td>
<td></td>
<td>1.011</td>
</tr>
</tbody>
</table>

a. Dependent Variable: DPR

Table 5 shows that the four independent variables do not occur multicollinearity because VIF <10. Thus, the four independent variables that can be used to predict the dividend payout ratio during the observation period.

**The Heteroscedasticity Test:** The heteroscedasticity aims to test whether the regression model occurs inequality variance of the residuals of the observations to other observations. If the variance of the residuals of the observations to other observations constant, then called homoscedasticity. To detect the presence or absence of heteroscedasticity is to look at the graphs plot the predicted value of the dependent variable is ZPRED with residual SRESID. Detection of the presence or absence of heteroscedasticity can be done by looking at whether there is a certain pattern in scatterplot graph between SRESID and ZPRED where Y is the Y axis that has been predicted, and the X axis is the residual (Yprediction – Yactual) who has in studentized.

**Figure 2. Heteroscedasticity test**

Computed by author using SPSS

Figure 2 shows that the dots dispersed and scattered above and below the number 0 on the axis Y. It can be concluded that there is no heteroscedasticity in regression models, so it deserves a regression model used to predict the dividend payout ratio.

**The Autocorrelation Model:** The autocorrelation of random process describes the correlation between values of the process at different times, as a function of two times or of the time lag. In this study used the durbin-watson test.

**Table 6. Durbin-Watson Value-Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.767a</td>
<td>.588</td>
<td>.558</td>
<td>.23553</td>
<td>1.719</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Growth, ROE, CR, DER
Based on the results obtained autocorrelation test DW value of 1.719, this value will then be compared with the value of du and dl the Durbin-Watson tables. The amount of DW-table values du = 1.68891 and value dl = 1.47965, 4 - du = 2.31109 and 4 - dl = 2.52035. Waston Durbin test value is above the value of du and below the value of 4 - du. It can be concluded that this study there was no indication of symptoms autocorrelation.

**Regression Results Analysis:** The data in this study was analyzed by using multiple linear regression model in order to determine contribution of independent variables (current ratio, debt to equity ratio, return on equity and growth) to predict dividend payout ratio as the dependent variable. The results of multiple linear regression calculation can be seen in Table 7.

### Table 7: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.367</td>
<td>.109</td>
</tr>
<tr>
<td>CR</td>
<td>.026</td>
<td>.018</td>
</tr>
<tr>
<td>DER</td>
<td>-.143</td>
<td>.090</td>
</tr>
<tr>
<td>ROE</td>
<td>.811</td>
<td>.126</td>
</tr>
<tr>
<td>Growth</td>
<td>-.620</td>
<td>.119</td>
</tr>
</tbody>
</table>

**Simultaneous Test (Test-F):**

Based on Table 7, the regression model is formed as follows:

\[
Y = 0.367 + 0.026CR - 0.143DER + 0.811ROE - 0.620GRO
\]

**Partially Test (t-Test):** To test whether all independent variables were entered has a significant influence on the dependent variable individually, then it needs to be tested by t-test. The t test results are as follows:
From the results of the calculation in Table 9, current asset regression coefficient is 0.026 (positive). Coefficient significance test is \( t_{count} = 1.425 \) with error probability \( (p) = 0.160 \). It shows that the \( p \) value (1.425) > 0.05, so it can be concluded that partially, the current assets has positive and insignificant effect towards the dividend payout ratio. Debt to equity ratio regression coefficient is -0.143 (negative). Coefficient significance test is \( t_{count} = -1.584 \) with error probability \( (p) = 0.119 \). It shows that the \( p \) value (0.119) > 0.05, so it can be concluded that partially, the debt to equity ratio has negative and insignificant effect towards the dividend payout ratio. Return on equity regression coefficient is 0.811 (positive). Coefficient significance test is \( t_{count} = 6.421 \) with error probability \( (p) = 0.000 \). It shows that the \( p \) value (0.000) < 0.05, so it can be concluded that partially, the return on equity has positive and significant effect towards the dividend payout ratio. Growth regression coefficient is -0.620 (negative). Coefficient significance test is \( t_{count} = -5.211 \) with error probability \( (p) = 0.000 \). It shows that the \( p \) value (0.000) < 0.05, so it can be concluded that partially, the growth has negative and significant effect towards the dividend payout ratio.

The Coefficient of Determination

It could also been found that coefficient of determination (adjusted \( R^2 \)) is 0.558, which means that about 55.8% of the variation in the dividend payout ratio is explained by the current asset, debt to equity ratio, return on equity and growth. While the remaining 44.2% is explained by other variables outside the model.

5. Conclusion

So many studies have been conducted on determinants factor of dividend payout ratio and have different findings about the determinants of dividend payout ratio. The question of our study was to investigate the effect of current asset, debt to equity ratio, return on equity and growth towards dividend payout ratio in context of consumer goods industry sector companies listed in the Indonesia Stock Exchange period 2010-2013. Multiple linear regression analysis model is used to estimate the regression equation. The results show the current assets has positive and no significant effect towards the dividend payout ratio, the debt to equity ratio has negative and no significant effect towards the dividend payout ratio, the return on equity has positive and significant effect towards the dividend payout ratio and the growth has negative and significant effect towards the dividend payout ratio. The results suggest that, return on equity and growth is an important variable in predicting future dividend payout ratio, because both variables significantly affect the dividend payout ratio in the consumer goods company. Return on equity plays an important role in determining the dividend payout ratio of the companies, because the companies is willing to pay a higher amount of dividend if the return on equity increased. Companies that have a large profit with net income more stable will be able to get a larger cash flow and therefore the
company may pay a dividend that is greater as well. High ROE reflects the company's efficiency in using its own capital to produce high profits for the company itself. This ratio indicates management's success in maximizing the rate of greater return for the shareholder. The higher the ROE of a company, the better its the performance, so that there will be more and more investors who are interested to invest their funds in the company. Furthermore, asset growth as the year-on-year percentage change in total assets. If a firm is growing rapidly, the more is the need for funds to finance the expansion, and the more likely the firm is to retain earning rather than to pay them as dividends, consequently, firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio.

**Recommendations:** Following from these findings, it would be useful to also consider the following directions for future research: increasing the number of samples and the extended period of study, adding other variables outside the model of this study, such as business risk, tax, and insider ownership.

**References**


Mohammed, E., Oyelere, P., & Al Jifri, K. (2006). State corporate governance in Oman: Progress has been rapid, sophistication has increased, but there is still room for improvement. Journal of Taxation and Regulation of Financial Institutions, 22, 70–78.


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A Conceptual Model of Resonant Leadership

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Abstract: The purpose of this paper is to build the conceptual model about the relationship between resonant leadership styles and competencies. The conceptual model resonant leadership styles create by various reviews from experts on leadership, which based on the conceptual point of view and empirical facts. This paper based on thematic reading of resonant leadership and psychological field. Focus of the review in on resonant leadership and competencies definition, Conceptual model development in process, component of resonant leadership and competencies. According to the results of this study, leadership style can motivated or disturb the employee competencies. It depends on the leader approach to their employee. A leader need to drawing near with their employee so he can bring a positive atmosphere in the environment. A good leader needs to encourage the good attitude among his employee beside an excellent job performance. In order to provide the success of such approach, leader needs to develop hope, compassion and mindfulness trough mind, body, heart and spirit. Hence, the purpose of resonant leadership is bringing a resonance at work and mobilizing positive attitudes around the leader.

Keyword: Resonant leadership, leadership style, competencies, Paper type: Conceptual Paper

1. Introduction

Leadership has been a major issue on several years, many researcher try to find a good and effective concept to implement. The world is changing and leadership is changing to. In this age of teamwork, people have to responsible to developing themselves. Organization today face change in societies, market, costumers, competitions and technology around the globe are forcing to clarify their value, develop new strategy and learn new ways of operating. Organization need to lithe while facing the global change, it is distressing for people going through of it. Most of company to facing the global change, they demand employee to have a specific ability that known as competency model. Leader need to put themselves in situation and environment where they develop their skill and perspective. Most of the ability of organization member was driver with technical skill, IQ and emotional Intelligent. Emotional intelligent become more important for accomplish a job at all levels (Goleman, 2011 : 8). It is necessary to guide by a great leader to improve employee ability. A Great leader able to mobilize members of organization they lead. The great leader possess four essential skill which are ability to engage other in share meaning; distinctive and compelling voice; a sense of integrity and ability to grasp context and hardness. Hardness is just the perseverance and toughness that enable people to emerge from devastating circumstances without losing hope (Bennis & Thomas, 2011: 111).

The first challenge of a leader is to understand and control the emotions by aligning themselves with the aim that can be controlled and focused. To facilitate this need, a leader needs to use emotional intelligent-based approach in order to provide an echo or a positive impact on the work environment. Competence can be improved with the behavioral approach is considered appropriate leadership style is resonant leadership. It is in line with the results of the study Safrudin (2011) said that the competence of teachers is influenced by supervising principals based on humanity. Leadership based on resonant leadership styles according to Boyatzis and McKee, (2005: 5) have harmony with those who are around. This paper will relate definition of resonant leadership and competency base on thematic reading. Focus of the review in on resonant leadership and competencies definition, Conceptual model development in process, component of resonant leadership and competencies. This method was used to accomplish conceptual model on competence and resonant leadership.

Discussion

a. Resonant Leadership: Human resources today is an important asset. They were as an intangible asset known as human capital. The value of human capital measured by the personal competency which suit with the organization purposes. Improved performance of the organization with the strength on member requires coordination of a leader who has the leadership and motivation to change and result oriented reflecting a common goal. (Daft, 2011: 5). Daft provides four of influence leadership types,
transformational Leadership which brings about changes in the subordinate and the organization, transactional leadership that facilitates the change between leaders and subordinates, charismatic leadership is a leader who can inspire and motivate others doing things, and coalitional Leadership associated with cooperation support the achievement of organizational goals (Daft, 2011: 320-326). Learning organization needs Learning Leadership which is a combination of relational theory and leadership level 5 is transformational and servant leadership (White et al, 1996: 104). Level 5 leader blend the paradoxical combination of deep personal humility with intensional professional will. This is a rare combination, but this is a necessity requirement for transforming an organization from good to great. (Collins, 2011: 116). The challenge of learning organization is the diversity of individual needs, the leader must be able to describe the learning, equitable, eliminating employee fear of change, and supervision (White et al, 1996: 117).

In the school-based management, principal as a leader of the organization must be able to apply humane leadership style, the skills of corporations, motivate other and lead the effective and appropriate situation also motivating teachers and other workers (Mulyasa, 2009: 127). Leadership that using heart at, will lead with emotional impact and improve quality of the organization member. Emotions and actions have an impact on the subordinate leaders. Emotional approach at subordinate will imbue, passionate and improve employee enthusiasm at work also encourage employee motivation and commitment. A positive emotion from the leader will improve subordinate skill (Goleman et al, 2009: 9). Leader with harmony will have the ability to think, feel and interpret the organizational goals with the members of the organization. Daft (2006: 470) illustrates that good leadership will increase the effectiveness of the organization's work, it is necessary for a leader who is able to lead its members in accordance with the organization's goals with emotion and personal goals. Positive leadership which spread a good echo at organization environment based on emotional intelligent. Resonant Leadership is leadership style that is based on the pattern of Emotional Intelligent, because according to Taner & Aysen (2013: 595) resonant leadership is the ability to understand and manage them, other people who have a mutually dependent relationship between one with the other. This resonant leadership introduced by Boyatzis and McKee, resonant leadership is the leader that has been able to develop emotional intelligence is the ability on self-awareness, self-management, social awareness, and relationship management. Resonant leader moves on the basis of mental awareness, not only the desire or impulse alone (Boyatzis and McKee, 2010: 7).

A leader whom are used emotional intelligent to lead their employee are able to transfer their expertise and knowledge also empowering those around them. A leader will succeed make changes into the pattern of resonant leadership if someone maintains emotional intelligence through mindfulness, hope, and compassion. Resonant Leadership is a leadership style that accommodates Emotional Intelligence with an emphasis on the ability of the leader to understand the emotions themselves, weaknesses and shortcomings and constraints that exist in themselves. In addition, resonant leaders are able to control his emotions, flexible and able to adapt to the social environment to have empathy, interest in the components of the organization, work together and have a responsible attitude (Taner & Aysen, 2013: 595). Resonant Leadership is a leadership style approach to emotion, empathy and personal views which are positive and able to facilitate members in achieving organizational goals. It’s a flexible and responsible approach to maintain employee ability. Resonant leadership include visionary, coaching, facilitative and democratic approach whereas dissonant style include peace setting and commanding (Boyatzis and McKee, 2005: 143). According to Boyatzis and McKee (2010: 143), Resonant leadership is the ability to really aware of what is happening within yourself; body, mind, heart and soul, and to give full attention to what is happening in the surrounding environment.

A first element of resonant leadership is mindfulness. Mindfulness causes someone to recognize the negative impact of power and always align themselves to the values espoused. Mindfulness is also an effort to use the entire existing guidelines of the emotional, physical, social, by being open to constantly learning, especially learning of condor. Mindfulness is a living in a state of full conscious awareness of one’s whole self, other people and their environment. Its mean, a leader need to be a wake, a ware and constantly attending to himself and to his environment (McKee et al, 2006: 2). It also intentional awareness of what is unfolding the present moment and incorporate an element of non-judgment to facilitate wider acceptance of its use (Dhiman, 2009: 58). Mindfulness relates to performance by individual ability to be aware of the environment and ability to focus the present situation rather than distracted by anxiety which can offset individual motivation an ability to focus on the job (Shao &
Skarlicki, 2009 : 196). Mindfulness can be representing by 5 factors, the factor has effectively reduced stress, anxiety, depression and disorder of eating which are; (Caldwell, et al, 2010: 434)

1. Attending to sensation, perception, thought and feeling;
2. Labeling the external experiences with words;
3. Acting with awareness;
4. Non-judging; and
5. Nonreactivity.

Trough mindfulness, a leader can learn to refer and attend on environment want, it also can steer a leader on the right direction when making a decision. Look carefully at environment want reflect themselves by knowing his strength and weakness. According to Mc Kee et al (2006 :2-3) mindfulness can develop trough Self-awareness and feasible vision. If self-awareness can developed by reflecting and attending to self and other every decision, visible vision had to lay on optimistic outlook, coupled with believe than we can, knowing the impact of environmental also seek organization goal. Self-awareness is about knowing yourself, that need to look up for the strength and weakness by reflection and attending to self and other. Strength and weakness at a leader and be a good approach but it also can be a problem to other. Self-Awareness means having understanding of emotions, strength, weakness, needs, and drives. It made people critical to a situation or full of hope. People with a high self-awareness will recognize their feeling and need affect them and environment also his job performance, and his stress (Goleman D., 2011:7-11). A leader need make judgment that need fast calls which need high capability need to look deeper on themselves. A who have good self-awareness its suit to be a leader. Boyatzis and Mc Kee explained that consciousness is not an easy thing in leadership, so awareness necessary of tranquility, understanding the environment in a way to communicate and stay focused and committed.

Low level of commitment reflects the lack of individual responsibility in performing their duties. Question the same commitment to the question of responsibility, thus, the size of a commitment is related to the delegation of authority. In this concept of leadership faced with the commitment to entrust the duties and responsibilities to subordinates. Hope is a positive emotional tone in the form of open-minded, creative, has a great interest to their work and is motivated to do whatever is needed to achieve the goals of individuals and groups. Hope can also be seen in a dream that existed at the leader, optimism over the ability to make changes and always see the future as something that is realistic and achievable Boyatzis and Mc Kee (2010: 189-196). The second element of resonant leadership is hope. Hope can be transmitted by leader if the leader has a dream and became inspire. The leader also needs to be optimistic and believe on their ability to make change. Last, a leader must see the desired future as a realistic condition (Mc Kee et al, 2006 :4). A leader who can maintain optimistic an upbeat attitudes in daily activities and generate positive feeling in other are able to create an environment of trust, comfort and fairness (Goleman, 2002 : 47). When people feel connected and safe, the cerebral cortex of the brain will be respond by becoming involved, it lead to the best performance. The leaders need to cultivate the connection (C-State) and avoid the fear (F-State), when people are optimistic and happy. The positive effect for people working in a good environment, it promotes a sense of well-being and optimism. A leader needs to manage themselves and the network. It building strong operational relationship that support the performance of the team (M.Kerfoot, 2011:95).

Compassion is an action that is based on empathy and attention by being open to others to develop curiosity based on assumptions that are positive for the environment. Concern can be seen from the understanding and empathy for the feelings and experiences of others, awareness of others and the ability to act on the attention and empathy. Compassion is a natural reaction, which start by curiosity about other people, what motivated them, and how the world actually running. It will work if a leader involved with other, charring about them, respect and give the real empathy. The compassion can be develop by understanding of other feeling and experiment, caring for other and willingness to do the real empathy, Mc Kee et al (2006 : 5). Resonant Leadership requires patience and communicative approach and a strong foundation of emotional intelligence. Boyatzis and Mc Kee (2010: 17-42). Patience is the main condition in the resonant leadership, because a leader must understand the environment, the need for patience in doing so great. Patience in the lead will provide a very strong impact on the organization's members. Because of the patience of a leader will motivate members of the organization is more positive than vice versa. Leaders who do not have the patience and regard other people cannot move faster than the leaders tend to move on their own, while the team works together to have assumed leadership does not want to listen to a given input, such leaders will close the door of communication with the environment, causing reluctance that this leader not able to capture the emotional reality of the
environment so he stuck with the sacrifice syndrome where each job is tough, real and requires all efforts that lead to dissonant leadership.

Resonant Leadership cannot be done with a short time; it takes time, effort, planning and strategies to create and maintain healthy working relationships and norms that encourage effectiveness (Boyatzis and McKe, 2010: 26). However, resonant leadership that relies on awareness of the company environment and objectives, expectations and concerns are based on positive values, upholding respect and compassion. Application of resonant leadership will have a positive impact on members of the organization, because the resonant leaders have been able to organize their own emotions and being able to read each individual and groups with very accurate. Consciously, resonant leaders will align themselves with the people around him, focusing on common ground to build a sense of community and create a climate that is able to capture the passion, energy and desire to move together in a positive direction.

b. Competence: Competence is a key factor to leverage employee achievement. Competencies are defined as the cognitive, affective, behavioral and motivational characteristic or dispositions of a person which enable to perform well in specific situation. This competencies are use to cope with increasingly complex situation, make decision and solve both on organization and individual problem. People empowering their competencies can come up with creative new solution. A competency is the capability of applying or using knowledge, skills, abilities, behaviors, and personal characteristics to successfully perform critical work tasks, specific functions, or operate in a given role or position (ennis, 2008: 2). Competencies is an individual characteristic which can be measured and cluster into superior, average or between effective or ineffective performance (Vanthanophas, 2007: 5). Competence can be a specific individual characteristic which influence each other between affective and superior performance criteria on a situation (Spencer and Spencer, 1993: 9). In contrast to Spencer and Spencer, Botyazis (2007: 8) competence is the ability or skill. Competence consists of components that are interconnected but distinct from the behavior of components organized and concepts such behavior that can be called with the "intent" or intentions.

Spencer and Spencer classify individual competence with effective or superior group; Boyatzis clarify his view that competence is a skill as Intent or individual intentions between components which interconnected each other. It does not need to be grouped between the affective or superior. Boyatzis opinion supported by Tobias (2006: 5) that competence can be described as Knowledge and skill (cognitive), individual value and behavior (affective) and motivation as intent. If Tobias stressed the competence on the individual characteristics that are in line with the opinion of Boyatzis, Ennis on her research emphasizes that competence is the ability to apply or using knowledge, skills, behavior and characteristics of the individual to be able to complete a important task, specific function, or use the rules or specific position (ennis, 2008: 4-5). More specific, Ennis stated that the individual characteristics should be used to complete the task, or implementing regulations at a certain position in an organization. Competencies can be motives, behaviors, skills, emission from individual ability or regulation in social institutions, knowledge and experience and use. (Vanthanophas, 2007: 6). Competence can be defined as an individual characteristic which consists of knowledge, skills, abilities and behavior that encourage or motivate the individual in performing their duties within the organization. Competence can be used to integrate the trend going in the era of globalization and existing business strategies by leveraging human capital possessed. Individual competencies can describe the individual's ability or what can be done by someone (Vanthanophas, 2007). Competence will also improve creativity members of the organization, because the creativity of employees is something that is needed in the smooth and effective performance in achieving the goals of an organization. In decision making, creativity is needed.

2. Conclusion

Leadership style can motivated or disturb the employee competencies. It depends on the leader approach to their employee. A leader need to drawing near with their employee so he can bring a positive atmosphere in the environment. It lead on resonant leadership which gave a posifit impact to the environment. This positive impact depant on the mindfulness of the leader. Reflection the leader self-awareness can gave a good point of view about enviroment need. The optimistic character on hope is contagious to the enviroment, so it could be a triger to develop personal ability on the employee. The leader compassion will dig deeper his employee competency and maintain it trough empathy and caring. Resonant leadership will encourage the good attitude among his employee beside an excellent job.
performance. The ability on cognitive and affective will develop with a leader help who has compassion and hope with the environment.

References


The Impact of Consumer Animosity and Consumer Ethnocentrism on Intention to Purchase Foreign Products: The Case of Chinese Branded Household Appliances in Vietnamese Market

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Abstract: Vietnam-China bilateral relationship has been worsened due to the recent conflicts on both economic and political affairs. The current controversy incident regarding the East Sea issue has sharply deteriorated the relationship. At this critical time when the effects of consumers` attitude toward Chinese products could not be overlooked, the empirical study aims to investigate the impacts of Consumer Animosity and Consumer Ethnocentrism on Purchase Intention of Chinese branded merchandise with the moderating role of Consumer Judgment. Household appliance category is chosen due to the dominance of Chinese brands in Vietnam market. In addition to assessing Animosity effect on Purchase Intention, the research intends to examine its antecedences, including Perceived Economic Hardship and Normative Influences as well as their effects on Animosity. Structural Equation Modeling was used to test the proposed model, analyzing the data from a sample of 349 consumers with diverse backgrounds. The results have demonstrated that only Perceived economic hardship manifest a significant impacts on Animosity. Meanwhile, Animosity and Ethnocentrism have negative relationships with both Chinese branded household appliances Judgment and Purchase Intention. Overall, the study provides practical discussion and recommendations for the Vietnamese household appliances industry as well as direction for further researches.

Keyword: Consumer behaviors, Consumer Animosity, Consumer Ethnocentrism, Economic hardship, Normative Influences, Vietnam

1. Introduction

In the contemporary society, international trade has become increasingly popular. Many enterprises choose to expand their markets to other countries, searching for more growth opportunities (Tragos, 1998). Thanks to the advancement in technology and many recent free trade agreements, the geographical and cultural gap has been shortened (Marchant and Ward, 2003). The international trade creates considerable opportunities and challenges for multinational organizations. There are foreseeable benefits of a shift to a new market. Firstly, the cost is substantially reduced. By applying standardized marketing strategies with minor adjustments or locating the factory at places where low labor costs are available, the company can make their product even more competitive. Furthermore, exporting a product is crucial when it has reached maturity or decline stage in its life cycle in the internal market (Jaffe and Nabelzahl, 2001). Turning to the other side of the argument, there is one greatest drawback to be mentioned. This refers as barriers to free trade, which is divided into two main kinds: tariff and non-tariff barriers. While import tariffs have been reduced substantially, non-tariff barriers still exist. In preceding consumer researches, one of these is called animosity and ethnocentrism (Klein et al., 1998). Ethnocentrism can be defined as a tendency to buy domestic products and avoid buying foreign products. Animosity is a feeling in consumers toward a country that lead to the denial of choosing that country`s commodity.

For many decades and even centuries, China and Vietnam has had the bilateral relationship in international business. Vietnam imports a tremendous number of Chinese products for domestic distribution and usage. As a matter of facts, China remained Vietnamese largest trade partner. In the first ten months of 2013, Chinese import market reached 30.37 billion of US dollar, which is almost 28.5% of Vietnam`s total import value of this year. In addition, Vietnamese trade deficit with China soared to 19.6 billion and continued to increase to 21.6 billion in November and stopped at 23.7 billion at the end of 2013 (Nguyen, 2014). According to this article Chinese products are absolutely attractive due to its competitive prices. Chinese primary commodities that frequently come to Vietnam are chemical products, labor-intensive goods such as clothing, toys, as well as household appliances. Nonetheless, not long ago has China made a declaration on the ownership of the East Sea, also known as South China Sea called by the government (Vietnamnet, 2014). In spite of the issue in controversy, it has provoked other countries which also share the sovereignty of and have benefits in the East Sea. Relevant countries have expressed...
their hatred toward China, including Vietnam (BBCNews, 2014). As a consequence, Vietnamese consumers have negative attitudes toward “Made in China” products, thus being reluctant to buy them (Phan, 2014).

It can be seen that the disagreement over China’s claims on the East Sea are the main source that enhance patriotic attitude and antipathy toward China, thus resulting in the hesitation to buy Chinese commodity. Having been mentioned above, these emotional factors are called animosity and ethnocentrism and have been adopted in earlier studies as a construct for predicting consumer behaviors in different countries (Klein et al., 1998; Etenson and Klein, 2005; Shoham et al., 2006). Within Vietnamese context, household appliances are chosen as a product to be examined in this study. There are numerous reasons for choosing this kind of products. First of all, this is a common and basic range of products that is widely used in majority of households in Ho Chi Minh City. This reality enables us to conduct the survey on a larger scale and get much information from different points of view. Moreover, China has been well-known for this category because of reasonable prices and acceptable quality. There are several Chinese brands currently being available in Vietnam market, such as Haier, Midea, TLC and many other unbranded Chinese products. In recent years, Chinese branded household devices account for 40% of assortment displays in several electronic retailers in Vietnam. With that being said, Chinese company has held a huge market shares in this division (Huong, 2014).

Although being commonly used, consumers really care about the brand and origin of the household appliances, not only because of quality and price, but also because of the effect of the “Anti-China campaign”. Moreover, as mentioned above, the survey can be conducted on a wider range, with respondents of different backgrounds. Under such circumstances, household appliances are indeed appropriate products for this study for minimum response bias (Hong, 2008). Although a large body of researches on Animosity and Ethnocentrism has been conducted in many different contexts and countries, with different modifications, there remain several issues to be addressed in Vietnamese contexts. First of all, there are quite a few studies on Vietnamese consumer behaviors toward purchasing Chinese merchandises and Vietnamese attitudes toward Chinese branded products. Secondly, due to the recent issues between Vietnam and China, the study on this topic would be necessary and beneficial for researchers and industry practitioners. For that reason, it is necessary to analyze consumers’ behaviors and attitudes at this moment, where the issue of the two countries’ bilateral relationship has become more intense.

Research Model and Hypotheses

Theoretical Background

**Social Identity Theory:** proposed the psychological state of human beings in which they categorize themselves into the “in-group” and others in “out-group” (Turner, 1987). The social in-groups then define and demonstrate the traits of their distinctive identity and the appropriateness of their behaviors (Goar, 2007). By adjusting their acts accordingly, they can enhance their own image and self-esteem. To maintain their self-established group, they favor their groups, as well as reject the others (Hewstone et al., 2002; Verlegh, 2007).

**Realistic Group Conflicts Theory:** reported all individuals who considered themselves as in-group perceived that the out-group could threaten their survival (Levine and Campbell, 1972). These perceived harms obviously strengthen the “feeling of membership, common identity, solidarity and cohesiveness within a group” (Huang et al, 2010, p 913), and reinforce the feeling of animosity to the others groups as a consequence (Correll and Park, 2005). These two theories are appropriate to apply to the context of Vietnam as this country has witnessed several evidences identical to the theory. As a country with high level of solidarity, Vietnamese people consider themselves as in-group. The perceived threat from China aggressive action has enhanced these attribute, and increased anger toward the country. ‘Made in China’ products has now been boycotted in Vietnamese markets as a result of these perceived threats that China caused to Vietnam. Therefore, these theories are proposed in order to identify the two predecessors of Animosity factor as well as Animosity itself.

**Economic Hardship:** Economic hardship factor has been defined as the perceived incapability to gain living basics, to meet financial obligations, to acquire growth in finances by reducing expense or increasing income, and to believe in a brighter future in term of financial affairs (Barrera et al., 2001). The
combination of Social Identity Theory and Realistic Group Conflict Theory inferred that the threat from the outsiders reinforce the fear of suffering from financial deprivation of the “in-group”. Consequently, the natives in the group would in turn express their hatred toward any objects belonging to the country which cause the perceived threats to them (Grant, 1991; Schmitt et al.; 2003). In Klein’s well-known newspaper in 1998, the Chinese consumers refused to purchase Japanese products, remembering the dreadful memories of economic hardship caused by the Japanese occupation in the past. Under similar circumstances, the first hypothesis in this study is proposed:

**H1: Economic hardship positively affects Vietnamese Consumer Animosity toward China.**

### Normative Influences

Normative influence has appeared in various preceding researches on wide ranges of consumers’ behaviors (Cohen and Golden, 1972; Bearden et al., 1989; Huang et al., 2010). Deutsch and Gerard (1955) defined normative influence in term of “the motivation to blend in with a group’s norms, characteristics and attributes” (Huang et al., 2010, p. 914). Another alternative definition by Burnkrant and Cousineau (1975) indicates normative influences as the impulse to adjust one’s behavior to meet others’ expectation. Consumer studies divided Normative Influences into two categories: value expressive and utilitarian influences. On the one hand, value expressive reflects individual’s desire to improve their image and self-esteem by referring to a group and generate motivation to adopt a behavior of another because that behavior satisfies their surrounding references (Park and Lessig, 1977, Price et al., 1987). On the other hand, utilitarian influences indicate the attempt to conform with the reference group’s standard to achieve reward and avoid punishment (Park and Lessig, 1977; Bearden and Etzel 1982; Price et al. 1987). To sum up, external influences from surroundings can alter a person behaviors, either to enhance themselves or to evade discipline.

Thanks to the correlation to people’s mindset, the well-established concept of Normative Influence has been employed in several consumers’ studies as a construct to measure their behaviors, such as their judgment and evaluation (Kassarjian and Robertson, 1981) or their decision making process (Deutsch and Gerard, 1955). Regarding buying behaviors, normative influence was proved to correlate conspicuous consumption (Schroeder, 1996), the style of purchasing behavior with an attempt to demonstrate wealth and high social status (Eastman et al., 1999; O’Cass and McEwen. 2004). In other words, consumers paid more attention to their relevant reference when making any purchasing decision. In addition, Realistic Group Conflicts Theory suggests that the threat from the outsiders enhances the identity and solidarity within the in-group and consequently results in the hostility to outer group that is perceived to cause the threat. Moreover, individuals’ judgment, evaluation and actions are usually influenced by the group they belong to, in order to keep themselves away from socially unacceptable thinking and actions (Wooten and Reed, 2004). Based on thesescientific reasoning, the second hypothesis is formulated:

**H2: Normative Influence positively affects Vietnamese Consumer Animosity to China.**

### Animosity

Consumer animosity is an important construct that was taken into consideration when measuring and predicting consumer behaviors in several previous researches (Klein et al., 1998; Nijsen and Douglas, 2004; Riefler and Diamantopoulos, 2007). As our review of the academic literatures, most of them adopted Klein’s prevalent definition of Animosity (1998, p.90), which is: “the remnant of antipathy related to previous ongoing political, military, economic or diplomatic events will cause a direct negative effect on consumers’ purchase behavior in the international markets”. Another definition from Averill (1982, as cited by Abraham, V., 2013, p.2) quoted that:

“Animosity is a strong emotion of dislike and hatred stemming from past or present military, political or economic aggression and actions either between nations or peoples that are perceived to be unjustifiable or as going against what is socially acceptable”.

Two scholars’ definitions on animosity are considerably alike regarding to the primary meanings. Hence, animosity can be understood as people negative feelings toward a country due to its aggressive actions in several aspects. Animosity is divided into two main factors according to the causes. They are war animosity, which is the reaction to war provocative activities, and economic animosity, which is likely to result from trade disagreement or economic dominance from another stronger country (Klein and Morris, 1996; Hinck et al., 2004). In the context of this research, war animosity is given more attention as China has done numerous actions that aggravated Vietnam’s government and Vietnamese people. Notwithstanding that Russell and Russell (2006) have placed special emphasis on the restriction of animosity definition to the past important events, ongoing incidents can actually trigger animosity (Tabassi et al, 2012).
Past researches on Country-of-Origin reported that consumers focused on the origin of the products as a source to evaluate that product. In consumers' perception, reputation of the country name could be much more reliable than other sources of information (Hong and Wyer, 1990). Furthermore, two psychological theories mentioned in previous sections should be taken into consideration. While Social Identity Theory indicates that people would support their in-group and be favorable of it to any other “out-group”, Realistic Group Conflict Theory anticipates the fear of sufferings and losses caused by an out-group create negative bias toward these aliens, and bad assessment toward their items (Sherif and Sherif, 1979). In consequence, any threat from the foreign counterparts negatively influences product judgment and purchase intention (Etenson and Klein, 2005; Shoham et al, 2006; Verlegh, 2007). Although Klein denied the negative effect of animosity on quality judgment, Shoham (2006) found that this relationship exists. Therefore, this paper proposed the two following hypotheses:

**H3:** Vietnamese Consumer Animosity to China negatively affects Chinese Product Judgment.

**H5:** Vietnamese Consumer Animosity to China negatively affects Intention to Purchase China goods.

**Ethnocentrism:** Another unique construct that is applied in this paper is consumer ethnocentrism. Consumer Ethnocentrism has been presented widely in multiple marketing papers (Klein et al., 1998; Pecotich and Rosenthal, 2001; Balabanis and Diamatopoulos, 2004). Obviously, different authors have their own ways of defining ethnocentrism. One original definition of ethnocentrism is “the view of things in which one’s own group is the center of everything, and all others are scaled and rated with reference to it” (Sumner, 1906, p. 13). Shimp and Sharma (1987, p.280-9) defined ethnocentrism with respect to consumer viewpoint, being “a belief held by consumers on the appropriateness and indeed morality of purchasing foreign-made products”. Implication can be made that consumers would favor any cultures that are similar to their own, whereas reject any that is conflicting to their own culture (Adorno et al., 1950).

To measure consumer ethnocentrism, Consumer Ethnocentric Tendencies Scale (from now preferred as CETSCALE) are applied. CETSCALE has been used in several studies with different contexts, from China, Russia to Czech Republic (Balabani et al, 2001, Klein and Ettenso, 2006). Most findings are the inverse links of the CETSCALE score and consumers' behavior, such as products judgment, willingness or intention to buy foreign products. The higher the score, the more ethnocentric consumer would be, and the more they would dislike the foreign products (Shimp and Sharma, 1987). Upon our review of previous academic literature, in ethnocentric consumers' perspective, buying products manufactured in other countries causes harm to their own economy, and increase unemployment rate. Hence, they boycott these products (Evanschitzky et al., 2008). Consequently, the construct has a negative causal relationship with consumers' behaviors on the purchase and usage of foreign products, similar to the reflection of the CETSCALE score (Olsen et al, 1993; Marcoux et al, 1997; Shoham and Brenic, 2003). This is a solid theoretical foundation for two next hypotheses:

**H4:** Consumer Ethnocentrism negatively affects Chinese Product Judgment.

**H6:** Consumer Ethnocentrism negatively affects Intention to purchase Chinese products.

**The Distinction between consumer ethnocentrism and consumer animosity:** Both of them are unique constructs and contain several differences. The essential point to mention is the context in which these constructs can be applied. While Ethnocentrism can be applied in all country and culture, Animosity is context-specific (Klein et al., 1998; Abraham, V., 2013). However, both constructs can be applied in Vietnam, where Chinese government's unreasonable action has aroused hostility amongst Vietnamese people. Through the review of earlier papers, this study figures out the inconsistent hypothesis and findings among different researches. The majority the animosity studies stated out that animosity would increase the level of ethnocentrism (Klein et al., 1998; Nijssen and Douglass, 2004). LeVine and Campbell (1972) said that the warlike behaviors from another country would lead to negative attitude to objects related to that country, hence reinforcing ethnocentrism. Shankarmahesh (2006) also pointed out this relationship as “animosity might be generalized to consumer ethnocentrism. Nonetheless, some other papers proposed and confirmed the inverse relationship of Ethnocentrism to Animosity (Akdogan et al., 2012). Therefore, this research wants to examine whether the former hypothesis exist in Vietnamese context.

**H7:** Consumer Animosity to China positively affects Consumer Ethnocentrism

**Product Judgment and Intention to purchase Chinese household Appliances:** Product judgment regards to the attitude of consumers toward the objects or the products (Rezvani et al., 2012). When products are taken into consideration, the evaluation is influenced by both cognitive and affective perspectives. However, emotions often prevail over thinking and reasoning when it comes to purchasing behaviors. In other word, consumers use their emotion to make buying decision since emotions could
lead to both mental and behavioral responses (Hansen, 2005). Animosity could result in foreign product underestimation as mentioned (Ettensohn and Klein, 2005, Shoham, 2006). Purchase intention has received special attention in recent marketing studies. The simplest definition of “what we think we will buy” is from the paper by Park (2002). Purchase intention can also be defined as the “the decision to act or psychological action that shows the individual's behaviors according to the products” (X.Wang and Yang, 2008). Moreover, purchase intention and attitude are not alike in that attitude is the evaluation of products while intention is the process of self-motivation to perform the purchasing action of individual (Ramadania et al., 2014).

Ramadania (2014) has mentioned the essential relationship between product judgment, through consumer attitudes, and purchasing behaviors. If judgment did not have such vital role in the final step of purchasing and owning the product, marketers and scholars would not pay intensive attention to it (Javalgy et al., 2005). In spite of Fishbein’s declaration that the attitude toward goods did not strongly affect the behavior to purchase them (Fishbein and Aizen, 1975), numerous researches have confirmed this relationship (Peter and Olson, 2010). Furthermore, Minor and Mowen (2002) stated that the actual behavior consists of all other behavior “to own, use and dispense” the products (Ramadania, 2014). Therefore, emotional influences such as judgment and feelings really do affect the willingness to purchase, as well as the willingness to use and dispense a product. Previous researches on Animosity and Ethnocentrism has also established the relationship of the factors and Purchase intention, in which Product judgment play a role of a mediator (Nguyen T.D. et al., 2008; Huang et al., 2010). From the result of these studies, it is reasonable to propose the last hypothesis:

**H8: Chinese Product Judgment positively affects Intention to Purchase Chinese Product.**

**Research Model:** The proposed research model based on the hypotheses is as follow:

**Figure 1: Proposed Model (Klein et al., 1998, Huang et al., 2010)**

3. **Methodology**

**Instrument development:** The proposed model of this study consists of 6 constructs, each was measured carefully by multiple items adopted from previous paper. Economic hardship factor was adopted from Barrera et al. (2001). Normative Influences were adapted from Bearden et al. (1989). Consumer Ethnocentrism was constructed based on the research of Shrimp and Sharma (1987). Animosity was built according to the study of Klein et al. (1998) and Klein (2002). Lastly, Product Judgment and Purchase Intention were adapted from Klein et al. (1998), who credited Darling and Arnold (1988), Darling and Wood (1990), Wood and Darling (1993) and Han (1988) for using their questionnaire references. The questions are modified according to Vietnamese context and examined by 20 consumers in a pilot test to detect weaknesses before the primary fieldwork. All questions are 5 point Likert-scale multiple choices, from strongly disagree to strongly agree. The questionnaire was attached in the appendix.

**Sampling and Data collection:** Consumers with following criteria will be investigated:
- Consumer who is more than 18 years old.
- Consumer who lives in Ho Chi Minh City for at least 3 years.
Consumer who has intention to purchase household products within 6 months

To specify the appropriate sample size, a formula designed by Tabachnick and Fidell (1996) is used to calculate the necessary number of respondents based on the number of items in the questionnaire. The formula is as follow:

\[ Y = 8X + 50 \]

With \( Y \) as the necessary number of respondents and \( X \) as the number of items in the questionnaire.

The questionnaire contains a total of 32 items. As in the formula, the appropriate target sample should be equal or more than 306.

Table 1: Sample profile

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>136</td>
<td>39%</td>
</tr>
<tr>
<td>Female</td>
<td>213</td>
<td>61%</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-24</td>
<td>136</td>
<td>39%</td>
</tr>
<tr>
<td>25-30</td>
<td>117</td>
<td>33.5%</td>
</tr>
<tr>
<td>31-45</td>
<td>79</td>
<td>22.6%</td>
</tr>
<tr>
<td>&gt; 45</td>
<td>17</td>
<td>4.9%</td>
</tr>
<tr>
<td>Educational level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High school Level</td>
<td>47</td>
<td>13.5%</td>
</tr>
<tr>
<td>College Level</td>
<td>83</td>
<td>23.8%</td>
</tr>
<tr>
<td>Bachelor Level</td>
<td>211</td>
<td>60.5%</td>
</tr>
<tr>
<td>Master/Doctor Level</td>
<td>8</td>
<td>2.3%</td>
</tr>
<tr>
<td>Product Usage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>128</td>
<td>36.7%</td>
</tr>
<tr>
<td>Few (1-3 products)</td>
<td>153</td>
<td>43.8%</td>
</tr>
<tr>
<td>Many (more than 3)</td>
<td>68</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

In the respondent profile, there are 136 male and 213 female, which account for 39% and 61% respectively. As household appliances are ordinary products, there is no restriction on age beside the aforementioned criterion. There are four groups of age in this survey: 18-24, 25-30, 30-45, and more than 45. Explicitly, the range of 18-24 seizes the highest percentage, 39%, which is followed closely by 25-30 categories, 33.5%. In contrast, the range 30-45 has only account for one-fifth of the total. Most of our respondents lie in Bachelor level, which is more than 60%. College level comes in the second places with much lower percentage, 23%. Regarding Chinese Household appliances product usage experience, respondents who have owned and used these products occupy a large proportion, approximately 63%. On the other hands, individuals who have never owned a Chinese appliance are nearly one-third of the total respondents.

Data analysis and Finding: This study applies procedural tests, utilizing 2 statistical softwares, SPSS 20 and AMOS 20. First of all, the reliability of the data set is tested and the exploratory factor analysis is run to examine the data grouping. After that, confirmatory factor analysis(CFA) is used for validity and model fitness testing and lastly, structural equation modeling (SEM) is utilized to test the proposed hypotheses. In the reliability test, alpha value must be higher than 0.7, showing the internal consistency of the data (Table 2). In the Exploratory factor analysis, item loadings should be higher than 0.5. Items with low loadings and cross loadings should be deleted. In this study, the deleted items are PJ5 and ETH6 (Table 3). For the next step, this paper uses confirmatory factor analysis to test the reliability and validity of the data. The usually tested validity consists of Convergent Validity and Discriminant Validity. While convergent validity indicates how each items represent for its factor, Discriminant Validity demonstrate the distinctiveness between the factors. Table 4 demonstrates the standardized factor loadings, Average Variance Extracted (AVE), and Composite Reliability (CR)of the factors. Although Bagozzi and Yi (1988) suggested that CR must be higher than 0.7 and AVE must be higher than 0.5 so that convergent validity can be achieved, Fornell and Larcker (1981) shown evidence that if AVE is less than 0.5 and the composite reliability is higher than 0.6, convergent validity of the construct is still assured. Noticeably, that data meets the requirements of the convergent validity test (Table 4). With the discriminant validity, the square root of AVE should be larger than the its correlation coefficients with other factor (Fornell and
Larcker, 1981), and this validity is also achieved in this study (Table 5). For the model fitness, it is obvious that all required threshold is satisfied (Table 6). Structural Equation Modeling confirms that all hypotheses are approved, except for the hypothesis between Normative Influences and Animosity (Table 7).

### Table 2: Cronbach’s alpha value

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach’s alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative Influence</td>
<td>0.735</td>
<td>5</td>
</tr>
<tr>
<td>Economic Hardship</td>
<td>0.890</td>
<td>6</td>
</tr>
<tr>
<td>Animosity</td>
<td>0.758</td>
<td>4</td>
</tr>
<tr>
<td>Ethnocentrism</td>
<td>0.795</td>
<td>6</td>
</tr>
<tr>
<td>Product Judgment</td>
<td>0.789</td>
<td>5</td>
</tr>
<tr>
<td>Purchase Intention</td>
<td>0.860</td>
<td>5</td>
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</tbody>
</table>

### Table 3: Exploratory Factor Analysis Pattern Matrix

<table>
<thead>
<tr>
<th>Pattern Matrix</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
<th>Factor 4</th>
<th>Factor 5</th>
<th>Factor 6</th>
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</thead>
<tbody>
<tr>
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<td>.835</td>
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<td></td>
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<td>H4</td>
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<td>PI1</td>
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<tr>
<td>A4</td>
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Table 4: Convergent Validity-CFA

<table>
<thead>
<tr>
<th>Factor</th>
<th>Items</th>
<th>Item loadings</th>
<th>AVE</th>
<th>CR</th>
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<tr>
<td>Economic Hardship</td>
<td>H1</td>
<td>.725</td>
<td>0.565</td>
<td>0.886</td>
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<td></td>
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<tr>
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<td>.649</td>
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<td>.432</td>
<td>.690</td>
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<td></td>
<td>N4</td>
<td>.779</td>
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</tr>
<tr>
<td></td>
<td>N5</td>
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<td>.741</td>
</tr>
<tr>
<td></td>
<td>A5</td>
<td>.791</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethnocentrism</td>
<td>ETH3</td>
<td>.752</td>
<td>.521</td>
<td>.765</td>
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<td></td>
<td>ETH4</td>
<td>.759</td>
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</tr>
<tr>
<td></td>
<td>ETH5</td>
<td>.650</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Judgment</td>
<td>PJ1</td>
<td>.795</td>
<td>.507</td>
<td>.804</td>
</tr>
<tr>
<td></td>
<td>PJ2</td>
<td>.726</td>
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</tr>
<tr>
<td></td>
<td>PJ3</td>
<td>.688</td>
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<tr>
<td></td>
<td>PJ4</td>
<td>.630</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase Intention</td>
<td>PI1</td>
<td>.639</td>
<td>.607</td>
<td>.859</td>
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<tr>
<td></td>
<td>PI2</td>
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<tr>
<td></td>
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<td>.844</td>
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Table 5: Discriminant Validity-CFA

<table>
<thead>
<tr>
<th>NI</th>
<th>H</th>
<th>PI</th>
<th>ETH</th>
<th>PJ</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.657</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.050</td>
<td>0.752</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>-0.057</td>
<td>-0.198</td>
<td>0.779</td>
<td></td>
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<tr>
<td>0.083</td>
<td>0.191</td>
<td>-0.444</td>
<td>0.722</td>
<td></td>
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</tr>
<tr>
<td>0.144</td>
<td>0.128</td>
<td>0.328</td>
<td>-0.250</td>
<td>0.712</td>
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<tr>
<td>0.026</td>
<td>0.211</td>
<td>-0.426</td>
<td>0.325</td>
<td>-0.285</td>
<td>0.784</td>
</tr>
</tbody>
</table>

Table 6: Model fitness-CFA

<table>
<thead>
<tr>
<th>Criterion</th>
<th>CMIN/df</th>
<th>GFI</th>
<th>TLI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>1.841</td>
<td>&gt;0.9</td>
<td>&gt;0.9</td>
<td>&gt;0.9</td>
<td>&lt;0.05</td>
</tr>
</tbody>
</table>

Table 7: Hypothesis testing-SEM

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>p-value</th>
<th>Structural Modeling</th>
<th>Equation</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Economic hardship -&gt; Animosity</td>
<td>.005**</td>
<td>Supported</td>
<td>H1”Economic hardship positively impacts Animosity”</td>
</tr>
<tr>
<td>H2: Normative Influences -&gt; Animosity</td>
<td>.516</td>
<td>Not Supported</td>
<td></td>
</tr>
<tr>
<td>H3: Animosity -&gt; Product judgment</td>
<td>.003**</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H4: Ethnocentrism -&gt; Product Judgment</td>
<td>.017*</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H5: Animosity -&gt; Purchase Intention</td>
<td>***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H6: Ethnocentrism -&gt; Purchase Intention</td>
<td>***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H7: Animosity -&gt; Ethnocentrism</td>
<td>***</td>
<td>Supported</td>
<td></td>
</tr>
<tr>
<td>H8: Product judgment -&gt; Purchase Intention</td>
<td>.006**</td>
<td>Supported</td>
<td></td>
</tr>
</tbody>
</table>

Discussion: First of all, among the two independent antecedences of Animosity, only Economic Hardship has significant impact. The situation is identical to Huang et al. (2010). Given some recent development, Vietnam is still a developing country at the moment. Obviously, the perceived hardship therefore exists in Vietnamese people’ minds. This threat of financial deprivation is strengthened as people believed that China and its action are the cause. This is the reason why hypothesis H1 “Economic hardship positively impacts Animosity” was strongly supported.
Japanese firms have invested themselves in Vietnam, but their marketing campaigns have not been successful in changing consumer perceptions and reducing prejudice. Vietnamese consumers, who are ethnocentric, value domestic products more than foreign countries’ ones. Noticeably, the marketing campaigns that are denied in the paper of Klein et al. (1998) are supported. The results are similar to those of previous researchers (Witkowski, 2000; Klein et al., 2002; Nijsen and Douglas, 2004; Russell, 2004).

Both hypotheses H3- “Vietnamese Consumer Animosity to China negatively affects Chinese Product Judgment” and H4- “Consumer Ethnocentrism negatively affects Chinese Product Judgment” are supported. This indicates that both animosity toward China and the feeling of Ethnocentrism affect the assessment of Chinese products. Two constructs affect differently, but both result in Chinese product underestimation. While animosity leads to the underrating of objects related to its sources, ethnocentric consumers value domestic products much more than foreign countries’ one. Noticeably, the hypothesis that is denied in paper of Klein et al. (1998), H3, is justified in this study. The current result is identical to Shoham’s study in 2006, previously mentioned in the review of literature. Likewise, hypotheses H5- “Vietnamese Consumer Animosity to China negatively affects Intention to Purchase China goods” and H6- “Consumer Ethnocentrism negatively affects Intention to purchase Chinese products” are substantiated by their significant values, indicating the direct negative relationship of Animosity and Ethnocentrism on intention to purchase Chinese products. In other words, these two psychological factors play a crucial and dominant role in Vietnamese consumers’ intention when it comes to purchasing Chinese household appliances. The hypothesis H7- “Consumer Animosity to China positively affects Consumer Ethnocentrism” is robustly supported. The feeling of antipathy toward China could be generalized into ethnocentrism. Vietnamese consumers who express their hatred toward China due to the political and economic issues will reject Chinese household appliances and use Vietnamese products instead. This served as a brief explanation for this hypothesis. Lastly, hypothesis H8- “Chinese Product Judgment positively affects Intention to Purchase Chinese Product” is confirmed as significant. Clearly, the judgment of one product is positively related to the intention to buy and own them. The better the judgment is, the higher the intention would be.

**Recommendation and Direction for Further Study**

For **Chinese Electronic Household appliances suppliers**: First of all, Chinese organization should recognize the high level of Animosity existing in the mindset of Vietnamese consumers and learn how to deal with them. The primary strategy is to run an in-depth marketing research to measure the levels of animosity. In therecommended marketing research, demographics and geographic information should be included as the perception of animosity may vary among different backgrounds and regions. For example, people in rural and urban areas may have diverse viewpoints regarding animosity toward China and purchasing behavior of its products. With detailed information, they can tailor their strategies to reduce such impacts and thus increase market shares and profits. Animosity is considered to be a threat to an international firm that originates from a country that has controversial issues in political, economic or military aspects with the export countries. Being aware of this, marketing managers are required to develop special plans to deal with this potential hazard. When it comes to animosity and ethnocentrism, ordinary methods of marketing such as advertisement and promotion may be ineffective. Marketers could consider the following insights given by this research or relevant studies.

The first strategy is to directly address the animosity issues. This should be combined with intensive public relation and communication tools in the attempt to change consumers’ perception and prejudice. The communication campaign should emphasize that the products and the brand does not involved with the current incident. Since the diplomatic issues are recent, the strategy could become even more effective (Klein et al., 1998). In addition, the potential of Economic Hardship on Animosity should not be overlooked. Perceived deprivation transforms into Animosity toward China as Vietnamese citizen believe that China is a main cause of East Sea’s instability. Manufacturers could use the same method to inform consumers that using Chinese electronic household appliances cause no harm to Vietnamese economy and society. By doing so, consumers can also reduce the bias of Chinese products in ethnocentric consumers. Another fruitful strategy is that Chinese manufacturer should consider moving to and manufacture household appliances in Vietnam. The process enables the producer to create hybrid products. This kind of product provides marketers with the flexibility incoping with the effects of consumer animosity related to product origin (Leven and Jasper, 1996). In fact, many Chinese household appliances suppliers have invested their own factory in Vietnam. However, their marketing activities do
not take advantages of this reality. Marketers should alter the brand name by placing the term “made in Vietnam”. Hence, the company can utilize consumer Ethnocentrism to gain more sales and capture more market shares. Last but not least, marketers working for these enterprises can segment their target consumers into groups with distinctive attributes that do not strongly harbor animosity toward China. Although the majority of Vietnamese consumers hold hostility toward China, the level of animosity actually differs. Therefore, spotting out a group of consumers whose levels of animosity are not high enough for them to abandon Chinese appliances and adjust marketing strategies to meet their desires is another plausible strategy that should be taken into consideration.

For Vietnamese Electronic Household Appliance Manufacturers: For local marketing managers, this study gives suggestions on brand positioning strategies. As Ethnocentrism can be transferred into bias toward foreign products, this can be utilized as a “powerful weapon” to fight in the arena where international trade continuously increases. Vietnamese products quality is incomparable to that of developed countries in consumers’ mindset (Nguyen & Nguyen, 2004). Thus, instead of focusing only on product attributes, a strategy that emphasizes ethnocentric attitudes in purchasing the product shines. Local managers should take advantages of ethnocentrism to increase market shares and profit. “Buy Vietnamese” is a very suitable strategy to be used.

For Vietnamese retailers: Most of the electronic household appliances move to intermediary retailers before getting into consumers hands. Therefore, the findings of this study are beneficial to the retailer practitioners. Being aware of the effects of Animosity on consumers, the managers should carefully consider whether to import Chinese branded household appliances and to put it on sales. If the necessity of importing Chinese branded products is in place, the brand names and the suppliers should be taken into thorough consideration. The retailers should choose hybrid appliances that are manufactured in Vietnam in order to utilize consumer’s Ethnocentrism while minimizing the impacts of Animosity. They can implement some previously mentioned strategies to promote their products in cooperation with the manufacturers. Chinese branded appliances has a big advantage on price and an acceptable quality, which they should emphasize on their advertising. In addition, they should highlight that the products is manufactured in Vietnam, therefore deemphasizing the brand real origin as well as triggering ethnocentric belief. If the demand for Chinese branded household products is not high, the retailers should choose Vietnamese brands for the above reason. Ethnocentrism could be exploited to enhance sales and profit.

Theoretical Implication: The study confirms the Animosity model for foreign product purchase in a context when there are recent controversial issues. While preceding research concentrates on past events as a source of Animosity, this paper proves that on-going events can still trigger Animosity. Animosity and Ethnocentrism affects purchase intention directly and indirectly, through Product Judgment. Moreover, a hypothesis between Animosity and Product Judgment, earlier denied by Klein (1998), is justified in this study. This research also investigates the antecedences of Animosity, which previous papers lack. The findings can contribute humbly to the academic field of Animosity and Consumer behaviors.

Suggestion for Further Study: Although the research put best effort in covering all aspects regarding to Animosity model, there are some limitations which are need to be clarified. Further study should consider these drawbacks to have a fuller understanding of Animosity in Vietnamese context. Firstly, it is conducted within Ho Chi Minh City only. As a result, its finding can only be applied to Ho Chi Minh City. There are many differences among distinctive regions. For instance, there is a big gap in consumer behaviors between the rural and the urban area. To fully understand the effect of Animosity and Ethnocentrism to purchase intention in Vietnam, multi-regional research should be carried out. Secondly, the research is centered on Chinese branded household appliances. Other researches could try a new category of products to see if the findings differ. Thirdly, the research finds no relationship between Normative Influences and Animosity. Nonetheless, this study infers that Vietnam possess a collectivism culture. Thus, this research suggests further researches should spend times on design a better set of questionnaires and pretest the model to see if the proposed hypothesis really exist. Lastly, the research exercises only in quantitative method. The results might not be interesting enough. However, due to the shortage of time, labor and budget, qualitative research cannot be implemented. Later study can conduct qualitative methods (focus group and in-depth interview, to name a few) to contribute more attractive findings.
Reference


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The Benefits of Financial Ratios' as the Indicators of Future Bankruptcy on the Economic Crisis

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Abstract: It is proved that financial ratios can predict future bankruptcy even on high uncertainty conditions such as an economic crisis. The research indicates that the accuracy of prediction is more increasing in line with a coming bankruptcy. The result of the research shows that four years before a corporate becomes bankrupt there have been significant differences of financial ratios between bankrupt company and sustained one. The ratios of liquidity, profitability, activity, and return on investment of sustained company are higher; while the leverage ratio is lower. The dominant influencing financial ratios toward a bankruptcy are liquidity and leverage ratios. The research finds that from ten tested ratios, Current Asset to current liabilities and total liabilities to total asset are the dominant financial ratios.

Keywords: bankruptcy, financial ratios, prediction models

1. Introduction

Financial ratios are believed to be used to predict the company in the future. Empirical evidence of the benefits of financial ratios to predict bankruptcy obtained from several studies such as Pankoff and Virgil (1970), Sinkey (1975) which proves that the financial ratios proved accurate in setting the bank rating (Whalen and Thomson, 1988). In Indonesia, Machfoedz (1994) and Surifah (1999) through his research has also obtained the conclusion that the beneficial financial ratios to predict earnings growth and bank failures. To prove that the financial ratios can be used to predict corporate bankruptcy, the other researchers such as; Beaver (1966), Altman (1968), Dambolena and Khoury (1980), Thomson (1991), Zain (1994), Surifah (2000), and Avianti (2000) lead to the conclusion that the financial ratios useful for predicting corporate bankruptcy. In 1997-1998 Indonesia's economic crisis that affects up to 2002. This study is intended to determine the benefits of financial ratios to predict bankruptcy in the business environment of high uncertainty. The purposes of this study are: (1) Is there a difference in the average financial ratios of bankrupt companies with companies not bankrupt; (2) Is the financial ratios can be used as a tool for predicting bankruptcy; and (3) Financial ratios are most influential to the bankruptcy of the company.

2. Literature Review

Financial ratios are believed to be used to predict the state of the company in the future. Empirical evidence about the benefits of financial ratios to predict bankruptcy has been demonstrated through several studies. Some experts who have done research on this, among others; Pankoff and Virgil (1970), as well as Sinkey (1975) which proves that the financial ratios proved to be accurate in preparing the bank rating (Whalen and Thomson, 1988). In Indonesia, Machfoedz (1994) and Surifah (1999) through his research has also obtained the conclusion that the beneficial financial ratios to predict earnings growth and bank failures. Moreover, to prove that the financial ratios can be used to predict corporate bankruptcy, other researchers such as; Beaver (1966), Altman (1968), Dambolena and Khoury (1980), Thomson (1991), Zain (1994), Surifah (2000), and Avianti (2000) through his research has obtained the conclusion that the beneficial financial ratios to predict bankruptcy of a company. Evidence of the reliability of financial ratios in predicting bankruptcy of the company, among others, it is shown by the results of research Adnan and Taufiq (2001) who analyzed the accuracy Altman method in predicting the occurrence of liquidation of banks in Indonesia. The results of this study indicate that a Z-score liquidated banks is much smaller than the value of the Z-score of the banks are not liquidated. The results of this study concluded that Altman method can be used to predict the likelihood of liquidation on banking institutions.
3. Methodology

To answer the first purposes of research used univariate analysis to determine the difference of average between the two groups. To know the second purposes of the study used logistic regression models. The method used is the Backward-Stepwise (Wald) with a statistical model as follows:

\[ p = \frac{1}{1 + e^{-(\beta_0 + \beta_1 x_1 + \ldots + \beta_{n} x_n)}} \]

where Is:
- \( p \) = probability of bankruptcy
- \( e \) = the natural logarithm
- \( \beta_0 \) = constant
- \( \beta_i \) = logistic regression coefficient
- \( x_i \) = financial ratios

To answer the third purposes of this research used Backward-Stepwise Logistic Regression using financial ratios for five years (1997-2001).

4. Results and Discussions

The difference of average Financial Ratios (1997-2001): The results of the normality test of data and different test to the financial ratios (1997-2001) are presented in Table 1. Normality test results indicate that the p-value for all financial ratios tested were below 0.05. Based on this result, the entire financial ratios were tested using the Mann Whitney U statistical summary of different test results are presented in Table 2. Different test results using the Mann Whitney U test statistics as presented in Table 2 show that 9 of financial ratios to obtain p-value less than 0.05, which means that there are differences in average financial ratios of Current Assets to Current Liabilities, Quick Assets to Current Liabilities, Gross profit to Sales, Net Income to Sales, Sales to Total Assets, Sales to Fixed Assets, Earnings Before Interest and Taxes to Total Assets, Net Income to Total Assets and Total Liabilities to Total Assets of the bankrupt company with a company that does not bankrupt. The ratio of Cost of Goods Sold to Inventory does show non-significant difference indicated by the p-value greater than 0.05.

Table 1: Results of Normality Test

<table>
<thead>
<tr>
<th>Num</th>
<th>Financial Ratios</th>
<th>Var.</th>
<th>Kolmogorov-Smirnov (a)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Stat.</td>
<td>db</td>
</tr>
<tr>
<td>1</td>
<td>Current Assets to Current Liabilities</td>
<td>x1</td>
<td>.252</td>
<td>200</td>
</tr>
<tr>
<td>2</td>
<td>Quick Assets to Current Liabilities</td>
<td>x2</td>
<td>.249</td>
<td>200</td>
</tr>
<tr>
<td>3</td>
<td>Gross Profit to Sales</td>
<td>x3</td>
<td>.235</td>
<td>200</td>
</tr>
<tr>
<td>4</td>
<td>Net Income to Sales</td>
<td>x4</td>
<td>.290</td>
<td>200</td>
</tr>
<tr>
<td>5</td>
<td>Cost of Goods Sold to Inventory</td>
<td>x5</td>
<td>.256</td>
<td>200</td>
</tr>
<tr>
<td>6</td>
<td>Sales to Total Assets</td>
<td>x6</td>
<td>.137</td>
<td>200</td>
</tr>
<tr>
<td>7</td>
<td>Sales to Fixed Assets</td>
<td>x7</td>
<td>.288</td>
<td>200</td>
</tr>
<tr>
<td>8</td>
<td>Earning Before Interest and Taxes to Total Assets</td>
<td>x8</td>
<td>.160</td>
<td>200</td>
</tr>
<tr>
<td>9</td>
<td>Net Income to Total Assets</td>
<td>x9</td>
<td>.182</td>
<td>200</td>
</tr>
<tr>
<td>10</td>
<td>Total Liabilities to Total Assets</td>
<td>x10</td>
<td>.186</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Research Data Processing, 2014
Table 2: Results of Different Test (1997-2001)

<table>
<thead>
<tr>
<th>Num</th>
<th>Financial Ratios</th>
<th>Var.</th>
<th>Result of Test Test *)</th>
<th>Stat.</th>
<th>p-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Assets to Current Liabilities</td>
<td>x1</td>
<td>MW-U</td>
<td>1955.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>2</td>
<td>Quick Assets to Current Liabilities</td>
<td>x2</td>
<td>MW-U</td>
<td>1928.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>3</td>
<td>Gross Profit to Sales</td>
<td>x3</td>
<td>MW-U</td>
<td>3458.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>4</td>
<td>Net Income to Sales</td>
<td>x4</td>
<td>MW-U</td>
<td>2682.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>5</td>
<td>Cost of Goods Sold to Inventory</td>
<td>x5</td>
<td>MW-U</td>
<td>4750.0</td>
<td>.541</td>
<td>Non-Sig.</td>
</tr>
<tr>
<td>6</td>
<td>Sales to Total Assets</td>
<td>x6</td>
<td>MW-U</td>
<td>3926.0</td>
<td>.009</td>
<td>Sig.</td>
</tr>
<tr>
<td>7</td>
<td>Sales to Fixed Assets</td>
<td>x7</td>
<td>MW-U</td>
<td>3779.0</td>
<td>.003</td>
<td>Sig.</td>
</tr>
<tr>
<td>8</td>
<td>Earnings Before Interest and Taxes to Total Assets</td>
<td>x8</td>
<td>MW-U</td>
<td>2305.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>9</td>
<td>Net Income to Total Assets</td>
<td>x9</td>
<td>MW-U</td>
<td>2561.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>10</td>
<td>Total Liabilities to Total Assets</td>
<td>x10</td>
<td>MW-U</td>
<td>1656.0</td>
<td>.000</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

Table 3 show that 9 financial ratios differed significantly between bankrupt companies with companies sustained. Financial ratios of liquidity, profitability, activity, and Return on Investment from companies that are not bankrupt greater than the bankrupt companies. While the leverage ratio (Total Liabilities to Total Assets) companies that sustained smaller than the bankrupt companies. Resume different test results of financial ratios studied are presented in the Table 4. Table 4 show that before the bankruptcy, a growing number of financial ratios that differ between bankrupt companies with companies sustained.

Table 3: Comparison of Average Financial Ratios (1997-2001)

<table>
<thead>
<tr>
<th>Num</th>
<th>Financial Ratios</th>
<th>Var.</th>
<th>Average Sustained</th>
<th>&lt; / &gt;</th>
<th>Bankrupt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Assets to Current Liabilities</td>
<td>x1</td>
<td>1,512201</td>
<td>&gt;</td>
<td>0,477415</td>
</tr>
<tr>
<td>2</td>
<td>Quick Assets to Current Liabilities</td>
<td>x2</td>
<td>1,015383</td>
<td>&gt;</td>
<td>0,297805</td>
</tr>
<tr>
<td>3</td>
<td>Gross Profit to Sales</td>
<td>x3</td>
<td>0,275181</td>
<td>&gt;</td>
<td>0,171593</td>
</tr>
<tr>
<td>4</td>
<td>Net Income to Sales</td>
<td>x4</td>
<td>-0,15214</td>
<td>&gt;</td>
<td>-0,6237</td>
</tr>
<tr>
<td>5</td>
<td>Sales to Total Assets</td>
<td>x6</td>
<td>0,781001</td>
<td>&gt;</td>
<td>0,662808</td>
</tr>
<tr>
<td>6</td>
<td>Sales to Fixed Assets</td>
<td>x7</td>
<td>3,030421</td>
<td>&gt;</td>
<td>2,676434</td>
</tr>
<tr>
<td>7</td>
<td>Earnings Before Interest and Taxes to Total Assets</td>
<td>x8</td>
<td>-0,0287</td>
<td>&gt;</td>
<td>-0,20905</td>
</tr>
<tr>
<td>8</td>
<td>Net Income to Total Assets</td>
<td>x9</td>
<td>-0,03145</td>
<td>&gt;</td>
<td>-0,19275</td>
</tr>
<tr>
<td>9</td>
<td>Total Liabilities to Total Assets</td>
<td>x10</td>
<td>0,7671</td>
<td>&lt;</td>
<td>1,30047</td>
</tr>
</tbody>
</table>

Source: Results of Research Data Processing, 2014

The Results of Overall Logistic Regression Test (1997-2001): The results of logistic regression calculation of the financial ratios for 5 years (1997-2001) shows that the function of the logistic regression equation is as follows:

\[
p = \frac{1}{1 + e^{-(1.765-1.025X_1 + 2.686X_{10})}}
\]

In which:
- \( p \) = The probability of bankruptcy
- \( X_1 \) = Current Asset to Current Liabilities (CACL)
- \( X_{10} \) = Total Liabilities to Total Assets (TLTA)

The accuracy of the logistic regression model (for 5 years) can be identified by cross-checking the results of model predictions with data from observations/sample. Test models done by entering each value of the variable x from the sample data to the model above. Using a cut-off value of 0.5 obtained cross-check the results of the performance of the model as presented in Table 5.
### Table 4: Summary Results Test of Difference

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Current Assets to Current Liabilities</td>
<td>x1</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>2</td>
<td>Quick Assets to Current Liabilities</td>
<td>x2</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>3</td>
<td>Gross Profit to Sales</td>
<td>x3</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>4</td>
<td>Net Income to Sales</td>
<td>x4</td>
<td>X</td>
<td>x</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>5</td>
<td>Cost of Goods Sold to Inventory</td>
<td>x5</td>
<td>X</td>
<td>x</td>
<td>X</td>
<td>x</td>
<td>x</td>
<td>√</td>
</tr>
<tr>
<td>6</td>
<td>Sales to Total Assets</td>
<td>x6</td>
<td>X</td>
<td>x</td>
<td>X</td>
<td>x</td>
<td>√</td>
<td>x</td>
</tr>
<tr>
<td>7</td>
<td>Sales to Fixed Assets</td>
<td>x7</td>
<td>X</td>
<td>x</td>
<td>X</td>
<td>x</td>
<td>x</td>
<td>√</td>
</tr>
<tr>
<td>8</td>
<td>Earnings Before Interest and Taxes to Total Assets</td>
<td>x8</td>
<td>X</td>
<td>x</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>9</td>
<td>Net Income to Total Assets</td>
<td>x9</td>
<td>X</td>
<td>x</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
<tr>
<td>10</td>
<td>Total Liabilities to Total Assets</td>
<td>x10</td>
<td>X</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
</tr>
</tbody>
</table>

Source: Results of Research Data Processing, 2014

x = non-significant
√ = significant

### Table 5: Performance of Logistic Regression Models (1997-2001)

<table>
<thead>
<tr>
<th>Observe</th>
<th>Prediction Sustained</th>
<th>Bankrupt</th>
<th>Accuracy (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustained</td>
<td>79</td>
<td>21</td>
<td>79.00</td>
</tr>
<tr>
<td>Bankrupt</td>
<td>26</td>
<td>74</td>
<td>74.00</td>
</tr>
<tr>
<td>% overall</td>
<td></td>
<td></td>
<td>76.50</td>
</tr>
</tbody>
</table>

Source: Results of Research Data Processing, 2014

Table 5 shows that the 100 non-bankrupt company data, there are 79 corporate data (79.00%) which classified correctly by the model, while the data of 100 bankrupt companies are corporate data 74 (74.00%) were classified correctly by the model. So the overall the percentage of companies that are classified correctly by the logistic regression model simultaneously is 76.50%.

### Table 6: Resume Financial Ratios Influential Toward Bankruptcy

<table>
<thead>
<tr>
<th>Num.</th>
<th>Year</th>
<th>Year Before Bankrupt</th>
<th>Var.</th>
<th>Financial Ratios</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1997</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>1998</td>
<td>4</td>
<td>X₂</td>
<td>Quick Assets to Current Liabilities (QACL)</td>
<td>Liquidity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>X₃</td>
<td>Gross Profit to Sales (GPS)</td>
<td>Profitability</td>
</tr>
<tr>
<td>3</td>
<td>1999</td>
<td>3</td>
<td>X₁</td>
<td>Current Assets to Current Liabilities (CACL)</td>
<td>Liquidity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>X₃</td>
<td>Gross Profit to Sales (GPS)</td>
<td>Profitability</td>
</tr>
<tr>
<td>4</td>
<td>2000</td>
<td>2</td>
<td>X₈</td>
<td>Earnings Before Interest and Taxes to Total Assets (EBITTA)</td>
<td>ROI</td>
</tr>
<tr>
<td>5</td>
<td>2001</td>
<td>1</td>
<td>X₁₀</td>
<td>Total Liabilities to Total Assets (TLTA)</td>
<td>Leverage</td>
</tr>
<tr>
<td>6</td>
<td>Overall</td>
<td>-</td>
<td>X₁</td>
<td>Current Asset to Current Liabilities (CACL)</td>
<td>Liquidity</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>X₁₀</td>
<td>Total Liabilities to Total Assets (TLTA)</td>
<td>Leverage</td>
</tr>
</tbody>
</table>
Financial Ratios Dominant Influence the Company Bankruptcy: To determine financial ratios dominant influence the bankruptcy using logistic regression analysis of all financial ratio data for 5 years with the enter method. By using logistic regression method, model is obtained as follows:

\[
p = \frac{1}{1 + e^{-(0.883 \times X_1 + 1.486 \times X_2 - 1.866 \times X_3 - 0.485 \times X_4 + 0.320 \times X_5 - 0.019 \times X_6 + 0.320 \times X_7 + 0.041 \times X_8 - 1.412 \times X_9 + 2.007 \times X_{10} + 2.280 \times X_{11})}}
\]

Table 7: Testing Logistic Regression Coefficients By Individual (Phase I)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Wald</th>
<th>p-value</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₀ : β₀ = 0</td>
<td>.788</td>
<td>.375</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₀ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₁ = 0</td>
<td>3.881</td>
<td>.049</td>
<td>Sig</td>
</tr>
<tr>
<td>H₀ : β₁ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₂ = 0</td>
<td>1.309</td>
<td>.253</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₂ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₃ = 0</td>
<td>2.879</td>
<td>.090</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₃ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₄ = 0</td>
<td>.791</td>
<td>.374</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₄ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₅ = 0</td>
<td>.497</td>
<td>.481</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₅ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₆ = 0</td>
<td>.370</td>
<td>.543</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₆ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₇ = 0</td>
<td>.923</td>
<td>.337</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₇ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₈ = 0</td>
<td>.212</td>
<td>.645</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₈ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₉ = 0</td>
<td>.423</td>
<td>.515</td>
<td>Non-Sig</td>
</tr>
<tr>
<td>H₀ : β₉ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₀ : β₁₀ = 0</td>
<td>6.288</td>
<td>.012</td>
<td>Sig</td>
</tr>
<tr>
<td>H₀ : β₁₀ ≠ 0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Model fit test was conducted to determine the suitability of the results of the model predictions with data from observations using the Hosmer-Lameshow test statistics. Under this test values obtained significant opportunities to match the model of 0.198. Hosmer-value opportunities significance Lameshow more than 0.05 means that the model is fit to have a fit between the observed data with data from model predictions. On this basis it can be stated that in overalls declared fit models. After testing in overalls further testing individually for regression coefficients using the Wald test statistic. Test results using the Wald test statistics are presented in the table 7. Table 7 shows the result that the financial ratios that significantly in determining bankruptcy is a financial ratio X₁ (Current Assets to Current Liabilities) and X₁₀ (Total Liabilities to Total Assets). While other financial ratios revealed no significant influence. Because they logistic regression model involving all financial ratios still involve variables are not
significant financial ratios, then before examined the performance of the model, first look for the best regression model for logistic regression models simultaneously this. To find the best logistic regression model reached by using backward through the Wald test statistic. Backward method that reduces the model by eliminating variables that are not significant. The result of this process produces a logistic regression model as follows:

\[ p = \frac{1}{1 + e^{-(1.765 - 1.025X_1 + 2.686X_{10})}} \]

The probability of significance for the above model fit using the Hosmer-Lameshow test statistic obtained for 0.320. With the probability of significance over 0.05 model fit the above model declared fit to the data. Significance test results for individual regression coefficients on the new model are shown in the following table 8.

**Table 8: Testing Logistic Regression Coefficients By Individual (Phase II)**

<table>
<thead>
<tr>
<th>Hipotesis</th>
<th>Wald</th>
<th>Db</th>
<th>p-value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>( H_0 : \beta_0 = 0 )</td>
<td>7.874</td>
<td>1</td>
<td>.005</td>
<td>Sig.</td>
</tr>
<tr>
<td>( H_0 : \beta_0 \neq 0 )</td>
<td>14.560</td>
<td>1</td>
<td>.000</td>
<td>Sig.</td>
</tr>
<tr>
<td>( H_0 : \beta_1 = 0 )</td>
<td>4.794</td>
<td>1</td>
<td>.029</td>
<td>Sig.</td>
</tr>
<tr>
<td>( H_0 : \beta_1 \neq 0 )</td>
<td>4.794</td>
<td>1</td>
<td>.029</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

Source: Results of Research Data Processing, 2014

Table 8 shows that the value of the significance of individual test results to a new logistic regression model resulted in significant testing. This is evident from the significance probability value less than 0.05. Logistic regression model above shows a significant effect of \( X_1 \) and \( X_{10} \) towards bankruptcy. Based on the best regression model formed as above, can be explained that:

1) There is a significant influence of financial ratios Current Assets to Current Liabilities (\( X_1 \)) to bankruptcy. Based on the magnitude of the regression coefficients for \( X_1 \) it means that any increase in the value of financial ratios for the unit then the chances of the company entered bankruptcy category will decrease (negative sign) of \( e^{1.025} = 2.787 \), and;

2) There is a significant effect of financial ratios Total Liabilities to Total Assets (\( X_{10} \)) to bankruptcy. Based on the magnitude of the regression coefficient for the \( X_{10} \) it means that any increase in the value of financial ratios for the unit then the chances of the company entered bankruptcy category will increase by \( e^{2.686} = 14.673 \).

5. Conclusion and Recommendations

1) There are significant differences between the financial ratios of the company insolvent with a company that is not insolvent. Financial ratios of liquidity, profitability, activity, and return on investment of companies which are not insolvent proved greater than the company insolvent. While the leverage ratio (total liabilities to total assets) companies which are not insolvent is smaller than the company insolvent. The results of this study also indicate that the closer bankruptcy, more and more financial ratios that show significant differences between the company insolvent with a company that is not insolvent.

2) Financial ratios proved to be utilized as a tool for predicting bankruptcy of the company, including the circumstances that a relatively high degree of uncertainty as the economic crisis. The results of this study showed that the overall level of predictive validity (simultaneously for 5 years) of 76.50% (overall). While the test results each year is known that the predicted rate established by the logistic regression model for a period of 4, 3, 2, and 1 year prior to bankruptcy turned out to be even greater, namely: 77.50%, 80.00%, 92.50%, and 92.50%. Whereas in 1997 or 5 years before
the bankruptcy, not obtained an adequate model. In other words, financial ratios 5 years prior to the bankruptcy can not be used as a predictive tool for bankruptcy.

3) Financial ratios dominant influence on the bankruptcy of the company is the ratio of liquidity and leverage. The results of this study prove that from 10 financial ratios tested, there are two financial ratios of the most dominant in shaping the bankruptcy models, namely Current Assets to Current Liabilities and Total Liabilities to Total Assets.

Recommendations

1) There is evidence that financial ratios have reliability in predicting bankruptcy can be a valuable reference for financial policy makers. Financial ratios can be used as an early warning tool (early warning system) in anticipation of bankruptcy in the future;

2) The model of predictions are generated in this study were tested in companies that research sample. Therefore, it is possible to have a prediction accuracy rate is too high. Therefore, it is suggested that other researchers to test it on other companies that are not sampled in this study, and testing was conducted for a period of time that will come.

3) This study focuses only on 10 types of financial ratios calculation basis balance sheet and income statement. For it other researchers suggested that developing a type of financial ratios are examined, including financial ratios include the basic calculation of the cash flow and market value (stock);

4) For investors, financial ratios can be valuable information in making investment decisions. If the state of the company has been showing a state where a low level of liquidity or high leverage, then this situation can mean "warning" that investors shift their investment immediately, because liquidity is low and or high leverage can be an indication of impending bankruptcy.

References


Neoclassical Growth Model: Application to the Analysis of Human Capital For Regional Development

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Abstract: Human resource development has a strategic significance for the development progress of a nation. Countries that succeed in its national development, it gives great attention to human resource development. Some studies suggest the importance of externalities and Human Resources factors to spur economic growth. Indications of human resources play a role in smoothing the process of technology transfer and creation, the idea that high investment in human capital is a prerequisite that must be done in advance, in the process of economic growth, to support investment in physical capital. This paper aims to discuss the Neoclassical growth model provides a basis for understanding the differences between the interregional growth related factors that affected of different growth in economic development.

Keywords: Human resource development, economic growth, Neoclassical growth model
The Role of External and Internal Factors in the Accuracy of Predicting Financial Distress

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Abstract: The purpose of this paper is to predict financial distress explored how the proposed by experts. As we know that the Financial Distress is an early predictor in assessing the financial performance of the company, for this prediction in need of external and internal analysis of the company. The methodology of this research is the study of literature and secondary data. This paper is expected to provide a comprehensive picture of the company's financial performance through the prediction of financial distress that has been widely used some previous researchers. The results of this study will be a contribution to the development of literature and provide a comparison of the application of financial distress prediction model that has been done so create a model of financial distress research using external and internal analysis. The results of this study will also provide an explanation that there has been no study of financial distress by using external and internal factors simultaneously and integrated.

Keywords: Financial distress, financial performance of the company, external and internal factors

1. Introduction

Financial distress is a condition in which the company faced financial difficulties. Financial distress problems occur when the company can not meet its obligations, especially in terms of debt payments (Ross, et al, 1999). Financial distress is the stage of the financial downturn that occurred prior to the bankruptcy or liquidation. If this is not resolved soon will have a major impact on companies such as loss of confidence of stakeholders, and even the company will undergo bankruptcy (Platt and Plat., 2002). So important to analyze the condition of a company is in a healthy state or experiencing financial difficulties (financial distress), so a lot of research done to analyze observing and researching about the company's financial performance. Analysis of the financial statements can be one tool to predict financial distress (Rayenda, 2007). Through the financial statements of financial ratios can predict whether or not the financial distress. Many factors led to the bankruptcy of the company, in principle, can be classified into 2 (two), namely internal and external factors. Internal factors are the causes that arise from the company include financial and non-financial factors. The reasons for the details concerning the financial field, namely; a) the existence of debt is too large so as to provide a heavy burden for the company remains; b) the existence of short-term liabilities that are too big in the assets lancer; c) the slow collection of accounts receivable or the number of bad-debt; d) errors in dividend policy; e) insufficient funds shrinkage. While the Non Financial is; a) There is an error on the founders, among others, the error in the selection of the company's position, the error in the determination of the resulting product, the error in the determination of the company; b) The organizational structure of the company is not good; c) errors in the selection of corporate leaders; d) the existence of managerial incompetence, namely errors in menerapan operational policies, excessive expansion.

External factors are factors that are beyond the control of the company and outside the company, among others, the intense competition, reduced demand for the products produced, the lower the price changes in the macro economy as well as inflation, SBI interest rate and balance of payments. The existence of the shareholders and the management role is essential in determining the profits that will be obtained. This means that every manufacturing company is required to be able to cope with the situation so that it can perform management functions with good management in order to be ahead of the competition (Noegler, 2006). A manager must competence in taking decisions and should carefully consider the nature and cost of of the source of funds that will be selected, since each source of these funds have different financial consequences. Meanwhile, when the company decided to obtain additional funds on activities, necessary preliminary analysis whether the company is in good health or in financial distress, the companies need to analyze internal and external. Dun &Brodsteeet (1991) describes the factors that cause business failure in the form of financial factors, factors of experience, negligence, disaster and fraud, corporate governance and macroeconomic factors.

Platt and Platt (2002), states that when a decline in the financial condition continuously, the company is experiencing financial distress is a condition prior to the bankruptcy, which means the failure of a
business, According to Brigham and Daves (2003), financial difficulties occur over a series of errors, decision-making less precise and weaknesses interconnected to contribute directly or indirectly to the management and supervision of a lack of effort the company's financial condition resulting in less use in accordance with what is needed. According Wruck (1990) when operating cash flows are not sufficient to meet its current liabilities such as accounts payable or interest costs, the company in financial difficulty or in financial distress call. Financial distress can occur from the difficulties of liquidation (short-term), which is the lightest financial distress to the declaration of bankruptcy, which is the most severe financial distress (Brahmin, 2007). To minimize the occurrence of bankruptcy of the company, management must monitor the financial condition and financial statement analysis (Ramadhan and Lukviamman, 2009). Financial statement analysis is an important tool to obtain information about the company's financial condition. Financial analysis has two main tools that can be used are: analysis of the ratio (ratio analysis) and analysis of cash flow (cash flow analysis) (Palepu and Healy, 2008: 5-1) The second is an analytical tool used by management to menenalisasi company's financial condition, if the financial condition of decreased financial management should be careful because these conditions can lead to financial distress.

Much research has been done in analyzing the influence of financial factors which often also called the fundamentals of the financial distress, some studies use financial ratios to predict financial distress of a company include Altman (1968) with Multiple Diskriminant Analysis, Altman et al, (1977) using financial ratios such as earnings before interest and taxes / total assets, market value of equity / book value of debt, retained earnings / total assets, working capital / total assets, sales / total assets (Altman et al, 1995). So even Zavgren (1983), using financial ratios well in predicting financial distress company, the ratio used in the form of Average inventories / net sales, Average receivable / average inventories, Long-term debt / (total assets - short-term debt, net sales / fixed assets + working capital, Operational earnings / (total assets - Short-term debt, Quick assets / current debts, Quick assets / total assets (Zavgren, 1985). Deakin (1972) using Cash / current debts, Cash / sales, cash / total assets Cash flow / total debts, Current assets / current debts, Current assets / sales, Current assets / total assets, net income / total assets, Quick assets / current assets / sales, Quick assets / total assets, Working capital / total assets, Working Capital / Sales, Total Debt / Total assets (Deakin 1977). While Oldson (1980), using financial ratios such Change in income / sum of the absolute value of net income for two years, Current debts / current assets, Log (total assets, / GNP price index level Net income / total assets, Owners' equity, positive or negative, Positive or negative earnings, Working capital / total assets, total debt / total assets (Zahra Poorzamani, Azitajahanshad 2013) in line with researchers -peneliti the Brahmins (2007), Alifiah, et al (2012), Almilia and Kritijadi (2003), and Platt and Platt (2002), also using a variable in predicting the company's financial ratios.

Although the analysis of the usual symptoms of bankruptcy by using financial ratio analysis, but some researchers tried to analyze the use of the study on reputation management, actually study this theory is the upper echelon theory put forward by Hamrick and Moson (1984) that the characteristics possessed by top management (Top Management Team) has a direct influence on the performance of the company as a whole, the characteristics in the form of reputation management intent owned by top management. This theory is supported by D'Aveni (1990), that the reputation management has influence in bringing the company out of crisis, management has a good reputation will have a good financial planning strategy anyway. Reputation manajemen peak is social capital owned by manajamen peak with a certificate of expertise in a particular field, the background of which are owned and activities of managers in a particular field (board membership). Hamrick and mason (1984) mengatakan that social capital dimiliki by top management can affect creditors in the event of negotiations on corporate debt or influence investors in making investment decisions.

Andrade and Kaplan (1977) and Asquith et al, (1994) also agree about the lack of conversation manager manages the company will affect the ability of managers to manage the accuracy of the financial strategy and choice of profitable investment projects (under-investment problem). Kor (2003) also states that the reputation management has positive influence on financial performance. A lot of support for this eselon Upper tori like Juan and Lee (2011) Kuersten and linden (2011), Ongen et al, (2011) stated that they affect the company's reputation management. Research management and company reputation is built on a variety of characteristics ranging from social responsibility, human resource practices are good and honest financial reporting so as to create a healthy company (Becchetti et al., 2007; Desai et al., 2006; Chum, 2005 ; Chalmers and Godfrey, 2004; Cox et al., 2004, Herrington, 2003; Weaver et al., 1999; Fambrun and Shanley, 1990; Bhagat and Black, 2002) examined the link between the ability of managers to manage risk with corporate governance proksinya is reputation management, they found that the audit
Agency theory (Jensen and Meckling 1976) is due to the asymmetry of information that resulted in a gap between managers and owners of companies that allow moral hazard, so there will be a cost agency, the condition that caused the company to choose external sources (debt and shares) (Myers and Majluf, 1984) Asimerti information occurs because the management has more information than the shareholders. As such, the management may think that the stock price is currently overvalued (too expensive) so that management will issue new shares at a price that is more expensive than it should be. Then between debt holders and shareholders. The shareholders will control the manager through the bonding mechanism and controlling debt holders while controlling shareholder with a legal bond called covenant. From the point of view of the theory of accounting, earnings management is determined by the agency theory to explain (Jensen and Meckling (1976) that the asymmetry of information that resulted in a gap between managers and owners (non-owner-manager). Two criteria will influence policy and decision-making to the accounting method on ownership by management tends to affect earnings management action (Boediono, 2005), but the management of the company also affect the value of the company. In cooperate governance (GCG) is a set of processes, customs, policies, rules, and institutions that affect the direction, management, and control of a company or corporation. Corporate governance also includes the relationships among stakeholders (stakeholders) involved and destination management companies. The main parties in the governance of the company are the shareholders, management, and board of directors. Other stakeholders including employees, suppliers, customers, banks and other creditors, regulators, the environment, and the wider community. Corporate governance is a subject that has many aspects. One of the main topics in corporate governance is a matter of accountability and responsibility mandate, in particular the implementation of guidelines and mechanisms to ensure good behavior and protect the interests of shareholders. The problem arises because the corporate Governance the separation between ownership and control of the company. Corporate governance is needed to reduce the agency problem between owners and managers (Macey and O’Hara, 2003). In agency theory to explain (Jensen and Meckling 1976) that the management will make a decision to increase the size of the company through investment in order for them to enjoy the compensation based on the amount of assets they manage, meaning that management will make business decisions that benefit their position because they are in possession of information which is more than owners. This condition according to which said Eisenhardt, 1989) that there are three basic assumptions of human nature in order to explain the agency theory, namely: (1) humans are generally selfish, (2) humans have limited thinking about the future perception, and (3) humans always avoid risks (Eisenhardt, 1989). Based on the assumption that human nature as human managers will most likely act on opportunistic nature, namely prioritizing personal interests (Harris, 2004). The power to manage the company derived from ownership and the owner should be able to run its power in accordance with the value of their investments (Sukamulja, 2004), managerial ownership and institutional ownership are two main corporate governance mechanisms that help control agency problems. Because often Controlling shareholder and management control decisions are taken, the greater the proportion of ownership in the company management, the management tends to be more active in the interests of shareholders in particular is himself. The number of large managerial stock ownership should have a higher performance, because the agency cost reduced. Stiglitz, 1985; Shleiffer and Vishny, 1986 saying that cooperate to improve governance is to have one or more large shareholders and Vishny, 1998 found that there is a big influence of managerial ownership on firm performance.
Based on the research results Emrinaldi (2007), that with the increase in managerial ownership it will be able to encourage lower potential financial difficulties. In line with the opinion of Hanifa, Purwanto (2013), also conducted research whose results stating the results of descriptive statistics indicate that the average institutional ownership in distressed financial firms are smaller than the average non-financial institutional ownership in distressed firms.

Besides the internal factors mentioned above, there are external factors that influence the occurrence of financial distress, namely macroeconomic factors. Many companies are experiencing performance degradation caused by macroeconomic conditions. Subprime crisis (2008), the US led to rising tingkat SBI rate which increased deposits, which in turn results in a high interest rate credit, so investing in a company be decreased. Domestic investment decreased resulting in increased reliance on domestic business overseas investors, which means that an increase in the current flow of dollars into the country. The decline of the rupiah against the US dollar will lead to inflation, rising inflation is a relatively negative signal for investors, high inflation caused a decline in the profitability of a company that will reduce the distribution of dividends and causing public confidence to invest will be reduced, this will have an impact on funding activities of the company which will eventually happen lambant financial distress and ended in bankruptcy company. Research on the impact of macro-economic changes in the company carried out by Nam et al. (2008) compared the accuracy of prediction of bankruptcy in companies listed on the Korea Stock Exchange in the event of a crisis of 2008. Finding that the macro-economic variables showed superior performance showing signs of financial distress.

Foster (1986), lays out four things that encourage ratio analysis, namely: (1) control the magnitude of the effect of the differences between companies or between time, (2) makes the data more statistical tools to meet the assumptions used, (3) investigating related theories with financial ratios, and (4) examine the empirical relationship between financial ratios and estimates or predictions variable- certain variables (financial distress). Based on the theory and the gap of the above phenomenon, this study examines the related financial distress issue manufacturing company in Indonesia, which is a fundamental influence on the profitability of financial distress, the influence of the educational background of directors and commissioners (EDU), pengalman work toward financial distress, the effect of magnitude Ownership to financial distressness and Inflation Effet on financial distress.

The first research issue is a fundamental influence on the financial distress. Many studies have been conducted to analyze the influence of financial factors which often also called the fundamental factors, some studies use financial ratios to predict financial distress of a company include Altman (1968) in his research shows that the financial ratios can be made use of for predict the failure or bankruptcy of a company with bankruptcy prediction accuracy rate of 94% and 95% correct in his research, and Platt and Platt (2002), also using a variable in predicting the company's financial ratios.

The second issue in this study is the use of internal non-financial assessment form upper echelon theory with the study of reputation management by measuring the educational background of Directors (Pend) and background work experience Directors (PENGL).

The third issue in this research is to do a study of corporate governance through the Effect of Managerial Ownership on the prediction of financial distress. There are important structures in corporate governance including Parker et al (2005) says that the replacement of the company's leadership, ownership by the managerial and pihal internal or external (blockholder) must have a minimum of 5% of outstanding shares. Morck et al. (1988) find evidence that Tobin's Q (enterprise value) increases and then decreases in line with the increase in managerial ownership.

Issues to four in this study is how the external factors as causes of financial distress. Bernhart and Rosenstein 1998 expressed an external mechanism such as the market can control the company in addressing the company's performance. Francis & Desai (2005) agreed that the life cycle of the company, financial performance degradation may occur due to internal and external factors and Sheuppe (2005) added decline in financial performance are often called by financial distress can be experienced by various companies besarmaupun small. Research conducted by Bhattacharjee and Jie Han (2010) results that the macro-economic variables have an impact on financial distress. Of the many types of research described there are 3 things that have been researched in isolation, the first study of financial internal financial distress both research financial and non-financial internal distress third external
analysis in the form of macro-economic shocks in the form of inflation. However, no studies using internal and external factors the company simultaneously in predicting financial distress a company

2. Review of Previous Works

In a study of financial distress of many researchers use analyzer of different financial ratios such as Altman (1968) by Altman et al MDA model (1977) using financial ratios such as earning before interest and taxes / total assets, market value of equity / book value of debt, retained earnings / total assets, working capital / total assets, sales / total assets (Altman et al, 1995). So even Zavgren (1983), using financial ratios well in predicting financial distress company that uses the form Average ratio of inventories / net sales, Average receivable / average inventories, Long-term debt / (total assets - short-term debt, net sales / (fixed assets working capital, Operational earnings / (total assets - Short-term debt, Quick assets / current debts, Quick assets / total assets (Zavgren, 1985).

Deakin (1972) using Cash / current debts, Cash / sales, cash / total assets, cash flow / total debts, Current assets / current debts, Current assets / sales, Current assets / total assets, net income / total assets, Quick assets / current debts, Quick assets / sales, Quick assets / total assets, Working capital / total assets, Working capital / sales, Total Debt / Total assets (Deakin 1977). While Oldson (1980), using financial ratios such Change in income / sum of the absolute value of net income for two years, Current debts / current assets, Log (total assets, / GNP price index level Net income / total assets, Owners' positive or negative equity, Positive or negative earnings, Working capital / total assets, total debt / total assets (Zahra Poorzamani, Azita Jahanshad 2013; brahmins (2007). According to Foster (1994) there are two types of approaches that can be used, namely: univariate models of distress prediction that uses two key assumptions in the model's prediction, namely:

(a) the difference between the variable distribution of entities in financial distress and non-distress.

(b) different variables that can be developed for the purpose of financial distress prediction. Another approach is multivariate models of distress prediction that uses the dependent variable in the form of groups such as the bankrupt and non-bankrupt group or the possibility of bankruptcy. Usually this approach using financial ratios for the test. A growing issue in this approach include the variables that should be included in the prediction model and the model that should be used. Analysis of financial difficulties greatly aid in the decision to take a stand against companies that are experiencing financial difficulties, so a lot of research trying to develop an early warning system of financial distress by using the ratio-ratio in the financial statements. The use of ratio-financial ratio to distinguish companies that are categorized as healthy and unhealthy has been going on since 1930, Aksoy and Ugurlu (2006) concluded that Winakor and Smith (1935); Ramser and foster (193); Merwin (1942) and Hickman (1958) conducted studies that lead to the conclusion that corporate bankruptcies have different financial ratios significantly compared with existing enterprise operates. Other major initiators associated with bankruptcy research firm (financial distress) is Beaver (1996) which presents the approach of a single variable (univariate) from discriminant analysis which was later expanded to approach multiple variables (multivariate). Furthermore, Altman (1968), which uses multi-discriminant analysis (MDA) to classify financial ratios and financial difficulties develop forecasting models. Altman's model is used in penelitiaanDeakim (1972) Blum (1974), Altman (1973), Altman and Loris (1972), Altman and McGogh (1974), Libby (1975), Haldeman and Narayanan (1977). Gordon Springate in 1978, For nearly two decades, discriminant analysis has become the main method in predicting financial distress / bankruptcy of the company, until late 1980s emerged the use of new methods in the prediction that the logarithmic regression began to emphasize its use for prediction of financial distress or bankruptcy.

Ohlson (1980) used logic models (multiple logistic regression) to build a model to predict the probability of bankruptcy in bankruptcy. Ohlson in research claims that his research is a very important discovery model. This important discovery was shown from research models that take into account the viewpoint of the financial statements when a company issues to the public. It aims to control whether the company went bankrupt before or after the date of issuance of the financial statements. Ohlson claimed that previous models do not explicitly consider the problem of time the financial statements. This model uses the data cross action financial ratio, the logit model because this ignores the dynamic character of the financial ratios. Logit model belongs to the class of static models. Static model is a class of models that require all companies that fail within a certain period of the same process. Where in the logit analysis, determination of distress and non-distress company uses only one year of observation company or also
called as a single period models. This model is supported by Elliot and Kennedy (1988), Kennedy (1992), Lecte (1999), Louviere et al (2000).

**Fundamentals of Corporate Finance in the form of Financial Ratios**: Ross, et al. (2006: 78) states that in order to compare the performance of companies of different sizes is to calculate and compare the financial ratio, which is calculated from the relationship of a company's financial information and are used for comparison purposes. Calculating Financial Ratios is one source of information to obtain a picture of the financial condition of the company. Financial Fundamentals is an indicator of the performance of the Vendor which tcerminbesarn financial ratio, the performance of the company's fundamental financial analysis can help in identifying the strengths and weaknesses of corporate finance (White and Sond, 2003). Definition of "Ratio" is a tool that is expressed in Arithmetical terms that can be used to explain the relationship between the two kinds of financial data, One way to analyze the relationships of the various items in the financial statements. Results and analysis is the basis to be able to interpret financial condition and results of operations of the company.

**Upper Echelon**: Upper Echelon Theory is a theory that considers the concept of top management as the primary decision maker strategij within the organization (Hambrick and Mason, 1984). Decisions taken top managers will have an immediate impact on organizational outcomes, because its what top managers do and how they do will affect organizational outcomes ((Finkelstein and Hambrick, 1996) The main basis of this reasoning is the executive experience, values and personality greatly affect their interpretation of the situation at hand and influence their choice. The lack of conversation manager manages the company has the same role with the decline in the company's fundamentals performance this leads to financial distress, in line with the research Cor (2003) states that the effect on performance management reputation keunagan and reputation management company that better reflects good corporate governance as well (Nikoskelainen and Wright (2007).


**Corporate Governance**: The problem arises because the corporate Governance the separation between ownership and control of the company. This separation is based on agency theory that in this case the management tends to increase person al gain rather than the company's goals. In addition to having good financial performance the company is also expected to have good governance. In agency theory to explain (Jensen and Meckling (1976) that the management will make a decision to increase the size of the company through investment in order for them to enjoy the compensation based on the amount of assets they manage, meaning that management will make business decisions that benefit their position because they are in charge of a number of shares. Wahyudi and Pawestri (2006) explains that managerial ownership that align the interests of management and shareholders will benefit directly from the decisions taken and suffer losses as a consequence of making the wrong decision. The statement states that the greater the proportion of ownership in the company management, the management tends to be more active in the interests of shareholders in particular is himself. The number of large managerial stock ownership should have a higher performance, because the agency cost reduced. So that the problem will disappear keagenen assumed if a manager is also as an owner. (Jansen and Meckling, 1976) In this study
management ownership is measured by proxy Diyah and Erman (2009) in accordance with the percentage of stockholders' proportionate share of the management who actively participate in the decision-making companies (directors and commissioners)

Macro Condition: As causes of financial distress is also the external factors of the company, Many economic downturn caused the company macro conditions, when the economy in Amerikskrisisi States in 2008 due to rising subprime mortgage interest rates SBI impact on the increase in deposits, which in turn result in high interest rate credit, so investing in the economy declined. Domestic investment decreased resulting in increased reliance on dimes tic business overseas investors, which means that an increase in the current flow of dollars into the country. The decline of the rupiah against the US dollar will lead to inflation, rising inflation is a relatively negative signal for investors, high inflation caused a decline in the profitability of a company that will lower the dividend resulting public trust to invest will be reduced, this will have an impact on funding lambant corporate activities will eventually happen Financial Distress ended in bankruptcy

Introduction: Based on the analysis of previous studies, and analyzes the literature that has been discussed, the analysis of financial distress by using internal factors and external companies will help the analysis, and scientists to increase the input of theory and based on the phenomenon that occurs in the economy, making many companies who experience financial distress, so many studies done using a variety of variables that the results can be used as input for the company and as a contribution to the theory and practitioners, as well as information for investors to invest their money as capital in the company if the company healthy and able to provide the expected returns or not. Besides, with the study of government can oversee a business, in order to take action to protect the economy, industry, workers and society in general.

Reference

Knowledge Management System Role in Stock Investment Behaviour

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Abstract: It is important to develop the KM cycle with clear and detailed description of how people memory is put into use in order to generate value for individuals or groups in the practice area especially for stock investment. Knowledge creation widens the spectrum of potential choices in decision making by providing new knowledge. Decision making is situated in rational decision-making models that are used to identify and evaluate alternatives by processing the information and knowledge collected to date. The major phases in the knowledge management cycle, encompassing the capture, creation, codification, sharing, accessing, application, and reuse of knowledge involved within and between the investment decisions.

Keywords: Knowledge Management, Behavioural Finance, Stock Investment

1. Introduction

Knowledge management (KM) has been growing in importance and popularity as a research topic and business initiative since the mid-1990s. Knowledge management as an organizational innovation has been with us for more than a decade. As a discipline, it has reached a state of maturity where we can now discern the principles, practices, and tools that make it unique. Moreover, by having knowledge (intellectual resources), people can understand how to exploit and develop its traditional resources better than its competitors can, even if some or all of those traditional resources are not unique. In the early 1960s, Drucker was the first to coin the term knowledge worker (Drucker, 1964). Senge (1990) focused on theme organizational learning as one process that can learn from past experiences stored in corporate memory systems. Barton-Leonard (1995) documented the case of Chapparal Steel as a knowledge management success story. Nonaka and Takeuchi (1995) studied how knowledge is produced, used, and diffused within organizations and how such knowledge contributed to the diffusion of innovation. The knowledge-based economics era at the recent time sets off paradigm shift that we need new concept of strategic management related to each theoretical and practical approaches. To face the new competition era as compared to the former age, basically, knowledge and objective of the strategic change is much more needed by the managers in their decision making process (Vicente-Lorente and Zuniga-Vicente, 2008).

Behavioral finance is a relatively new but rapidly expanding field that seeks to afford explanations for people's economic decisions by combining behavioral and cognitive psychological theory with conventional economics and finance. The early behavioral finance research focused on finding, understanding, and documenting the behaviors of investors and managers, and their effect on markets. The beginning of this psychologically based financial analysis coincided with the start of many empirical findings. Later studies cut to the potential root of the problem and examined the behavior and decisions of market participants. Barber and Odean (2000) find that individual investors are loss averse, exhibit the disposition effect (Grinblatt and Han, 2005), trade too much, biased self-attribution and overconfidence (Chui et al., 2010). Evidence also shows that even professionals such as analysts behave in ways consistent with psychological view of human behavior (Hilary and Menzly, 2006).

Nowdaysthere are many investors are miscalibrated by underestimating stock variances or by overestimating the precision of their knowledge. The fundamental premise in emotional finance is that knowledge of the subtle and complex way our feelings determine psychic reality may help people understand better how asset valuations and investment decisions are made, and how markets may occasionally break down. MacGregor et al. (1999), using multiple regression analysis with perceived risk as the dependent variable, find that 98 percent of an expert's risk perception is attributable to three indicators: worry, volatility, and knowledge. Goszczynska and Guewa-Lesny (2000) develop three risk dimensions for more than 60 percent of the total variance. One of the three factor labeled "familiarity of risk" incorporates risk indicators such as controllability, knowledge, and accessibility of information. Simon (1987) also considers the availability of knowledge and the quality of knowledge to be critical determinants to the decision-making process. Korniotis and Kumar (2009) conjecture that older
investors would accumulate greater knowledge about the fundamental principles of investing because of their greater investment experience.

**Knowledge Management role to Behavioural Science:** Peng et al. (2013) develop knowledge management research to give a scientific way for knowledge management. Peng et al. offers knowledge services during all states in knowledge management theory, including knowledge’s creation, storage, organizing and sharing. Knowledge creation and storage, knowledge is created either through exploitation, exploration or codification (Chua, 2004). Users exploit knowledge by managing the course resources from many useful resource. Explored knowledge during discovery and experimentation could be recorded. Documentation and integration of knowledge promote knowledge codification. Knowledge acquisition, ubiquitous knowledge Different from traditional face-to-face communication, user of knowledge could use all kinds of intelligent digital mobile terminals to connect cloud knowledge services by many website so investors could acquire knowledge in this world everywhere in any time. Cloud services bring ubiquitous knowledge to people.

Knowledge integration and organization, user had all the files are well organized. User could organize all their files by themselves. But in group, all the users should develop systems and the group can access the group knowledge. Knowledge transfer and sharing, Knowledge sharing is an important way to transfer knowledge from one part or individual in the organization to other parts. This process accumulates and refines the group knowledge by storing new knowledge. Sharing knowledge bridges the gap of communication between group members and enhances the activity and performance of members and the whole organization. Andersson et al. (2009) shows that the forecasting performance of football experts and laypeople varies. For simple tasks, they tend to predict equally well, partly because laypeople might use well-adapted heuristics. Once the prediction tasks become more complex, the experts may take advantage of their domain-specific knowledge and produce forecasts that excel those of the laypeople.

**Knowledge Creation in Financial Behaviour:** In fact, Forbes and Kara (2010) contend that individual investors' self-confidence mediates how investment financial knowledge influences investors' investment efficacy. Overconfidence may also affect the impact of information on individuals' investment behavior. Abreu and Mendes(2012) State the more often individual investors invest in information, the more they trade in financial products. Abreu and Mendes results also confirm previous findings that overconfident investors, who show a better than average bias, trade more frequently. The strong and positive relationship between investment in information and intensity of trading in financial assets is sensitive to the sources of information used by investors, and that this influence is different for overconfident and non-overconfident investors. Abreu and Mendes confirms the positive correlation between actual knowledge and portfolio turnover. Söderberg and Wester (2012) said citizens who have more knowledge and are more interested in a specific topic will have a risk perception that is more similar to experts in the field; that is, they would not be the first to act rashly. Because the effects of knowledge on behaviour have been previously discussed in the literature

**Knowledge acquisition and integration in Financial Behaviour:** There are many factors can explain the variation in actual portfolio and trading choices. Dorn and Huberman (2005) state that risk aversion is the single most significant determinant of both portfolio diversification and turnover, investors who report being more risk tolerant hold a smaller amount diversified portfolios and trade more aggressively. Less knowledgeable investors also tend to churn poorly diversified portfolios. The effect of perceived knowledge on portfolio choice is less clear cut, investors who think themselves knowledgable about financial securities indeed hold better diversified portfolios, but those who think themselves less knowledgable than the average investor churn their portfolios more. Hilgert and Hogartt, (2003) article explores the connection between knowledge and behaviour—what consumers know and what they do—focusing on four financial management activities. In this study, the correlation between sources of financial knowledge and financial practices was found to be significant.

Individuals make flawed and biased decisions and that one solution to this problem is to increase knowledge and make lay people less emotional and more literate on matters of risk. Pixley (2010) said although knowledge are not fully controllable, behavioural finance proves conclusively that knowledge are involved in decisions, its early tendency to focus on biases and errors in probability gave little spacetoo the problem that it is not possible to predict the future. It highlighted decision-making in the short-run too much. The 'bias' towards 'over-confidence' among experts is a very useful finding and includes opinions about a grim future. Knowledgeable investors who make informed choices are essential to
develop effective and efficient marketplace. In classical economics, informed investors provide the checks and balances that keep dishonest sellers out of the market. For example, buyers who know the full range of mortgage interest rates and terms in the marketplace, who understand how their credit-risk profile and personal situation fit with those rates and terms, and, consequently, who can define which investment is best for them make it difficult for unfair or deceptive investors to gain a position in the marketplace. Evidence of a positive link between financial knowledge and financial behaviour, and how a lack of basic financial literacy among investors has also been documented Gerardi et al. (2010). Söderberg and Wester (2012) conclude that investors think it is important to have knowledge of the field of finance that perceive such high risks that they decide to buy and sell all their investments or completely change bank. Instead of informing all citizens about general consumer protection in a financial crisis situation, it might make more sense to identify the group that is most likely to act rashly and direct relevant financial knowledge more specifically toward it. This finding is an important argument of the requirement for the improvement of financial knowledge programs.

**Knowledge transfer in Financial Behaviour:** Stock market experts seem to be very confident of their knowledge and skills irrespective of positive or negative economic conditions. The results collected in Zaleskiewicz (2011) research disclosed that the financial analysts were more confident than the amateurs when making both the stock market and the exchange market forecasts. In addition, the variations in confidence were much greater than changes in accuracy and even if the difference in accuracy was not significant, the confidence level among the experts was still higher. These outcomes are in contrast with the assumption that making judgments during a financial crisis decreases confidence. Most efficient market models of capital markets presumed the market place were either consist of and controlled by rational traders who, by definition, prized securities based on the net present value of future earnings flows discounted by the investment’s risk characteristics, Bromiley and James-Wade (2003). Rational in this usage refers to an economics sense of rationality in which actors choose from all available alternatives the one that maximize expected value or utility. Finally, these models assumed markets were in equilibrium, meaning no trader could act individually to improve his expected returns above an expected market return.

Thus, the dominant finance models assumed rational investors competed in an efficient market where information transfers extremely quickly. All market participants will have ability to gain full knowledge of publicly available information. These conditions lead to a probability that no rules could exist that would provide above average risk-adjusted returns. Within the capital asset pricing model, the assumptions lead to the prediction that risk, measured by beta, would provide the primary, if not only, explanation for systematic differences in stock returns, Bromiley and James-Wade (2003). A clear distinction must be made between information, which is basic, and true knowledge assets, which can only arise within the framework of an intelligent system. Today’s investment environment is more complex because we now need to attend daily to the increase in the number of subjective knowledge items. Knowledge management represents one response to the challenge of trying to manage this complex system, information-overloaded investment environment. Simon (1976) first offered bounded rationality theory as a limited or constrained rationality to explain human decision making behaviour. When challenged with a highly complex world, the mind constructs a simple mental model of reality and tries to work within that model. It is important to develop the KM cycle with clear and detailed description of how people memory is put into use in order to generate value for individuals or groups in the practice area especially for stock investment. Knowledge creation widens the spectrum of potential choices in decision making by providing new knowledge. Decision making is situated in rational decision-making models that are used to identify and evaluate alternatives by processing the information and knowledge collected to date. Effective knowledge management necessitates user to recognize, generate, acquire, diffuse, and capture the benefits of knowledge that deliver a strategic advantage to the Investor.

**Summary and Proposition:** Financial knowledge were found to be statistically significant for particular financial practices, Hilgert (2003). The relationships between specific financial knowledge scores and the corresponding financial practices indexes were statistically significant. Knowing investment and financial stuff was correlated with having higher index scores for credit management, saving, and investment practices respectively. This pattern may indicate that increases in knowledge and experience can lead to improvements in financial practices, one way to increase knowledge is to gain experience. This research describes how the major phases involved in the knowledge management cycle, encompassing the capture, creation, codification, sharing, accessing, application, and reuse of knowledge within and between the investment behaviour. This more representative view put forward investors ought to recognize market
inefficiencies and develop best practices that enable effective knowledge creation, storage, organizing and sharing and transfer, thereby empowering their profit and competitive advantage.

Reference


