Global Journal of Business and Social Science Review

GJBSSR

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Global Journal of Business and Social Science Review (GJBSSR) best practices in finance and accounts diversity, research, academia and social sciences. It is directly beneficial for research scholar, academicians, trainers, policy makers and finance professionals. The journal publishes high quality research papers in business, social science and their interface. All empirical methods are included but not limited to, qualitative, quantitative, experimental, and combination methods.

GJBSSR provides a forum for exchange of knowledge among academicians and researchers for advancement of research in financial management. We prefer empirically oriented papers, but do not exclude review articles or theoretical contributions provided that they are of high quality and relevant to the journal’s aims. Among empirical papers, we prefer those that are relevant to a broad international audience, i.e., papers covering a range of countries or analysing topics that are clearly relevant outside a single country.

The purpose of GJBSSR is to improve communications between, and within, the academic and other research communities and policymakers. Operational decision makers at financial institutions - private and public, national and international, and their regulators.

GJBSSR accepts submission of mainly four types: original articles, short communications, reviews, and proposals for special issues.

Objectives

GJBSSR aims to persuade Malaysian academic journal publishers to publish their journals on the web and to enhance access to the contents of their journals to the worldwide community, in addition to develop the visibility of contents, consequently, hopeful convention moreover generating credentials to articles published.

Scope

Areas relevant to the scope of the GJBSSR include: Accounting, Law, Finance, Education, Banking, Political Science, Economics, Psychology, Management, Communication & Culture, Marketing and Society.
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Foreword

Global Journal for Business & Social Science Review (GJBSSR) is a refereed international quarterly journal having an advisory panel from world’s leading universities and business schools. The journal welcomes articles in all areas of Management and Business. Both theoretical and applied manuscripts are considered for the journal. The journal employs double blind and peer reviewed process. The primary goal of GJBSSR is to provide opportunities for Academicians and Corporate leaders from various business related fields in a global realm to publish their paper in one source.

In order to bring quality to the published work in GJBSSR, we have established an internationally renowned large Editorial Board, consisting of excellent scholars and well-qualified subject specialists. This is to ensure that the research published is filtered through double-blind peer review process thus bringing accuracy, clarity and quality to the work published.

This issue contains 45 articles. The authors of these articles come from different countries, namely, Britain, Australia, Indonesia, Malaysia, Bangladesh. The articles cover a wide range of topics, from Accounting, Finance, Banking, Marketing, Economics, Management, Law, Education, Political Science, Communication & Culture, Psychology and Society.

I sincerely hope that this journal will contribute to furthering business and social sciences research by exploring alternative methods, frameworks and issues, and delegates’ career development in particular.

Furthermore, the GJBSSR is getting more international each year, which is an indicator that is getting worldwide known and recognized. Scholars from all over the world contributed to the issue of the journal. Special thanks are to all the reviewers, the member of international editorial board and editorial staff.

I hope that you will enjoy reading the papers.

Best regards,

Editor In Chief
Kashan Pirzada, CA, MBA, MA, MS, PhD.
Global Academy of Training & Research (GATR), Malaysia.

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An Investigation of Credit Risk Management Strategies of Private Commercial Banks of Bangladesh

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ABSTRACT

Objective: The study aims to investigate credit risk management practices and credit risk management strategies of the local private commercial banks in Bangladesh.

Methodology: The investigation is conducted based on primary data collected from a set of both closed end and open end questionnaire from 23 out of 39 local private commercial banks in Bangladesh. Descriptive statistics has been used in processing the data and interpreting the results.

Findings: The results reveal that credit risk management practice of the sample banks is sound which is attributed to the appropriate implementation of Basel II and credit risk management guidelines the country’s central bank. The findings further show that use of Credit risk grading is most popular and effective criteria for measuring the borrowing capacity of the borrowers. In order to control credit risk and preventing losses from credit exposure banks give more focus on collateralization, accurate loan pricing and third party guarantee. Loan is monitored properly and credit reminder is given to the client if principal and interest remain outstanding for three months. The study further reveals that lack of experienced and trained credit officers, lack of genuine market information and Lack of awareness regarding non-genuine borrower are the most important problems of current credit risk management practices in Bangladesh.

Novelty: To the best of the knowledge of the authors the study is the first that investigates credit risk management strategies of private commercial banks, especially on Bangladesh.

Type of Paper: Empirical

Keyword: Bangladesh; Commercial Bank; Credit Risk; Credit Risk Management; Credit Risk Management Strategies.

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1. Introduction

Risk is inherent in all sorts of commercial banking operations of which credit risk is considered as most important one (Al-Tamimi and Al-Hazrooei, 2007; Hassan, 2009; Alam and Masukujjaman; 2011; Mileris Hassan and Al-Ajmi, 2012). Credit risk arises with uncertainty of borrowers’ inability to fulfill their commitment to the bank due to their worse economic condition or otherwise. It accounts for 84.9 percent of total risk elements of a bank (Bangladesh Bank, 2014) and more than 80 percent of Balance sheet items are also exposed to it (Van Greuning & Bratanovic, 2009). In addition, the recent studies (Kraft and Jankov, 2005; Hakenes and Schnabel, 2010; Chaplinska, 2012; Mileris, 2012; Romanova, 2012; GAO, 2013) reveal that poor lending quality or implementation of inappropriate credit risk management strategies is the main reason of recent global financial crisis. The problem of lending quality often begins right at the loan application stage (Liukisla, 1996) and increases further at the loan approval, monitoring and controlling stages, especially when credit risk management guidelines in terms of policy and strategies for credit processing do not exist or weak or incomplete. Recognizing the crisis effect of credit risk and providing an extensive guidelines for managing credit risk, Basel Committee on Banking Supervision adopted the Basel I Accord in 1988, followed by the Basel II Accord in 2004 and in recent times by the Basel III accord by experiencing the loopholes of previous accords to deal credit risk during the financial crisis (Ouamar, 2013; Jayadev, 2013).

Credit risk management is a vital part of bank management as the survival of the banks depends on it. The main objective of the credit risk management is to keep credit exposure to a manageable extent and to optimize the risk adjusted return rate by tightening credit standards. Because, credit exposure is the source of both profitability and credit risk of the banks. In prudent credit risk management banks need to take consideration credit exposure involved in both credit portfolio and individual credit. Besides, it is also needed to consider its relation with other types of risk exposures such as liquidity risk, operational risk and market risk. Indeed, the overall risk management system of the banks depends on the efficiency and effectiveness of the prudent implementation of credit risk management.

Banking sector of Bangladesh consists of 56 banks of which 4 state owned commercial banks, 4 development financial institutions, 39 private commercial banks and 9 foreign commercial banks with 8685 branches across the country. Here, banking plays a vibrant role in ensuring sustainable economic growth with continuously six percent plus gross domestic product in the last decade by expanding its network in rural Bangladesh. Liberalization and globalization in the banking industry brought advancement in technical adoption, quality and quantity in banking operations in the country in recent years. Following the adoption of Basel accords and core risk management guidelines of Bangladesh Bank, banking industry of Bangladesh could avoid the effect of global financial crisis during 2007-2009. But, dependency of bank borrowing of the country has increased from 2010 due to capital market shock in recent years. As a consequence, the aggregate nonperforming loan ratio\(^1\) of banks has increased from 6.1 percent in 2011 to 13.2 percent in the third quarter of 2013 and the ratio of bad loan to classified loan has also increased from 66.7 percent in 2012 to 78.7 percent in 2013 (Bangladesh Bank, 2013). This is the indication of degradation of lending quality and increase of the credit risk in the banking sector of Bangladesh which may adversely affect the profitability of the banks.

Investigation of banking risk management is not uncommon in the banking literature. Many studies already have investigated the risk management practices of the banks in recent years such as Al-Tamimi and Al Mozrooei, 2007; Hasan, 2009; Alam and Masukujjaman, 2011; Tafri et al., 2011; Khalid and Amjad, 2012; Hussain and Al-Amiji, 2012; Kozarevic, 2013. However, the investigation of credit risk management practices in emerging countries is very rare. Since Credit risk management is highly important for reducing problem loan and defending an economy from potential financial crisis, investigation of credit risk management practices of them is needed. Recognizing this importance, the study aims at investigating the

\(^1\) Percentage of Nonperforming loan to gross loan is considered as a proxy of credit risk.
credit risk management practices of commercial banks of Bangladesh so that banking regulator can suggest further regulations in order to reduce their credit risk and formulate a sound credit risk management framework. The study further investigate the strategies that commercial banks apply in managing their credit risk. In the investigation process the study conducts a survey on credit risk officers working for commercial banks in Bangladesh which significantly contribute to the scope of finance.

The study is decomposed into six sections. Where, literature review is presented in section 2, methodology is discussed in section 3, Analysis and findings is discussed in section 4 and section 5 reports the conclusion of the study.

2. Literature Review

Credit risk, mainly arises from loan commitments among the traditional off-balance sheet items of the bank (Khambata and Bagdi, 2003). This risk also arises from dealing of different financial instruments such as interbank transactions, foreign exchange transactions, acceptances, trade finance, financial derivatives, the settlement of transactions and the extension of commitments and guarantees (Basel 1999). Asymmetric information cause adverse selection and moral hazard in the credit market (Behr and Sonnekalb, 2012). Asymmetric information in the under developed financial sectors makes lenders unable to distinguish between safe and risky loan applicants and use of granted fund profitably and safely (Stiglitz and Weiss, 1981). The existence of commercial banks is subject to the ability of managing ex-ante and ex-post problems of information asymmetry. Credit risk management in the banking industry involves the process of identification of risk issues, assessment of risks by using borrowers financials and sophisticated models, monitor the activities of defined risk issues, and implementation of controlling measures by senior management to avoid or reduce the undesirable consequences of risks; and the process is implemented within the operational and the strategic structure of the bank (Basel, 2001; Rechard et al., 2008, Tafri et al., 2011). Basel (1999a) guided that effective credit risk management requires establishing an appropriate credit risk environment where board of directors approves credit policy and strategy and senior management implements these; operating under sound credit granting process by establishing well defined credit granting criteria; maintaining an appropriate credit administration of credit portfolio; measurement and monitoring process and ensuring adequate control over the risk.

In investigating banking risk management, Ouamar (2013) articulates the requirement of a sound risk management structure in order to reducing banking risk and improving performance. In another study, Aebi et al. (2013) reveals that sound reporting system between chief risk officer and board of directors reduce risk and improve performance significantly during the crisis period. Further, Ayayi (2012) find that sound good governance and application of both qualitative and quantitative tools requires in efficient credit risk management. In addition, Hussain and Al-Amji, (2012) consider risk identification, risk assessment, risk monitoring and control are the function of risk management practices.

Regarding credit risk management system, Richard et al. (2008) indicate credit risk management system comprises of credit risk policy and strategy where the facilitating factors are staff quality and modern technology, however, success of the system depends on the environment in which banks operate. In another study, Fatemi and Fooladi (2006) conform the main purpose of the utilization of credit risk model is credit risk identification. In relation to assess the borrowing capacity of the borrower, Crouhy et al., (2006) reveal the most traditional and also effective system is the consideration of both qualitative and quantitative information of the borrowers. Most specifically, Strischek (2009) show the Five Cs is the most expert systems in this connection where the five Cs are Character of borrower, Cash Flow of the firm, Capital of the firm, Collateral of loans and Condition of the business.

Rahman (2011) in his study of Credit risk management argued that every individual bank in Bangladesh should use Credit Risk Grading score sheet to identify the counter party credit risk before funding for the client’s business. In study on Credit risk management strategies for Malaysian financial institutions Fu Ho and Yusoff (2009) found that loan diversification,
risk mitigation, credit reminder, credit criteria, credit culture and staff training are the most popular strategies. Most recently Selvarajan and Vadivalagan (2013) suggested to Indian banking industry for improving assets quality of commercial bank that pre and post credit evaluation of loan approval should be done objectively and close monitoring of the borrowers’ account, site and factory visit are to be done regularly; banks must give due importance to apply right credit monitoring and controlling mechanism and banks also provide technical and consultancy service to the borrower whenever require.

Regarding tools of credit risk management, Fu Ho and Yusoff (2009) report that credit culture, credit criteria credit reminders, staff training, loan diversification and risk mitigation are the most effective credit risk management tools in Malaysian financial institutions. In another recent study Selvarajan and Vadivalagan (2013) advice Indian banking industry to make objective pre and post credit evaluation, close monitoring borrowers’ account, regular factory and site visit, application of right credit monitoring and controlling and technical and consultancy support to the borrower are needed in order to reduce banking credit risk. In another study, Rahman (2011) argues that every individual bank in Bangladesh should use Credit Risk Grading score sheet to identify the counter party credit risk before deciding to fund the borrowers.

3. Methodology

The study is based on primary data which have been collected through a structured questionnaire survey on the credit officers working for the local private commercial banks in Bangladesh. In order to investigate the perceptions of risk officers, we have used a modified questionnaire which have been used in the earlier studies by Al-Tamimi and Al-Mazrooei (2007), Hassan (2009), Fun Ho and Yusoff (2009) and Hussain and Al-Ajmi (2012). The questionnaire contains four parts. The first part deals with the respondents the information, the second part contains the statements in order to capture the credit risk management practices of commercial bank in Bangladesh. This part includes 12 statements based interval scale. Third part includes 57 statements based on ordinal scale capturing different credit risk management strategies. Here respondents were requested to specify their level of agreement in each statement on a five point likert scale. Last part includes open end question in order to identify the major problem in credit risk management practices.

The study is conducted on 23 out of 39 private commercial banks in Bangladesh which represents 59% percent of total banks. The banks are selected based on the value of their total assets. It has considered only those banks having total assets more than US$1000 million as of September 2012. The sample included 17 conventional banks and 5 Islamic banks. The survey has been performed in the branch offices of the sample banks located in Chittagong as Chittagong is the commercial capital as well as port city of Bangladesh and this city contributes lion’s share to the economy.

The targeted respondent was those who actively involved in credit risk management process; therefore, questionnaires were distributed to branch managers of the sample bank who have been requested to distribute to these to the officers working in the credit section. The authors distributed total 154 questionnaires (seven questionnaires in each bank), out of which 117 questionnaires were received. The screening process excluded 21 questionnaires due to high missing data and remaining 96 questionnaires were retained of which 66 from conventional banks and 30 from Islamic banks. The response rate of the questionnaire was 64 percent.

Total 96 questionnaires have been processed for determining the credit risk management practices of commercial banks in Bangladesh. Out of the total respondents 87.5 percent was male and remaining was female. The questionnaires were answered primarily by the bankers occupying mostly middle management position and above, and majority of the respondents (70.8 percent) posses experience more than five years and longer period. All respondents have higher academic degree. The majority of the respondents worked for conventional banks percentage of which as 68.8 percent and remaining was worked for Islamic banks. Nevertheless, 97.9 percent respondents had training on banking credit risk management.
Overall, we assure that he study conducted on the respondents who have sufficient knowledge about credit risk management practices of their banks.

4. Analysis and Findings

4.1 Credit Risk Management Practices

Credit risk management practices may be regarded as the most important feature of credit risk management. A bank may have proper credit risk management framework, effective credit risk management strategies, skilled manpower; these do not mean that the bank is managing credit risk effectively. There may have a gap between expected credit risk management and actual risk management practices which might lead a bank to fail. To capture credit risk management practices of local private banks in Bangladesh 12 statements were included in the questionnaire. The table-1 showing the descriptive statistics and the t-statistics of the statements.

Table-1: The table showing the responses to the statements regarding credit risk management practices in between local private conventional banks and Islamic banks in Bangladesh.

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<th>Mean</th>
<th>SD</th>
<th>Rank</th>
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<tr>
<td>1</td>
<td>The application of Basel II accord improved efficiency and risk management practice in my bank in particular</td>
<td>4.85</td>
<td>0.36</td>
<td>1</td>
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<tr>
<td>2</td>
<td>My bank is highly efficient in continuous review/ feedback on credit risk management strategies and performance.</td>
<td>4.74</td>
<td>0.53</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>My bank’s Credit risk management procedures and processes are documented and provide guidance to staff about managing different types of risk including credit risk.</td>
<td>4.77</td>
<td>0.51</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>My bank emphasizes the recruitment of highly qualified people who have knowledge of risk management pertaining to the types of risk</td>
<td>4.56</td>
<td>0.74</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>My bank policy encourages training programs in the areas of risk management as well as ethics.</td>
<td>4.66</td>
<td>0.63</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Senior management of my bank leads the Credit risk management from the top.</td>
<td>4.56</td>
<td>0.61</td>
<td>11</td>
</tr>
<tr>
<td>7</td>
<td>Credit risk management division and credit administration division performs their activities separately.</td>
<td>4.46</td>
<td>0.74</td>
<td>12</td>
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<tr>
<td>8</td>
<td>Law and recovery team monitor the performance of the loan.</td>
<td>4.71</td>
<td>0.68</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>It is too risky to invest my bank’s funds in one specific sector of the economy.</td>
<td>4.65</td>
<td>0.67</td>
<td>8</td>
</tr>
<tr>
<td>10</td>
<td>Bank takes initiatives to encourage the borrowers for rating by external credit assessment institutions.</td>
<td>4.73</td>
<td>0.57</td>
<td>4</td>
</tr>
<tr>
<td>11</td>
<td>Credit Risk management techniques are used as management tools.</td>
<td>4.69</td>
<td>0.65</td>
<td>6</td>
</tr>
<tr>
<td>12</td>
<td>Bank maintains the provision and suspension of interest.</td>
<td>4.63</td>
<td>0.67</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>4.67</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The average mean scores are in between 4.85 to 4.46 and average mean score is 4.67 which is more than the mid-point of five point Likert scale. This indicate that private commercial banks are managing credit risk effectively. Highest average mean score 4. 85 is found in the first statement the application of Basel II accord improved efficiency and risk management...
practice in my bank followed by the third statement My bank’s Credit risk management procedures and processes are documented and provide guidance to staff about managing different types of risk including credit risk. The third highest mean average is found in the statement expressed in my bank is highly efficient in continuous review/feedback on credit risk management strategies and performance. The fourth highest mean score is found in the statement Bank takes initiatives to encourage the borrowers for rating by external credit assessment institutions. The findings reveal that Basel II accord implemented in the banking industry properly and brought positive changes in managing credit exposures and improving lending decision quality of the banks in Bangladesh.

4.2. Credit Risk Management Strategies

Commercial Banks in Bangladesh found to use different strategies such as credit criteria, credit risk mitigation, collateral, credit reminder and loan recovery in credit risk monitoring and controlling.

4.2.1 Credit Criteria

Borrowing capacity is determined using specific credit criteria. Table-2 showing the list of credit criteria that commercial banks take consider in assessing the credit risk. The nine credit criterion is considered and listed in the questionnaire. It is found that the average of mean response is 4.63 which is more than mid point (3) of 5 point Likert scale indicating that Bankers in Bangladesh are very concerned about the different types of credit criteria to determine the credit worthiness of the borrowers.

Table- 2: The table showing the response of credit criteria considered by local Private Commercial Banks in Bangladesh

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Frequency of 5</th>
<th>% of whole sample</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Risk Grading (CRG)Sheet</td>
<td>96</td>
<td>100</td>
<td>5.0</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Character, Reputation and credit history of applicant(s).</td>
<td>85</td>
<td>88.5</td>
<td>4.85</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Experience and depth of the business.</td>
<td>72</td>
<td>75</td>
<td>4.69</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Strength of the business</td>
<td>80</td>
<td>83.3</td>
<td>4.60</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Past earning, projected cash flow and future aspects</td>
<td>80</td>
<td>83.3</td>
<td>4.71</td>
<td>3</td>
</tr>
<tr>
<td>6</td>
<td>Ability to repay loan with earning from business</td>
<td>65</td>
<td>67.7</td>
<td>4.58</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Sufficient invested equity to operate on a sound financial basis</td>
<td>54</td>
<td>56.3</td>
<td>4.46</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Potential for long term business success</td>
<td>66</td>
<td>68.8</td>
<td>4.56</td>
<td>7</td>
</tr>
<tr>
<td>9</td>
<td>The effect of any business affiliates may have on the ultimate payment ability of the applicant</td>
<td>40</td>
<td>41.7</td>
<td>4.21</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td></td>
<td></td>
<td>4.63</td>
<td></td>
</tr>
</tbody>
</table>

Highest mean and highest frequency of most used criteria is found for CRG sheet preparation which is 5.0 and 100% respectively. Therefore, it can be said that every commercial banks prepare CRG using specific software for measuring borrowing capacity of the applicant. Then respondents give priority to client’s personal attributes, past earnings, projected cash flow and future aspects of the business of the applicant followed by experience and depth of the business.
4.2.2. **Credit risk mitigation techniques:**

Credit risk mitigation includes different techniques for controlling and preventing loss from credit exposures. Commercial banks use different credit risk mitigation techniques of which six techniques were listed in the questionnaire. Respondents were asked to choose most frequently used risk mitigation technique in a five point likert scale (from least used to most used). The result has been shown in table-3 the average mean responses of different credit risk mitigation techniques is 4.19 which indicates that commercial banks in Bangladesh are very strict and prudent in enforcing risk mitigation techniques to prevent losses due to default of the borrowers.

Table-3: The table showing the responses of credit risk mitigation techniques of conventional and Islamic banks in Bangladesh.

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Frequency of 5</th>
<th>% of whole sample</th>
<th>Mean</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Loan pricing</td>
<td>56</td>
<td>58.3</td>
<td>4.45</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Collateralization</td>
<td>68</td>
<td>70.8</td>
<td>4.52</td>
<td>1</td>
</tr>
<tr>
<td>3</td>
<td>Guarantor</td>
<td>62</td>
<td>64.6</td>
<td>4.45</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Securitization</td>
<td>38</td>
<td>39.6</td>
<td>4.04</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Syndication loan</td>
<td>24</td>
<td>25.0</td>
<td>3.70</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Insurance</td>
<td>38</td>
<td>39.6</td>
<td>4.03</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td><strong>4.19</strong></td>
<td></td>
</tr>
</tbody>
</table>

The table showing that most of the respondents favor some form of collateralization with cash or assets. Other than that, they also focus on accurate loan pricing, accept guarantee by third party, securitization, loan syndication as instruments of risk mitigation credit risk mitigation techniques.

4.2.3. **Collateral**

Every individual borrower required by the Banks to pledge an asset as security for loan. Respondents were asked to choose from least preferred to best preferred securities collateral of loan in a five point Likert scale. Table-4 shows the types of securities that commercial banks in Bangladesh prefer from their individual borrowers.

Table- 4: The table showing responses of types of securities as collateral by the bankers in Bangladesh from individual borrowers.

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Frequency of 5</th>
<th>% of whole sample</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Share</td>
<td>22</td>
<td>22.9</td>
<td>3.21</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Assets(Building/flat)</td>
<td>81</td>
<td>84.4</td>
<td>4.67</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Land</td>
<td>82</td>
<td>85.4</td>
<td>4.75</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Cash deposit</td>
<td>76</td>
<td>79.2</td>
<td>4.60</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Life insurance policy</td>
<td>22</td>
<td>22.9</td>
<td>2.96</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>Jewelry</td>
<td>14</td>
<td>14.6</td>
<td>2.42</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>Debenture</td>
<td>54</td>
<td>56.3</td>
<td>4.23</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td><strong>3.83</strong></td>
<td></td>
</tr>
</tbody>
</table>
The table shows that commercial banks mostly prefer land as pledge asset with highest mean of responses. Besides the land, commercial bankers also prefer other assets like Building/flats. Respondents ranked third the cash deposit. The rankings of share, jewelry and life insurance policy are lower indicating that commercial banks do not prefer Jewelry, share and life insurance policy as collateral of loan from individual borrower.

4.2.4. **Credit Reminder**

Credit reminder is strategy of monitoring of individual credit exposures. Prompt and immediate reminder acts as a consistent screening device to prevent bad accounts and as an alarm system to attract officers attention for further action. Respondents were asked as a monitoring strategy of individual exposure, how frequently they remind their default clients after default of installment payment. The result of responses of the respondents is presented in table- 5.

Table-5 shows responses to the statements regarding credit reminder to default borrower as a monitoring strategy of commercial bankers in Bangladesh.

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Frequency of 5</th>
<th>% of whole sample</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>After 1-3 months default payment</td>
<td>81</td>
<td>84.4</td>
<td>4.76</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>After 6-9 months default payment</td>
<td>69</td>
<td>71.9</td>
<td>4.57</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>After 3-6 months default payment</td>
<td>44</td>
<td>45.8</td>
<td>4.00</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td></td>
<td></td>
<td>4.14</td>
<td></td>
</tr>
</tbody>
</table>

The result shows that commercial banks in Bangladesh usually provide credit reminder to their customer within 1-3 months default payment.

4.2.5. **Technique of loan recovery**

In case of borrowers’ default on interest or principal or both, banks need to take action to recover their losses. In order to determine the mostly used default loan recuperation strategy the questionnaire included six strategies and asked the credit officers to select them in a five point likert scale from least used to most used. The results of the respondents are listed in table-5.

Table -6: The table showing the responses to the strategies that bankers undertake to recuperate their loan

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Frequency of 5</th>
<th>% of whole sample</th>
<th>Mean</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Use collateral as security</td>
<td>92</td>
<td>80.2</td>
<td>4.65</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Public auction</td>
<td>74</td>
<td>36.5</td>
<td>3.74</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>Ask customer to pay loan without interest/profit</td>
<td>55</td>
<td>28.1</td>
<td>3.02</td>
<td>6</td>
</tr>
<tr>
<td>4</td>
<td>Sue customer by court</td>
<td>90</td>
<td>44.8</td>
<td>4.05</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Claim with insurance</td>
<td>67</td>
<td>33.3</td>
<td>3.40</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Use Special Recovery Team</td>
<td>92</td>
<td>58.3</td>
<td>4.35</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td></td>
<td></td>
<td>3.87</td>
<td></td>
</tr>
</tbody>
</table>
Average mean responses of the respondents is 3.87 and the mean responses are in between 4.65 to 3.02 and which are more than the mid-point of five point Likert scale. This means that commercial banks in Bangladesh take prompt actions for recovery of the defaulted loan. As recuperation strategy most bank use collateral assets as it has the highest ranking. Besides, banks also use special recovery team followed sue customer by court to recover the default credit. Banks hardly ask the defaulted borrowers to pay the loan without interest and bank which is evident from the lowest ranking. Moreover, sometimes banks perform public auction and claim insurance for settling the defaulted credit.

4.3. Problem of credit risk management practices

We include a section in the questionnaire to identify the most important problems in credit risk management practices. The responses to the question is presented in the table 7.

<table>
<thead>
<tr>
<th>SL</th>
<th>Problem</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lack of genuine credit information</td>
<td>50</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>Capital shortfall</td>
<td>32</td>
<td>33.33</td>
</tr>
<tr>
<td>3</td>
<td>Poor loan recovery</td>
<td>28</td>
<td>29.16</td>
</tr>
<tr>
<td>4</td>
<td>Lack of experienced and trained loan officer</td>
<td>71</td>
<td>73.4</td>
</tr>
<tr>
<td>5</td>
<td>Tagging social bond</td>
<td>20</td>
<td>20.8</td>
</tr>
<tr>
<td>6</td>
<td>Lack of laws to protect fraudulent borrowing and ensuring financial intelligence</td>
<td>18</td>
<td>18.75</td>
</tr>
<tr>
<td>7</td>
<td>Lack of borrower counseling</td>
<td>10</td>
<td>10.41</td>
</tr>
<tr>
<td>8</td>
<td>Weak liquidity management</td>
<td>12</td>
<td>12.5</td>
</tr>
<tr>
<td>9</td>
<td>Lack of awareness regarding non-genuine borrower</td>
<td>15</td>
<td>62.5</td>
</tr>
<tr>
<td>10</td>
<td>Inappropriate identification and rating of credit</td>
<td>11</td>
<td>11.45</td>
</tr>
</tbody>
</table>

The table indicates that lack of experienced and trained loan officers is the most crucial problem in credit risk management practice in Bangladesh as it is identified by 73.4 percent of loan officers followed by the lack of awareness of the non-genuine borrowers which is indicated by 62.5 percent credit officers: followed by lack of genuine credit information which is stated by 52 percent respondents. The remaining most important problems are capital shortage, poor loan recover, tagging social bond, lack of laws to protect fraudulent borrowing and ensuring financial intelligence, weak liquidity management, inappropriate credit identification and rating and lack of borrower counselling.

5. Conclusion

The study explores the credit risk management process of conventional and Islamic banks in Bangladesh. The study further identifies most effective risk management strategies that used in managing credit risk. Credit risk management data have been collected from 96 credit officers working 23 local private commercial banks in Bangladesh using a structured questionnaire. The study uses descriptive statistics in the investigation process. The findings
reveal that commercial banks are managing their credit risk efficiently. Based on the highest responses the study identifies that commercial banks are complying with Basel II and implementation of Basel accord brought positive changes in managing credit exposures and improving lending decision quality of the banks in Bangladesh. In addition, we investigate the popular credit risk management strategies that the sample banks use in their credit risk management. The findings show that use of Credit risk grading is most popular and effective criteria for measuring the borrowing capacity of the borrowers. In order to control credit risk and preventing losses from credit exposure banks give more focus on collateralization, accurate loan pricing and third party guarantee. Commercial banks prefer land, assets like Flat/Building and cash deposit as loan collateral. Loan is monitored properly and credit reminder is given to the client if principal and interest remain outstanding for three months. In the case of client default, commercial banks mostly use collateral to recover the loan. The study further reveals that lack of experienced and trained credit officers, lack of genuine market information and Lack of awareness regarding non-genuine borrower are the most important problems of current credit risk management practices in Bangladesh. In order to further improve the credit risk management the following policies may be recommended:

i) Central bank need to provide and monitor both short run and long run guidelines to the commercial banks and ensure that they are complying with these.

ii) Central bank need to ensure the availability of genuine market information regarding credit risk as well as other type of banking risk.

iii) Central Management information system can be established in order to ensure the availability of the information in the market.

iv) Banks need to give more emphasis on the recovery of problem loan which is considered as precondition of financial soundness. In order improve loan recovery and reduce the problem loan they may strengthen credit monitoring and controlling system.

Areas for further research:

The author tried in this study to cover most of the aspects of Credit risk management. However, this paper did not address in the challenges of commercial banks of Bangladesh in managing credit risk. This limitation can be addressed in future studies as credit risk management represents the most challenging risk. Further research may also consider analyzing liquidity risk management as liquidity position affects the continuity of commercial banks and a weak liquidity position might lead to the liquidation of commercial banks. Further research may also focus on Basel II and Credit risk management, one of the hottest topics in the banking industry. Finally, the study could usefully be conducted in another country, using the same methodology. Different and interesting results may be expected, because credit risk management practices are mainly affected by specific factors such as economic conditions, competition and regulations.

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The Protective Designation for Urban Conservation and Heritage Development in George Town, Penang

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ABSTRACT

Objective- Urban conservation refers specifically to the protection and preservation of the elements of urban heritage from being destroyed forever or from being restored without proper guidance, planning, control and management. The objective of this paper is to explain the urban conservation momentum in Malaysia, particularly in cities with outstanding historical, architectural and cultural heritage.

Methodology/Technique-Secondary data were collected from various sources of related documents, including official government publications and records. In findings, this research shows that urban conservation has been implemented co-jointly by the local authorities, Federal and State governments, Department of Museum and Antiquity, heritage trusts and other professional bodies in the country. In future research, the findings perhaps can help the restoration of historical areas and creating the visual contrast and excitement within the city.

Type of Paper: Conceptual

Keywords: Urban Conservation, Conservation Areas, Heritage, Protective Designation, Development Control.

1. Introduction

In Malaysia, the reigning of Portuguese, Dutch and British colonial powers for over 300 years have bared their marks significantly on the country’s town planning, commerce and administrative patterns. The unique colonial architectural styles of these buildings have played a major role in the creation of heritage cities throughout Malaysia such as the cities of George Town, Ipoh, Malacca, Taiping, Kuala Lumpur and Kuching. Historic buildings
usually provide significant physical characteristics of city. George Town and Malacca for instance, were part of the British Straits Settlements during the 19th century.

Traditionally, Penang Island has been a trading, commercial and Centerport center and continues to be a major growth center for the Northern Region of Peninsular Malaysia. During the early 1700’s British power in the East, Captain Francis Light of the British East India Company, dated 1789, favored the establishment of trading port in George Town. For many decades, people of various descents had migrated to the island; Europeans, Chinese, Indians, Bugis, Arabs, Armenians, Persians, Siamese, Burmese, Sumatrans etc. The consolidation of these wide-ranging cultural influences has manifested itself in the interesting array of British colonial architecture found in the city of George Town today. The island manages to embrace modernity while retaining its colonial traditions, due to its well-preserved heritage buildings. Penang’s capital, George Town, has been accorded a listing as a UNESCO World Cultural Heritage Site. Policy in relation to conservation and preservation of heritage is clearly stated under the Part II of National Heritage Act 2005, whereby subject to subsection 2, the Minister shall be responsible for providing or issuing policies, statements or directives in respect of any matter, business, strategy or conduct on the conservation and preservation of heritage. The Minister shall not provide or issue any policies, statements or directives under subsection (1) where the matter, business, strategy or conduct on the conservation and preservation of heritage concerns the power or jurisdiction of a State unless the relevant State Authority has been consulted.

This study, thus, aims to determine what is the protective designation, the provisions of law and guideline adopting by the City Council of George Town in order to control the development of the designated conservation areas, specifically, and the inner city of George Town, generally. These measurements are vital in order to build a lucid image and distinct identity of a heritage city which differentiates it from other regular cities elsewhere.

2. Literature Review

Conservation is enshrined as the process of managing change in ways that will best sustain the significance of a place in its setting while recognizing opportunities to reveal or reinforce its value for present and future generations. The Planning (Listed Buildings and Conservation Areas) Act 1990 defines a conservation area as an area of special architectural or historic interest, the character or appearance of which it is desirable to preserve or enhance. The areas are designated for a whole range of reasons. The one factor common to all designations is that they are based on areas, not individual buildings, whether listed or not. The historic spaces within these areas are just as important as the built heritage (English Heritage 2007, in Ratcliffe, Stubbs & Keeping, 2009). The heritage as been viewed as not just historic bricks and mortar, but as fundamental to the quality of life, to achieving sustainability, promoting urban regeneration, as well as making a key contribution to economic and social well-being (Ratcliffe, Stubbs & Keeping, 2009).

The characteristics of a city differ from one to another. While the cities of Europe and North-America formed within more or less similar societies, based on similar cultural concepts and ideologies, the cities of Southeast Asia have their own distinct history of diversity stemming from their position as nodes in long-distance trading networks or of cultural flows from India and China (Evers & Korff, 2000). Castells (1983) argues that “cities like all social reality are historical products, not only in their physical materiality, but in their cultural meaning” (Castells, 1983: 302).

The urban planners and the architects are integrated into the relations of production of space and the struggle among strategic groups (Ruland, 1996). In Singapore, urban resources are monitored at the urban policy level, with focus mainly on their heritage value. The government makes organizing efforts to restore heritage buildings and give them a new lease of life. For instance, the Waterloo Art Belt, instigated by the National Arts Council under the telling slogan ‘Developing a distinctive global city for the arts’, represents an attempt to instigate a local creative hub, by promoting art institutions such as museums, galleries and art
schools, situated in the center of the city with a number of rejuvenated colonial heritage buildings (Limin Hee, Davisi Boontharm & Erwin Viray, 2012). From the economic perspective the development of cultural industries can help create employment opportunities and diversify the structure of the local economy (Pacione, 2009 & Richardson, 1992: 148 in Parker, S., 2004: 167).

The plea for sustainable urban development, which directly addresses various social and environmental problems caused by immense urban growth, is a widely accepted and supported model all over the world today. However, according to Raquel Pinderhughes (in Limin Hee, 2012), most planners and policymakers continue to support uncontrolled expansion of unsustainable economic and urban activities infrastructure development and overwhelming consumption of limited natural resources. A study in Virginia revealed that visitors coming to historic areas tend to stay longer, visit twice as many places, and, on a per trip basis, spend two and a half times more money than other types of tourists. Preservation has continued to grow as a primary force in tourism development (Norman Tyler & Robert M.Ward, 2011). These have the power to regulate changes to historic structures in designated historic districts. Inclusion in a regulatory historic district provides protection against inappropriate changes to properties, helps stabilize property values, and counters deterioration. It also makes owners eligible for financial incentives, especially through tax credits for rehabilitation costs (Norman Tyler & Robert M.Ward, 2011).

3. Research Methodology

Secondary data were collected from various sources of related documents, including official government publications and records, such as the Laws of Malaysia, State Structure Plan and other related references whereas the primary data were gathered through site visits, observation and photographic recording of physical characteristics of buildings and areas, with the permission of the house owners and relevant authorities. Five distinct areas were identified for the study, each zone having different characteristics:

- Zone 1: Area bounded by the fronting Brick Kiln Road, Magazine Road and C.Y.Choy Road.
- Zone 2: Area bounded by and fronting Leith Street, Farquhar Street, Pitt Street and Chulia Street.
- Zone 3: Area bounded by and fronting Pitt Street, Light Street, Pantai Street and Chulia Street.
- Zone 4: Area bounded by and fronting Pantai Street, Downing Street, Pengkalan Weld and Gat China Street.
- Zone 5: Area bounded by and fronting Carnavon Street, KampungKolam Road, Pitt Street, Chulia Street and Dr. Lim Chee Leong Road (previously known as Prangin Road).

The data was analyzed using descriptive analysis, photo interpretation as well as policies/strategies evaluation.
4. Results and Discussion

4.1 Protective Designation

The protective designation (Relevant Legal, Regulatory, Contractual, Planning, Institutional and Traditional Status of the Property) for Georgetown confines to the common principle of practice that are undertaken by the various government agencies from the recently established Department of Heritage, the Department of Museum (both within the Ministry of Culture, Arts and Heritage), the Department of Town and Country Planning and various local authorities (both within the Ministry of Housing and Local Government) in the whole of Peninsular Malaysia, played very important roles in maintaining and safeguarding the heritage entities within the country. Each of the department has within themselves operative measures govern by respective legislations and procedures:

1. The Antique Act 1976, Act 168

The Antique Act was drawn to provide for the control and preservation of, and research into ancient and historical monuments, archaeological sites and remains, antiquities and historical objects, and for all that is related to those aspects. The power and control is delegated to the Department of Museum and Antiquity to carry out the necessary procedures for declaration, acquisition and protection of ‘ancient monument’, ‘antiquity’, ‘historical object’, ‘historical site’ and ‘monument’ which are and ‘are reasonably believed to be at least one hundred years old or which is declared’ (or gazette by the Ministry responsible for the museum) ‘to be ancient museum’ (Section 15-1 and 15-2). The ‘ancient monument’ is defined as any monument which is or reasonably believed to be at least one hundred years old or which is declared as one.

2. Town and Country Planning Act 1976, Act 172

The Town and Country Planning Act is a law governing the urban and rural planning mechanism providing a comprehensive system of control and guidance for application in Peninsular Malaysia. Several sets of amendments were made from 1993 up to 2005. In 1995
and 2001 several amendments were made to include several outstanding procedures and regulations indirectly affecting the urban heritage conservation exercises. The 1995 amendment known as A933 introduces three important sections to include a compulsory submission of the Development Proposal Report, recognizing the role of urban planners to draw up development plans and the inclusion of a new section embodying the Tree Preservation Order. The 2001 amendment improves the preceding provisions by the inclusion of new items such as, the establishment of the National Physical Plan, the need for Structure Plan reviews and the preparing, reviewing and amending Structure Plans and most importantly, the inclusion of a section dealing with the preparation of Special Area Plan.

3. Local Government Act 1976, Act 171

The Act was drawn to regulate the functions of local authorities in Peninsular Malaysia and to provide ample powers for them to carry out their specific duties. In many respects [this Act compliments the Act 172 and Part XII Section 101©(iv) of the Act provides local planning authorities the power to contribute to maintaining historic buildings or sites and the power to acquire land for the specific purpose for maintaining a building or historic site. The content of this section is very much similar in context to those provided in Act 172. The Act also applies to the preservation of heritage buildings as it enables local authorities to raise or receive grants toward the establishment and maintenance of public monuments and memorials, art galleries and museums.


National Heritage Act 2005 is ‘An Act to provide for the conservation and preservation of National Heritage, natural heritage, tangible and intangible heritage, underwater cultural heritage, treasure trove and for related matters’. Unlike the Antiquities Act 1976, this Act does not limit heritage to properties for 100 years and above, and there is no ‘age’ specified, for example, all the old towns built by the British should be preserved as a heritage. The Act clarifies the management of heritage in the country and recognizes, for the time, a specialized management unit under the Ministry of Culture, Arts and Heritage.

Under the new Act, there is a provision for the establishment of a Heritage Fund (Part V) which is to be controlled by the Commissioner for the purposes of purchasing heritage and conservation areas, expenses incurred for conservation and preservation including organizing campaigns, research, study, publication of materials etc. and grant or loan. Nine committees were recently formed by the Commissioner in reviewing the list of Heritage Buildings in the whole country.

5. Guidelines for Historical and Cultural Enclave

The guidelines for heritage buildings and building ensembles (Category I and II) shall apply where such building for preservation/conservation. The existing street pattern, external courtyards and space shall be preserved. Any redevelopment where permitted shall be designed for similar architectural style and character of the original buildings within the enclave. It shall comply generally with guidelines for development within conservation areas. The adaptive reuse of buildings from residential to other more economic uses, particularly those related to traditional, social, institutional and commercial activities and which will attract tourists will be encouraged. For the purpose of this paper the results and discussion will only be examined and analyze on Zone 1 and Zone 5 of the study areas.

5(i) Characteristics of Conservation

a) Description of Areas

Zone 1 is the area immediately adjacent to the KOMTAR comprehensive development plan of the urban renewal program undertaken by the State Government since 1980’s. The area is
characterized by a mixture of traditional double store shop house rows and terrace houses. Although the area is predominantly residential, there are also shop house type offices, cottage industries and motor repair shops. The area contains some of the most unique examples of the style of architecture prevalent during the early 1900’s. (figure 2,3 &

Zone 5 is a clan established settlements and distinct residential neighborhood’s adjacent to the historical district. This has resulted in a very unique character of courtyard planning of groups of terrace houses surrounding ‘kongsi’ or clans houses. The most well-known of these clans is the building at Cannon Square around the ‘KhooKongsi’. Along Carnavon Street, LebuhMelayu and LorongPrangin consists of rows of double storey terrace and shophouses, and also offices.

b) Historical and Architectural Considerations

This area of Zone 1 was appearing on a map of George Town dated as far back as 1883. The design of the terrace and shop houses depict the popular styles of the period in which they were built, for example, those built in the early 1920’s along Magazine Road, graduating to those of the early 1940’s along Cecil Street and Herriot Street. The preservation of these shop houses provided a historical link in the development of terrace and shop houses architecture in the city of George Town within twenty years period.

The uniqueness of terrace and shop houses in George Town is in the eclectic mixture of Chinese, Malays, European and colonial elements. Some of the distinctive Chinese characteristics is in the courtyard planning of the house interiors, the rounded gable end of the pitched roofs, the use of the granite in the corbels, column bases and verandah floor edgings, as well as in the fan-shaped or bat-wing shaped air vents above the first and ground storey windows respectively. In certain instances, Malay influences can be seen in the carved timber panels used as fanlights above windows, as well as in the timber fretwork for balustrades, eaves and fascia boards. The European influences can be seen in the louvered shutters, the French or Venetian windows sometimes used in the upper floors, the decorative plasterwork and the paneled main doors.

The existence of Zone 5 (LebuhAcheh, LebuhMelayu and Lebuh Armenian) in the map of George Town dated 1803 indicates the very early historical settlements origins of this area. The street names reflect the early inhabitants; the first Arabs in Penang settled in LebuhAcheh. They were predominantly Hadramant Arabs, and largely traders who formed an elite group of the Islamic community in the country. In every Arab settlement on the island, an Arab landmark either in the form of a mosque or a school, though both are often related, remains to this day. In the area of LebuhAcheh, stands the Malay Mosque (Jamek) LebuhAchehLebuhAxheh which is one of the notable mosques erected by the Arabs, built in 1808 by Syed Sheriff Tengku Syed Hussain Al-Aidid. Besides the Arabs, the Chinese who immigrated to Penang also settled in this area. They brought with them their rich culture, traditions and customs. The Kongsi or Clan Houses, being a symbol of unity amongst members of a Clan and the centre of workship, welfare work and the conducting of Clan affairs, reflect as a form of institutions and practices to be continued in the new land. Some of
the prominent Clan Houses still standing today include the Khoo Kongsi (1835), Cheah Kongsi (1801), Tan Kongsi (1830), Lim Kongsi (1863) and Yeoh Kongsi (1840). The Konsi temples for example, have identified Chinese origins in the use of the two-side hall form, the Chinese joint brackets carved wooden figures, the roof bracket systems, and painting on timber.

5(ii) Guidelines for Conservation and Development Control

a) Guidelines for Heritage Buildings and Building Ensembles

The guidelines for Heritage Buildings and Building Ensembles (Category II) by City Council shall apply to the study area. The existing external appearance of the building shall be preserved and no alteration to any part of the façade shall be permitted, other than works necessary for restoring it to, and maintaining it in, a proper state of repair. Partial site redevelopment may be permitted depending on the situation and any additional or extension to the existing building shall only be permitted depending on the merit of the proposal. However, interior alterations shall be permitted subject to approval from the Council. Adaptive re-use of the building shall be permitted so long as the appearance of the building is not impaired. Any roofing shall be of the original material or material close to the original, and no mechanical ventilation or part thereof shall be visible from the street.

b) Guideline ‘A’ for Development Within Conservation Areas

The guidelines ‘A’ for development within this conservation areas consists of seven categories, namely as building height, roofing, building façade, verandah ways, windows, materials and others. The height of any new development shall not be more than 16.0 meters measured from ground level to the eve of the roof. Cable roofs shall be provided and shall conform to the pitch of existing adjacent buildings, and the roofing materials shall be of tiles or of similar material. For building façade, the height of each floor shall be in line with that of adjacent buildings, or if the heights of the existing buildings in the row are not uniform, they shall conform to the average floor height for the row of buildings as determined by the Council. For a development on more than one existing building lot, or with a frontage exceeding 12.0 meters, the façade treatment shall create an impression of an ensemble of buildings or shop houses with widths similar to those of existing adjoining buildings.

The guideline ‘A’ also stated that verandah ways shall be provided if the building abuts on any street. The floor level and a height of verandah ways shall be in line with those of existing adjoining buildings, or if the floor level and a height of verandah ways in the existing buildings in the row are not uniform, they shall conform with the average level and height as determined by the Council, and the height of verandah ways shall not be more than one storey high. Under the same provisions of this guideline, the size and proportion of windows shall be compatible with those of existing adjoining buildings, and arched or segmental arched windows which echo that of existing ensembles are encouraged.

c) Guideline ‘B’ for Development within Conservation Areas

Guideline ‘B’ for development within these conservation areas consists of five categories, namely as building height and form, building façade, verandah ways, materials and others. For a development on an existing lot, or with a frontage of 12 meters or less and with a land area of 464.5 sq.m (5,000 sq. ft) or less, the height of the new development shall not be more than 16.0 meters measure from the ground level up to the eve of the roof. A development on an existing lot or lots with a frontage exceeding 12.0 meters and with a land are the present guidelines for control of plot ratio for commercial, hotel and mixed developments and control of density for residential developers. If the development exceeds 16.0 meters in height, the development shall be in the form of a podium block not higher than 16.0 meters with the rest of the building above the podium set back at least 3.0 meters from the building line. The façade shall emphasize both vertical and horizontal elements. The guidelines for verandah
ways, materials and others in this guideline are found similarly as what have been provided under the Guideline ‘A’, as discussed above.

Guidelines for Heritage Buildings and Building Ensembles (Category I) applied for Zone 5. The guidelines provided that no demolition, alteration or extension of the building other than development or works necessary for restoring it to, and maintaining it in, a proper state of repair. This guideline shall apply to the following buildings: Kapitan Kling Mosque (Lebuh Pitt), Yap Temple and Cheah Kongsi (Lebuh Armenian), Hock Teik Cheng Sin Kongsi and Leong Sun Tong Khoo Kongsi (Lebuh Cannon), Masjid Melayu (Lebuh Acheh), Teochew Kongsi (Lebuh Chulia), Lim Kongsi, Tan Kongsi and Central Fire Station (Lebuh Cannon). The Guidelines for Heritage Buildings and Building Ensembles (Category II) apply to all buildings in Lebuh Cannon and Cannon Square, row of terrace houses in Lebuh Armenian, Lebuh Acheh, Lebuh Pantai, Lorong Toh Aka and Halaman She Tan. The guidelines ‘A’ and ‘B’ for Development within Conservation Areas shall also apply to the area designated as historical and cultural enclaves in Zone 5, as applicable in Zone 1.

5. Suggestions and Conclusion

Conservation of built heritage is one of the elements of urban planning and development practices. The restoration of historical areas adds variety to streetscapes and modulates the scale of urban fabric, creating the visual contrast and excitement within the city while protecting the important representations of the past. It adds to the distinctive character and identity of the city, giving it a sense of history and memory of the place. Penang’s heritage buildings are selected for conservation based on their historical and architectural significance, rarity in terms of building types, styles, and their contribution to the overall environment. The declaration of George Town as a living heritage city remarks the continuous and consistent efforts ensuring stringent management of heritage controls in order to maintain the site over the long term and provides access to global preservation expertise.

The main problem of heritage conservation in the study area is the building’s owner demolished their building without informing the local authority, and they declared not knowing about the laws and guidelines of heritage buildings. Therefore the participation and involvement of the residents of a place are essential to the success of its conservation programme. The organization and individuals responsible for policy decisions should be given specific responsibility to protect the areas. Investigation of a place by multidisciplinary professionals for any other reason which requires physical disturbance and which adds substantially to a scientific body of knowledge may be permitted, provided that it is consistent with the conservation policy for the placed. There should be greater participation of actual city people of all walks of life in the planning process. The historical preservation of city neighborhoods reflects a collectively built environment and therefore the culture of people who built it and continue to take pride in it (Archer, 2013).

Cities should be utilized by the federal government as engines of sustainable economic growth, cultural diversity and advanced social policy, but they should not become reservations for certain groups of populations. For example, the government’s White Paper ‘Heritage protection for the 21st century’ was published on 8 March 2007. Even though it did not present a radical vision of the previous legislations but one that sought to rationalize the many different protection regimes, and one that sought to introduce some transparency and judicial fairness in the determination of special interest and therefore, the decision to protect a building or site. One of the three core principles applied was that of engaging with the planning system, and acknowledged that the historic environment constituted an essential element of building sustainable community. The policy emphasis previously given to the benefits of heritage in fostering a sense of place would now be a part of the new legislative system.
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References

The Effects of Brand Experiences, Satisfaction and Trust on Building Brand Loyalty; an Empirical Research on Global Laptop Brands

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ABSTRACT

Objective – This study aims to show the effect of brand experience, satisfaction, and trust on consumer’s brand loyalty, specifically on global laptop brands. Consumers look for brands that provide them with unique and memorable experiences. From the customer viewpoint, brands are relationship builders. Consumers believe that brand experiences are one of the factors that build long-lasting brands and customer relationships, together with brand trust, satisfaction, and loyalty.

Methodology/Technique – In total, 150 respondents from private universities were selected as the sample for this study due to the high possibility of them using similar types of laptop brands. The quantitative data gathered from the survey method was analyzed using the regression analysis method.

Findings – Findings can also be utilized by marketing experts to develop effective branding strategies for the laptop and also for the laptop producers in general, to make them increase their laptop’s quality in order to enhance their consumers’ experiences, satisfaction, trust, and loyalty to their brand.

Novelty – The respondents of the study are students from three different private universities in Jakarta who use or own laptops. In total, 150 respondents from private universities were selected as the sample for this study due to the high possibility of them using similar types of laptop brands.

Type of Paper: Empirical

Keywords: Brand Experience; Brand Trust; Brand Satisfaction; Brand Loyalty; Laptop Brands.

1. Introduction

During the last decade, there has been a growing realization that brands are one of the firms’ most valuable intangible assets and businesses have put branding as their main priority (Keller and Ailawadi, 2004; Horppu, Kulva Lainen, Tarkiainen and Ellonen, 2008). Nowadays, to differentiate and to stay competitive in the market, businesses build a strong brand as their marketing tool (Keller and Ailawadi, 2004; Armstrong, Kotler, Harker and Brennan, 2009). The definition of branding is “to create, maintain, protect and enhance a
product’s brand” (Kotler, Armstrong, Harker and Brennan, 2009). “A brand can also be perceived as a name, term, sign, symbol or a combination of these, that identifies the uniqueness of the maker or seller” (Kotler et al., 2009; Armstrong et al., 2009).

Besides having a strong brand, a company also needs to ensure that its business can survive competition in the long run. Therefore, it is essential to build a long-term relationship with the customers since it can provide loyal customers as well as expand the customer base. The businesses are aiming for the so-called customer-brand relationship as a form of long-term customer relationship, which is defined as the relationship between the brand and the customer. Brand experiences, brand satisfaction and brand trust are three factors that have become more important during the last decade as the customer-brand relationship is dependent on these factors (Bowden, 2009; Sahin, Zehir and Kitapci, 2011).

Consumers now wish for a more compelling experience, which means that the traditional brand marketing method would no longer be suitable as it mostly appeals only to functional links with consumers (Schmitt, 1999). Schmitt (1999) indicated that experiential marketing has proven itself to be a good starting point for studies on consumer-brand relationships. Franzen (1999) stated that consumer experience and brand knowledge or brand meanings form the consumer-brand relationship. Another study by Keller (2001) also suggests a consumers-brand relationship as the final step in building brand equity. A consumer’s experiences can directly form brand meanings and the successful establishment of these brand meanings would build the consumer-brand relationship. Previous studies have focused more on emotional experience (e.g., Babin, Darden and Griffin, 1994; Mano and Oliver, 1993; C.Yoo, Park and Macnnis, 1998) or related experiences (e.g., Muniz and Guinn, 2001) whereas this study is focusing on building consumer-brand relationships from the brand experiential viewpoint.

The main aim of this study is to test a general framework for building a consumer-brand relationship from an experiential view; to investigate how brand experience, brand satisfaction and brand trust affect brand loyalty in the laptop market, as well as how brand experience affects both brand satisfaction and brand trust.

2. Literature Review

2.1 Brand

A brand is used to identify the source of the product in the form of a name or symbol. According to the American Marketing Association (2007), a brand is intended to identify one seller’s goods or services and to differentiate it from those of competitors, either by name, term, sign, symbol or design, or a mix of these. A brand in legal terms is called a trademark. “A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name” (American Marketing Association, 2007).

Aaker (1991) and Keller (1998) also characterized brands as a noticeable name or symbol that can differentiate the goods and services from the rivals. “A brand is a name in every consumer’s mind” (Mooji, 1998). Brand has also been given different definitions by different researchers and different writers with respect to the various aspects of brands such as the concept of brand equity (Keller, 1993; Aaker, 1996), brand personality (Aaker, 1997), etc.

Perceptions towards brands are developed when the consumers decide which products to purchase and make preferences of products. Consumers would be aware of the presence of the brand and more likely to buy the company’s products and services if the company has a successful branding (Doyle, 1999).

2.2 Brand Experience

Not much research has focused on experiences provided by brands, instead most of them focused on utilitarian product attributes and category experiences. Brand experience can be
conceptualized as sensations, feelings, cognitions, and behavioral responses evoked by brand-related stimuli that are part of a brand’s design and identity which is conveyed through packaging, communications, and environments of the brand itself (Brakus, Schmitt and Zarantinello, 2009). Consumers have their own moment of encounter with the brand that created their perception, such as perception towards the advertising that projected the brand images, perception during the initial personal contact, or perception of how the quality of personal treatment is given. All of these perceptions can be considered as the brand experiences (Alloza, 2008). Brand experience conceptualization and scale development are crucial as they can help companies to manage the brand trust and establish brand loyalty (Brakus et al., 2009). Brand experience can be either positive or negative and can be either short-lived or long-lasting. Consumer satisfaction, brand loyalty, and brand trust can be affected positively by brand experience (Zarantinello and Schmitt, 2000; Ha and Perks, 2005).

2.3 Brand Satisfaction

Satisfaction has been found to lead to a “long-term combination of relationships” (Gladstein, 1984; Anderson and Narus, 1990). In an ongoing relationship, the level to which the consumer views the brand as a satisfactory partner is defined as brand relationship quality; brand relationship quality is consumers’ overall assessment of how strong their relationship with the brand is (Algesheimer, Rene, Dholakia, Uptal, Herrmann, and Andreas et al., 2005). Although satisfaction is essential, it does not necessarily lead to loyalty (Agustin and Singh, 2005). Satisfaction is among the antecedents of brand loyalty, in which the growth in brand loyalty would result from the increases in satisfaction (Bennett, 2001; Bolton, 1998; Jones and Suh, 2000; Ringham, Johnson, & Spreng, 1994; Bennett et al., 2005). According to He, Li and Harris (2012), satisfaction occurs when a brand’s performance meets the purchaser’s expectations. When the performance fails to meet the expectations, dissatisfaction occurs resulting from a negative disconfirmation (Patterson, Johnson and Spreng, 1997).

2.4 Brand Trust

Trust is built when consumers believe or feel confident that the seller is reliable to deliver services that have been promised. In addition to trust, relational value is built when consumers enjoyed greater benefits compared to the cost they incurred in maintaining an ongoing exchange relationship (Agustin & Singh, 2005). A brand’s credibility may reinforce consumers’ trust in the brand being purchased, which may as well reinforce the repeat buying behavior (Amine, 1998). Brand has its own stated function and the fact that the average consumers are willing to rely on the brand’s ability to perform that function, is referred to as having brand trust (Chaudhuri & Holbrook, 2001). To build a strong consumer-brand relationship, trust is necessary (Fournier, 1998; Urban, Sultan, and Qualls, 2000), because it has a positive link to brand loyalty (Lau and Lee, 1999). Consumers’ expectations regarding the organizational behavior and the products’ performance represented by a brand become a base for consumers to build trust in that brand by having positive beliefs (Ashley & Leonard, 2009) that their expectations would match the actual result. According to Chiou and Droge (2006), trust represents the cumulative effects over time on loyalty, especially in high-involvement, high-service product markets. The brand experience in both product and service aspects offered by the brand’s provider has become the field of trust in this present study without focusing on specific attributes.

2.5 Brand Loyalty

Consumers may buy a particular brand out of habit without really thinking about why they do so. They may continually purchase a preferred brand simply because it is a prominently stocked or frequently promoted brand. According to Hofmeyr and Rice (2000), when
consumers purchase a brand repeatedly without attachment, it is then called behavioral loyalty. When consumers purchase a brand repeatedly and start having attachment with the brand, the consumers are then referred to as both behaviorally and attitudinally loyal. Consumers have their own preferred choice of a brand which creates the loyalty towards buying or using that specific brand of product. Consumer brand loyalty is what makes brands worth millions or billions of dollars.

The consumer-brand relationship is crucial in developing brand loyalty (e.g., Fournier, 1994; 1998; Ching and Chang, 2006). Brand experiences could contribute to the increase in profitability of the brand and could also result in brand loyalty and active brand referral (Morrison & Crane, 2007)

It can be inferred that brand loyalty is experienced differently by consumers and that brand managers are being given an enormous task to make sure that the experience meets the target market’s needs. If the target market needs are met, it will assist the company to realize how brand loyalty benefited them, such as minimization of the new customer acquisition costs, company sustainability and profitability (Burgess & Harris, 1998).

Therefore, it can be hypothesized that:

H1: Brand experience has a significant positive effect on brand satisfaction.

H2: Brand experience has a significant positive effect on brand trust.

H3: Brand satisfaction has a significant positive effect on brand loyalty.

H4: Brand trust has a significant positive effect on brand loyalty.

H5: Brand experience has a significant positive effect on brand loyalty.

3. Research Methodology

There are 3 main objectives of the study. The first objective is to examine the impact of brand experience on brand satisfaction and brand trust. The second objective is to examine the impact of brand experience, brand satisfaction and brand trust on brand loyalty. Lastly, the third objective is to examine which factor among brand experience, brand satisfaction and brand trust has the strongest impact on brand loyalty.

The units of analysis in this study were university students who use or own laptops. The students from universities were selected as the samples of this study due to the high possibility of them using similar types of laptop brands. Being in the same city of domicile leads to a higher possibility of similar access to laptop brands and similar purchasing behavior.

In this study, the author employed the sampling method of non-probability sampling, which is convenience sampling. In convenience sampling, the sampling participants are chosen because of their availability and readiness (Cooper & Schindler, 2008). The number of survey respondents targeted for this research was 150 respondents. Prior to the full-scale survey, a wording pre-test was also conducted involving 10 respondents. This was to ensure that the questionnaire prepared by the author was feasible to distribute or if it needed to be modified again. Another pre-test involving 30 respondents was also conducted by asking respondents to fill in the questionnaire to check the reliability and validity of the questions. The researcher used Cronbach’s alpha and confirmatory factorial analysis (CFA) to test the reliability and validity of the questions measuring each variable. The method to test the hypotheses was using simple linear regression analysis and multiple linear regression analysis.

4. Findings and Discussion

4.1 Regression Analysis

Simple linear regression analysis was used to measure the influence of (H1) Brand
Experience on Brand Satisfaction, and (H2) Brand Experience on Brand Trust. Multiple linear regression was used to measure the influence of (H3) Brand Satisfaction on Brand Loyalty, (H4) Brand Trust on Brand Loyalty, and (H5) Brand Experience on Brand Loyalty.

The results from simple linear regression analysis toward H1 and H2 show the significance level of 0.000 meaning that brand experience has a significant positive effect on brand satisfaction, and also brand experience has a significant positive effect on brand trust. **Hence, H1 and H2 are supported.** Based on the R-square result, it indicates that 39.5% for H1 and 49.4% for H2 of the total variation in the dependent variable can be explained by its linear relationship with the independent variable.

The result from multiple linear regression analysis of H3, H4 and H5 show the significance level is lower than α = 0.05 meaning that Brand Satisfaction has a significantly positive effect on Brand Loyalty. Meanwhile, it is also shown that Brand Trust has a significant positive effect on Brand Loyalty, and also Brand experience has a significant positive effect on Brand Loyalty. **Hence, H3, H4 and H5 are supported.** Based on the R-square result, it indicates that 51.2% of the total variation in the dependent variable can be explained by its linear relationship with the independent variable.

**4.2 Discussion**

Brand experience is proven to have a significantly positive effect on brand satisfaction. The researchers declared satisfaction as an evaluation emerging from the experience with a product or services and found that based on positive experiences and relationships, a customer is satisfied with the perceived performance of the brand. The findings are aligned with Ha and Perks (2005) which proposed that consumers show strong satisfaction associated with their experiences or purchases when they have had impressive brand experiences.

Brand experience is proven to have a significantly positive effect on brand trust. The more experience a consumer gains with a brand, the better the consumer understands the brand and grows to trust it more. The experience, either positive or negative, improves the consumer’s ability to predict the performance of the brand. The findings are aligned with research on channel relationships (Scanzoni, 1979; Dwyer, Schurr and Oh, 1987) which have shown that the increase in experience with a channel partner would lead to an increase in the likelihood of passing through shakeout periods in the relationship, as the experiences provide both parties with a greater understanding of each other.

Brand Satisfaction, Brand Trust and Brand Experience are all proven to have a significantly positive effect on brand loyalty. The more the satisfaction, trust and positive experience consumers gain, the more likely they will become loyal to the brand; conversely, the less the satisfaction, trust and positive experiences gained, the lower the level of consumers’ loyalty to the brand. Customer satisfaction leads to a positive increase in their attitude regarding any object (Oliver, 1980), which further strengthen the consumer’s level of repurchase intentions (Parasuraman and Grewal, 2000). Since trust creates highly valued exchange relationships, brand trust leads to brand loyalty or commitment (Morgan and Hunt, 1994; Chaudhuri and Holbrook, 2001).

Brand Satisfaction is found to have the strongest significant effect on Brand Loyalty, followed by Brand Trust and Brand Experiences. What prior researchers (Sahin et al., 2011) have discovered is that brand experience is the foundation for creating brand loyalty and that brand experience is used by the other variables as a base. However, what is essential to increase loyalty and the consumer-brand relationship is Brand Satisfaction and Brand Trust since they are the basis for returning customer (Hong-Youl & Perks, 2005; Sahin et al., 2011).
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References


"The Village Creative Industries": Solution Strengthening Regional Competitiveness In The Asean Economic Community (AEC) (Study Case In Kendang Jimbe Industry At Blitar, East Java)

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ABSTRACT

Objective – The purpose of this paper is to develop the potential of the region through the establishment of a model village of the creative industries in the regions as a reinforcement of local industries in the face of competition AEC.

Methodology/Technique – This study is using a qualitative approach to the study of literature and a profound observation on the creative industries kendang jimbe in Blitar.

Findings – The results showed that with the establishment of the industrial village with this kendang jimbe, the production potential of the region will emerge.

Novelty – It is also evident that with the formation of village-based creative industry’s local advantages contribute significantly to the economy of micro and macro.

Type of Paper: Conceptual

Keywords: AEC, Competitiveness, Economic Creative, The Village Creative Industries, Regional

1. Introduction

The global financial crisis that occurred at the end of 2008 has evolved into a fairly serious problem. Those problems began to affect the stability of the global economy in several countries around the world including in Indonesia. One impact is a decrease in local revenue (PAD) in several regions in Indonesia. Forms can be amplified by the development of creative economy, it is because of the fact that while economic growth, the accumulation
decrease as a result of the global financial crisis, some of the creative industry-based business continue to grow even contribute to the economy.

However, in the development of creative industries in Indonesia are still not optimums, developing only in big cities like Bandung and Yogyakarta. It is very unfortunate at all if they see the potential of creative industry in contributing to the economy is significant. Therefore, requiring the development of creative industries in these areas through the establishment of regional Creative Industries Village. This is one manifestation of the local community entrepreneurship in Indonesia. Because, Indonesia is currently still lacks a lot of entrepreneurs. According to David McClelland a country will achieve prosperity if there are at least 2% of the country's population becomes an entrepreneur. While the number of entrepreneurs in Indonesia is currently estimated at 400,000 people, or only 0.2% of total population. It shows that the level of entrepreneurship in Indonesian society is still low. It is unfortunate that once, when natural resources and human resources that are owned by Indonesia was so abundant. Not to mention that when we look at the assets of thousands and even millions of potential people who have developed creative products in the country. Thus, Indonesia has potential if Indonesia really wants to improve the welfare of society. One way to increase the number of entrepreneurs in Indonesia, through the establishment of The Village Creative Industries in the region.

The Village Creative Industries in the area are one way to develop Indonesia's creative industries as well as measures to increase the number of entrepreneurs in Indonesia. It can be used particularly in areas that can improve the local economy which will increase revenues. Also, it can provide added value area by creating products and services with creative excellence in each region. One of the areas in Indonesia in the East Java town of Blitar is already doing this creative industry village formation precisely in Kampung Sentul. This region could produce a superior product from the city that is "Kendang Sentul." Where the product has been able to enter into international markets. So that small industry was able to donate a significant contribution to local economic growth rate of Blitar town.

2. Establishment of Excellence "Village Creative Industries" in the Region

The advantages of the formation of "The Village Creative Industries" in the area are the following:

- The "Creative Industries Village" is an area more effectively, efficiently, and when viewed from the financial aspect, it will not add cost. It is done dynamically between several entrepreneurs of creative industries support each other and coordinate with each other.

- "Creative Industries Village" this area will create a convenience in terms of delivering information and receipt of information.

- In the "Creative Industries Village" area may be easier in marketing than separate region the minimal costs incurred. The impact was the marketing products and creative services easily perform and gain because of minimal cost. It happens because the location of "Creative Industries Village" is in strategies place and easy to access mobility.

- The "Creative Industries Village" is an area will facilitate the development of creative industries, whether conducted by the Government, Private, The Academics or community.

3. Weaknesses Establishment "Village Creative Industries" in the Region

The weakness of the formation "Village Creative Industries" in this area is going to create competition among the regions in the development of creative industries in the area of
creative products and services created. In addition the solution of these weaknesses is by creating creative unique products and services which are created by the region under owned regional seed. So it will create economic creative diversification.

4. The Concept “Village Creative Industries” in Blitar City

Blitar is one of the town in South area of in Indonesia, East Java province. This town develops one's creative craft industries became flagship of the town of Blitar. *Kendang Sentul* is one of the products of industrial wood lathe and also a superior commodity marketing Blitar. They have been penetrated the local markets, nationally and internationally such as Europe, Africa, Asia, and the United States because of the existence of the preferred *Kendang Sentul* art collectors overseas. Establishment of Village Industries *Kendang Sentul* conducted through cooperation between local government (G), academic (A) and community, which (B) is usually called the Triple Helix. It was drawn as follows:

![Diagram of Triple Helix Concept]

Figure 2.1 The Triple Helic Concept

: a synergy Trple in the village for the establishment of creative industries

The role of each element in optimizing 3T triple helix to form a "Village Creative Industries" as follows:

- Academics: conducting research or research to create and produce an innovation and critical thinking products and services.
- Businessman: to view and assess the creativity and product innovation, capture, exploit, develop creations and innovative products and services.
- Government: to see and assess the creativity and product innovation as well as providing facilities for the development of creativity and innovation of products and services, including to realize optimization of 3T.

First, the role of each of these elements will affect and synergize each other. For example, when an academic role in conducting research to create and produce a new innovation in industrial products, then the businessman and the government will view and assess whether the creativity, product innovation and effective economic value.

Furthermore, businesses can take and use as well as developing creations from academics who are adjusted to market demand. While the government will provide facilities and means to encourage and support innovations such products. Therefore, it will be an interaction between the innovator of academics with business people and government. The interactions which are running well and smoothly will be a positive influence on growth and development of creative products and also increase the economic value because of demanding by the business or industry. Product development and creative services also involve the role of various institutions that participate in the creative process. When the creative process to produce innovations in the form of goods or services, the level of originality (originality) of these products must obtain a good protection of copyright in the form of patents, designs,
trademarks and so on. This process happens because it does not cause problems for the future period.

Second, the integration of Sentul Regions development of small industrial drum can be done through the integration process by using the concept of an integrated industrial park. This integrated industrial park is defined as grouping of businesses covering various industries that make up the cooperation in the form of intra-industry trade within a region or a specific area set aside for a common purpose. In addition, in recognition the activity of process is undertaken by several specialists who are experts in the field of production processes, so it gives a high acceleration of productivity and performance of individual crafters. The advantages of the concept of Integration Regions are as follows:

a. Cost Savings, this integrated industrial area is more effectively and efficiently. In addition, viewed from the financial aspect, it will not add cost, because it is done dynamically between several entrepreneurs who support and coordinate with each other. For example, in terms of waste disposal, transportation distribution of its products.

b. Production, In the production process between Sentul drum artisans in an integration of an integrated industrial estate can be mutually cooperating in the provision of raw materials and equipment that can be alternately leased from the government through the community. So it can accelerate the process industries.

c. Marketing, Regional integration also makes Sentul drum artisans in easy marketing. Cooperation among craftsmen can be done in marketing so that the costs of marketing will be cheap. Impact of course will be easy to do marketing and profits because of the lack of cost. It is because an integrated industrial estate were placed in an area that is strategic and easy to mobilize. One area of weakness integration occurs unhealthy price competition among the craftsmen who favors only the consumer, this occurs because producers do not adhere to standards agreed price which certainly contributed to the decline of quality Sentul. As a form of regional integration, the government has put them together in Blitar village tours that highlight the potential of Blitar superior. The Blitar Tourism Village is located in the two villages, in the district of Blitar City Kepanjenkidul. Two villages, among others, Village and Village Sentul Responsibility. Regions in Sub Kepanjenkidul are chosen because this area to be developed strategically Tourism Center that supports the existence of religious tourism, Bung Karno's grave, with the scale of regional and national service.

Through the integration of this region, Sentul drum artisans get many benefits. In addition to a minimal cost, easy production and marketing, regional integration is expected to increase drum crafters jimbe productivity. Through the integration of the region, drum Sentul prospects also should be eased in the sale and purchase transactions. Prospective customers do not need to go around from one place to another just to find the best quality of the drum Sentul that produced by craftsmen. Prospective sufficient it to visit only one region and will find all the drum artisans in Sentul area.

In addition, the area also offers easy integration of global marketing. During this drum maker still make marketing to foreign countries via Bali. In fact, if marketing can be done right from Blitar, Sentul drum crafters are more likely to do more interaction with prospective consumers. By the onset of direct interaction between Sentul drum artisans in Blitar and potential customers from abroad will increasingly introduce drum Sentul in international eyes. Besides, if marketing is done directly from Blitar, The government of this city would get more revenue, especially from the tax sector and help create a vision of the Blitar City as a city of commerce and tourism.
The SWOT Analysis "Village Creative Industries” from this concept are below in this table:

Table 2.1 The SWOT Analysis "Village Creative Industries”

<table>
<thead>
<tr>
<th><strong>Strength</strong></th>
<th><strong>Weakness</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Effective and efficient</td>
<td>• Generates inter-regional</td>
</tr>
<tr>
<td>• More easily recognized by the general public</td>
<td>competition</td>
</tr>
<tr>
<td>• To facilitate the distribution and</td>
<td></td>
</tr>
<tr>
<td>transferring information</td>
<td></td>
</tr>
<tr>
<td>• To facilitate the development of</td>
<td></td>
</tr>
<tr>
<td>creative industries</td>
<td></td>
</tr>
<tr>
<td>• Improve the public revenue</td>
<td></td>
</tr>
<tr>
<td>• Creating jobs</td>
<td></td>
</tr>
<tr>
<td>• The area became an icon Creative</td>
<td></td>
</tr>
<tr>
<td>Industries</td>
<td></td>
</tr>
<tr>
<td>• Products has produced more economic</td>
<td></td>
</tr>
<tr>
<td>value and competitiveness.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Opportunity</strong></th>
<th><strong>Treathe</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• creative industries have a future business</td>
<td>• In a further development of creative</td>
</tr>
<tr>
<td>opportunity</td>
<td>industries in the area</td>
</tr>
<tr>
<td>• Each region has unique characteristics and</td>
<td>hampered if the factors that are</td>
</tr>
<tr>
<td>potentials which differ from each other</td>
<td>owned and less support</td>
</tr>
<tr>
<td>• Enhance and create local creativity.</td>
<td></td>
</tr>
</tbody>
</table>

**Conclusion**

Development of creative industries in the area can be done through the creation of the "Village Creative Industries" because it’s very efficient. It also can be optimally from production till market for the product. Therefore, it needs to be done optimally to support, encourage, and accelerate the development of creative industries in Indonesia especially in these areas due to industrial development creativity that developed only in those cities. In addition, the existence of the village creative industries can realize as entrepreneurship community.

If each region is able to optimize the potential by also using the form of the “Village Creative Industries” and create a synergy of the triple helix, it is not closing the possibility of development of creative industries in the region, in realizing the entrepreneurship community faster and more precise. Development of creative industries in this growing area will also impact on the economy of each area so if will give value added of specialization of creative products and services created based on the creativity of each region. Specializing in these creative products can create a diversified regional creative economy capable of supporting increased value added so that it will have a positive influence on the increase of local revenue (PAD).

Thus, through the creation of "Village Creative Industries” in the development of creative industries in the region can realize the entrepreneurial community as a value added to the area after the global financial crisis, thereby increasing revenue back through a good synergy between academics, businessmen, and local governments in supporting the development of creative industries in the region.
Acknowledgements

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References


Nursing Documentation: Culture Perception, Motivation, and Commitment (Study in Paru Batu Hospital Malang East Java Indonesia)

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ABSTRACT

Objective – Nursing documentation is a part of the medical records. Which have important values such as administrative and legal aspects, etc. Therefore, the hospital manager should design an organizational culture that increases nurse commitment and motivation to complete medical records. The objective of this study was to find out the effect of direct and indirect perception of organizational culture toward nurse's commitment with motivation as a mediating variable.

Methodology - The data were collected using questionnaires. The sample was 44 nurses of inpatient unit in the Paru Batu Hospital. Data analysis used in this research was path analysis.

Findings - The result of data analysis showed that there was an influence of organizational culture on nurse commitment at a value of 0.592. Moreover, there was an influence of organizational culture on the commitment with motivation as a mediating variable at value of 0.307.

Novelty - Nowadays, only few studies have investigated the influence of organizational culture toward commitment with motivation as a mediating variable. In addition, studies examining the effect of it with nurses as the subject and nursing documentation as the object are very limited.

Type of Paper – Case study.

Keyword: Culture, Motivation, Commitment, Nursing Documentation

1. Introduction

Nowadays the healthcare culture is an important factor in learning and improving service processes (Chi, Chia, and Ya-Ling 2012). According to Chi, Chia and Ya-Ling (2012) a study conducted by Kotter and Heskett (1992) explained that culture in healthcare has a strong direct impact on its ability to manage human resources as well as services to patients. In addition, organizational culture also influences attitudes, behavior, and communication
among the members of organization. One of them is the attitude of organization member to completing medical records.

Medical records must be filled clearly, concisely, sequentially, accurately, completely, comprehensively, collaboratively, and, in accordance with patient centers, as well as its confidentiality. Medical records including documentation from doctors, nurses, and all healthcare professionals (physiotherapists, nutritionists, etc.) are recorded and related to capacity health care provided to patients (WHO-SEARO, 2007). One of healthcare professionals in the hospital that is obliged to document the medical records is a nurse, since 40-75% of hospital services are nursing services. Thus, in carrying out their duties, nurses are also recommended to document each service provided to patients (Robot, 2009). Incompleteness of nursing documentation in the medical records will result in a reduction in value, grade and quality of medical records file. According to Rustiyanto (2010) culture is a consistent control to discipline healthcare professionals in filling and completing medical records. In addition to making high commitment among healthcare professionals, the culture is also a control for punctuality and accuracy of data entered into the medical records. According to Liliyana, Hermina and Zain (2011) there is a positive correlation between organizational culture and motivation. This research was supported by Koesmono (2005) stating that there is an influence of organizational culture on motivation. Other supporting research conducted by Adhi, Hardienata and Sunaryo (2013) suggested that there is a positive influence between organizational culture and motivation.

The aim of motivation is to improve the completeness of nursing documentation. Motivation variables that influence the enhancement of nursing documentation activities are supervision, awards, and work environment (Berthiana, 2013). On the other hand, research done by Sugianto, Thoyib and Noermijati (2012) showed that there is an influence between working motivation and commitment within an organization. The research was supported by Widyaningrum (2011) who states that there is a correlation between motivation and commitment of healthcare professional in hospitals.

According to Widyaningrum (2011), it is not only motivation that carries impact towards commitment, but also organization culture carries positive influence on commitment. The research was supported by Adhi, Hardienata and Sunaryo (2013) who stated that there is a positive correlation between the cultures of organization and commitment. Research by Chi, Chia and Ya-Ling (2012) also stated that there is a positive influence between organizational cultures and commitment.

Another study was done by Kurniadi (2013) showed, that nurse's loyalty to organization referred to as a commitment to organization. As a whole increasing commitment of human resources in hospital, including nurses is one way to integrate its internal work environment in organization. The stronger culture which is reflected on both behavior and attitude will increase commitment through motivation, since there is a value inside the culture which may be used to define the direction and the objective of organization. The similarity of the direction and the objective between organization and its members may bind organization and its members. The research conducted by Liliyana, Hermina, and Zain (2011) showed that the organizational culture has a stronger influence on commitment through motivation. The purpose of this study is to analyze the influence of cultural perceptions towards commitment with motivation as mediating variable to implement of nursing documentation at inpatient room in Paru Batu Hospital.

2. Method

This research design was observational/survey and it used cross sectional study. The research was conducted from March to April 2015. The location of research was in Paru Batu Hospital. Research samples were 44 nurses in the inpatient unit Paru Batu Hospital. The samples used were the whole population of 44 nurses.
The instrument of data collection in this study was questionnaire. The data were collected through interview method. Validity test used in the study was a Pearson correlation test. The consistency of the instrument may be tested using alpha test. Analytical technique used to determine the influence of organizational culture towards commitment with motivation as a mediating variable was path analysis.

3. Result

The results of the validity and reliability test of the questionnaire were valid and reliable. While all of the requirements in the classical assumption test were also met to continue on the next test. This study also calculated the loading factor to reveal sub variable most influencing towards variables. The value was obtained from the calculation of analysis factor. The result of the loading factor and frequency distribution average were as the following:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Sub variable</th>
<th>Sub of sub variable</th>
<th>Loading Factor Value</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>Artifact (X1)</td>
<td></td>
<td>0.745</td>
<td>3.95</td>
</tr>
<tr>
<td></td>
<td>Espoused belief and value (X2)</td>
<td></td>
<td>0.844</td>
<td>3.58</td>
</tr>
<tr>
<td></td>
<td>Underlying assumption (X3)</td>
<td></td>
<td>0.559</td>
<td>4.26</td>
</tr>
<tr>
<td>Motivation</td>
<td>Internal Motivation</td>
<td>Responsibility (Y1,1)</td>
<td>0.782</td>
<td>4.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cognition (Y1,2)</td>
<td>0.843</td>
<td>4.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Achievement (Y1,3)</td>
<td>0.901</td>
<td>3.73</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recognition (Y1,4)</td>
<td>0.709</td>
<td>3.09</td>
</tr>
<tr>
<td></td>
<td>External Motivation</td>
<td>Supervision (Y2.1)</td>
<td>0.806</td>
<td>3.64</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Incentive (Y2.2)</td>
<td>0.566</td>
<td>3.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interpersonal relationship (Y2.3)</td>
<td>0.764</td>
<td>3.82</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Policy (Y2.4)</td>
<td>-</td>
<td>3.89</td>
</tr>
<tr>
<td>Commitment</td>
<td>Affective commitment (Z1)</td>
<td></td>
<td>0.779</td>
<td>4.19</td>
</tr>
<tr>
<td></td>
<td>Normative commitment (Z2)</td>
<td></td>
<td>0.630</td>
<td>3.85</td>
</tr>
<tr>
<td></td>
<td>Continuance Commitment (Z3)</td>
<td></td>
<td>0.729</td>
<td>3.39</td>
</tr>
</tbody>
</table>

Source: primary data (2015)

Table 1 explained the most influencing sub variable to organization culture is espoused belief and value, with a mean of 0.844 with the lowest at 3.58. The most influencing Sub variable towards motivation is internal motivation with value of 0.901 on the achievement sub of sub variable with a mean of 3.73. Supervision was the most influencing sub of sub variable toward motivation on the sub variable of external motivation. The value was 0.0806, with the mean of 3.64. On variable of commitment, the most influencing sub variable was affective commitment. The value was 0.779 and the highest mean was 4.19

<table>
<thead>
<tr>
<th>Path</th>
<th>Correlation</th>
<th>Direct influence</th>
<th>Through</th>
<th>Indirect influence</th>
<th>Total</th>
</tr>
</thead>
</table>

Table 2. Path analysis test results correlation decomposition result as follows.
Table 2 illustrated that the greatest impact is the influence of cultural perceptions of organization (X) towards motivation (Y). Meanwhile, the indirect influence of cultural perceptions of the organization (X) towards commitment (Z) had a value of 0.307 and this value increased while going through motivation (Y) was equal to 0.592. Table 2 showed pattern of path analysis below:

![Diagram of path analysis]

Figure 1 Result of path analysis

4. Discussion

According to Hofstede (1991), culture is the collective programming of the mind which distinguishes the members of one group or category of people from another. There are three basic levels of cultures which are visible artefacts, espoused belief and value as well as the basic underlying assumptions. This can be found while analyzing the culture of certain collective group or organization (Schein, 1990). The interesting points found from the research on the three sub-variables were the loading factor value, and the mean. The highest loading factor value was found on the sub-variable of espoused belief and value, while that sub-variable had the lowest mean. This explained that the sub-variable of espoused belief and value is the most important sub-variable on the cultural variable. However, the nurse’s perception considered that sub variable as less optimal. The sub of sub variable of this research contained the strategy used by the hospital in improving the completeness of nursing documentation. However, the strategy had not been performed well; hence the completeness of nursing documentation had not met standards yet.

One of the strategies applied in order to improve the completeness of nursing documentation is a socialization. Socialization is done by reminding nurses to return the file of medical records before the medical record clerk works for monthly report. The Ministry of health of the Republic of Indonesia (2006) stated that the lastest time to return the medical record files of inpatient was 1 x 24 hour after patient discharged. Based on Tika (2012), value is a solution coming from a leader of organization as an attempt to problem solving. When the solution is sustainably applied, then the solution will become a part of the organizational culture. The socialization is made to solve the problem of incompleteness of medical record files caused by nurse’s workloads. However, the longer nursing documentation unfilled, the less quality of the nursing documentation would be.

According to Budi (2011), one of the determinations of hospital medical record quality is by looking at promptness the medical records is returned to medical record unit. Besides, giving incentive is the strategy which is applied to improve the completeness of medical record files. However, the reason nurses are filling nursing documentation is not due to the incentive. The nurses do that because they consider it as their obligations. Besides, what motivate them to complete the files of medical records is to get legal guarantee. In answering open questions,
11 respondents gave the answer of ‘legal guarantee’. One of the nurses stated that the motivation to fill the nursing documentation was

“The legality and professionalism in working, as well as the performance appraisal”

Motivation is processes that account for an individual’s intensity, direction, and persistence of effort towards goal attainment (Robbins and Judge, 2012). One of motivation theory is a Herzberg theory. Based on Herzberg theory, hygiene factors are preventive and environmental in nature. While motivator is a factor that coming from nurses and their jobs.

The sub of sub variable of achievement showed the highest loading factor, but showed the lower mean value of 3.73 on responsibility and recognition. This showed that the achievement was the most influencing sub of sub variable toward internal motivation. However, the nurse motivation in returning files of medical record in 1 x 24 after the patient is going home must be improved. The improvement of internal motivation could be supported by external motivation. The thing that still needs improvement is the supervision. Supervision was the most influencing sub of sub variable on the sub variable of external motivation, with the highest loading factor value. However, this had lower mean compared to the company policy and interpersonal relations on job. The response about supervision revolved around the neutral answers. The result of this research was supported by the open-ended question. The question was about the support for the supervisor to complete the files of medical record. One of the nurses answered:

“It’s enough, because if the files were less complete, then we will be asked to complete it”

That value shows that the involvement of The Unit Manager in the filling of nursing documentation still needs to be improved to reach “good” category in the eyes of the nurse practitioners. The finding of this research is supported by Pribadi (2009), which stated that there is a relationship between the nurse perceptions about the supervision of unit manager with the implementation of nursing care documentation in RSUD Kelet Central Java. Other supporting research is from Sabarulin, Darmawansyah, and Abdullah (2013), which showed that the relationship between leadership and the filling of medical record files. This is due to unit manager’s capability in creating healthy environment and also in directing nurses that make them able to perform their duties and functions.

An application of organization culture includes the trust of value, sincerity towards the same achievement, and mutual principle in the organization. All of which could influence motivation (Adhi, Hardienata, and Sunaryo, 2013). The finding of this research is supported by Liliyana, Hermia, and Zain (2011) which revealed that there is positive relationship between the culture of organization and motivation. This research is also supported by Koesmono (2005) said that there is influence of culture organization in motivation. In Paru Batu hospital it is also stated that there is positive relationship between organizational cultural and nurse’s motivation with p-value of < 0.01.

According to Meyer and Allen (1991) commitment improvement is the result of comfort at work. This is because worked satisfaction could be gotten when the worker felt comfortable in the organization. This comfort is inseparable from the hygiene motivation. While based on Widyaningrum (2011) intrinsic motivation is defined as motivation to work and the bound between the nurse and his/her work. The result of this bound is satisfaction at work. According to Meyer and Allen (1991), the convenience in relationship influences the working commitment, especially affective commitment. The influence is on the feeling to do mutual warning, mutual support and the teamwork sense in completing medical record files. Also, the role of unit manager could give great contribution on the filling of medical record. This is because according to Cumberland and Herd (2011), a leader is the one who coordinates, arranges, and monitors the employee. The finding of the following research, which is related to motivation is the finding of Rahman’s research (2014). That research states that woman is more motivated in gaining the expected achievement, rather than man. This is because
today’s women are more motivated in forming their self-identities. This research is supported by the research in Paru Batu Hospital which had more female respondents than male.

Based on Allen and Meyer (1990), the change of motivation both intrinsic and extrinsic influences the changes in commitment. This statement supports the finding of research conducted in Paru Batu Hospital. A result of the research showed that motivation influences to commitment with ρ-value of 0.004 < 0.05. This result supports the finding of the research of Sugianto, Thoyib and Noermijati (2012) that showed the relationship between working motivation and commitment in an organization. According to Altindis (2011), health workers who have both external and internal motivation will have great commitment in completing their tasks.

According to Chi, Chia and Ya-Ling (2012) there is an influence of the organizational culture and nurse commitment. It is because culture is the force that influences behavior. Culture could stimulate productive behavior, which contributes to the success of company, and also influences the long-term success. This research finds that the high level of culture gives positive influence toward organizational commitment. The inherent value of organizational culture gives sense of belonging, hope, and rules that could help an organization to achieve its goal. This explanation matched the finding in Paru Batu Hospital stating that the perception of organizational culture could influence the commitment with ρ-value < 0.01. This is supported by the research of Adhi, Hardienata, and Sunaryo (2013) which stated that there is a positive relationship between organizational culture and commitment. While the research conducted by Liliyana, Hermina, and Zain (2011) states that the organizational culture affects commitment.

According to Meyer and Allen (1991) the similarity in individual value inside the organization could boost satisfaction in working. Meanwhile, the highest measurement result of the variable of loading factor of commitment was on affective commitment with a value of 0.779, with the highest mean value of 4.19. The improvement in affective commitment is not only determined by the similarity of individual value with the mutual value, but also by the working experience (Meyer and Allen, 1991). This experience is the gained psychological value, which is the comfortable feeling at work and the competence in performing the task. In the hospital this feeling of comfort is gained when the nurses perform certain treatment which is guaranteed by the law. Besides, comfort will appear if the nurses feel that they have accessible facilities. One of the available facilities is the nursing documentation that is in the files of medical record. According to WHO-SEARO (2007), the files of medical record functions to protect the professional health workers from lawsuit and to facilitate them in planning their action. This was reflected by the finding on the open-ended question which asked about the benefit the nurses got by filling the medical record files. Twenty nurses said that the benefit in filling the medical record documentation is to facilitate their nursing works in performing treatment. Besides 17 nurses stated that by filling the documentation of nursing, the nurse will get legal guarantee. The followings were the quoted answers of three nurses of two different rooms. One of the nurses answered:

“It makes us easier to perform our job, because every treatment we did could be traced through the medical record”

Another nurse in another room also answered that the benefit of filling medical record file was

“Receiving legal protection for the treatment we have performed”

Besides, the nurse in different room from two previous nurses explained that the benefit in filling the medical record files was:

“To give good treatment for our patients”
This finding was supported by the question of relationship between filling nursing documentation and nursing work. One of the nurses answered:

“By appropriately and completely fulfilling the nursing documentation, my work as the member of team in one unit will be easier to understand. Performing the intervention and also implementation to the patients will be achieved optimally”

This research showed that all benefits nurses want to gain are to improve the comfort of the nurse at work. The feeling of comfort will appear when something that is performed could give contribution to the hospital where the nurses are working. Related to motivation, comfort at work will give the tendency to improve the service quality in hospital. This showed that everything performed by the nurse is referred to affective commitment. Affective commitment reflects the commitment based on the development of the emotional bound between the organization members with the main organization through positive working experience (Jaros, 2007).

The explanation above was supported by the statistical measurement of the research finding in Paru Batu Hospital which explained the influence of organizational culture toward the commitment through motivation at the value of 0.592. The finding of this research is supported by the research of Liliyana, Hermina and Zain (2011) which explained that culture of organization influences the commitment through motivation. The conclusion of this research is that there is an influence of organizational culture toward commitment, and there is influence of nurse toward commitment with motivation as the mediating variable. This research suggests that there needs to be improvement of nursing education, socialization of the urgency in filling the files of medical record, and improvement in returning the medical record files according to the Department of Health of RI (2006), which is 1 x 24 hour after the patient is going home.

5. Research Limitation

The limitation in this research is:

a. The subject of this research are the nurse, hence further research with other research subjects is needed. For instance for the doctors and other hospital employees.

b. The analysis instrument of this research was only using path analysis, while the cultural concept explained by Schein had interrelationship among the sub variables of culture.

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Alternatives Management of Erosion and Sediment in Wanggu River Estuary at Kendari City Southeast Sulawesi Province

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ABSTRACT

Objective – Analysed alternative management of erosion and sediment in Wanggu River. This study was theoretical testing in analysing the research subject.

Methodology/Technique – Literature review analyse.

Findings – This study result showed that socialization, understanding and public awareness were needed in maintaining the functions and existence of Wanggu River. Some Hydraulic structures that could be alternative management of erosion and sediment: Temporary Slope Drains, Riprap Downspout, Silt Fence Sediment Barrier and Erosion Control Blanket Slope Application.

Novelty – The location of this study and modelling plan of erosion and sediment management

Type of Paper: Conceptual

Keywords: Erosion; Sediment; Alternatives Management; Estuary; Wanggu River; Hydraulic Structures.

1. Introduction

Erosion is the detachment and movement of soil particles by the action of water, ice, gravity, or wind. Natural erosion always occurs but the rate is slow enough that the environment can adjust when humans began to manipulate the landscape we accelerated the process by exposing soil to the forces of water and wind (Maine DOT, 2008).

Sediment (sometimes called „silt” or „alluvium”) is comprised of solid particles of mineral and organic material that are transported by water. In river systems the amount of sediment transported is controlled by both the transport capacity of the flow and the supply of sediment. The “suspended sediment load” refers to the fine sediment that is carried in suspension and this can comprise material picked up from the bed of the river (suspended bed

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material) and material washed into the river from the surrounding land (wash load). The wash load is usually finer than the suspended bed material. In contrast, the “bed load” comprises larger sediment particles that are transported on the bed of the river by rolling, sliding or saltation. Most rivers will transport sediment in each of these „load“ forms, according to the flow conditions (Oen, et.al., 2010).

Potential utilization of the river on a large scale in recent decades is very intense, especially in developing countries, including Indonesia. Methods, patterns and ways of development and utilization of river developing countries are generally mimic total ways that made by developed countries in previous centuries (Maryono, 2007).

Problems Wanggu River and Kendari Bay of flooding, erosion, landslides, and sedimentation, then they needs to be studied further appropriate management methods. Estuary of the river is a meeting between the ocean / bay and the river and into environmental limits / environment saltwater and freshwater. Estuary becomes the preferred place to establish businesses and commercial industries. Its proximity to the ocean / bay, but quite well protected making it ideal to be a lucrative port, because of the relationship that is easy to transport ocean / bay. Factories that require water cooling, many founded on the banks of a river estuary. Solid and liquid waste that comes from the surrounding settlements and chemical processes of the industries there is also flowing into the estuaries. This will disrupt the ecosystem of the estuary very detrimental (Mulyanto, 2010).

![Estuaries Wanggu River](https://www.googleearth.com)

**Fig. 1. Estuaries Wanggu River**

Source: [www.googleearth.com](http://www.googleearth.com)

The estuary will often change the water flow rate. When the flow of water entering the estuary would be change/transition flow rate: from a certain flow rate from the upstream to the speed that is close to zero in the ocean/bay, resulting in a reduction of energy in it. There was a very large sedimentation in the estuary so that the groove become extremely shallow to be able to pass a large discharge coming from upstream shallow groove is going to be very wide. Forming properties of the estuary is affected by the discharge flow from the upstream and the tidal water movement through it:

1. The flow becomes very quiet speed of water flow from upstream and tide flow passing through it is very small, which will lead to the deposition of sediment in the estuary.
2. The groove has big wide but shallow.
3. There was mixing between freshwater from upstream to salt water so that the water in the estuary becomes brackish (Mulyanto, 2010).
River delta is formed by deposition processes that occur in the estuary of a river, whether or not already appear in the upper elevation of the tide. The material forming the delta at the estuary of a river is:

1. The primary sediment from upstream river sediments that were derived from the erosion of the river's watershed.
2. The secondary sediment is sediment carried by ocean currents/bay of places/beaches to the estuary of the river and deposited over there.

Delta is not only formed in the estuary alone but can be indented to offshore / bay when the pre-condition of the formation can be met (Mulyanto, 2010). The mouth of the river is part of the ocean/bay in front of an estuary which is the boundary between river estuaries with ocean/bay. Characteristics from the mouth of the river or the tide is in addition influenced by the flow from upstream river discharge and tidal movement, is also influenced by the waves, because the situation is already located offshore (Mulyanto, 2010).

Erosion and sedimentation are natural phenomena which can be greatly affected by human activities. Natural factors such as highly erodible soils, steep unstable slopes and high rainfall intensities often play an important role in increasing rates of erosion and sediment loads. However, natural erosion is generally a very slow process which takes place over centuries or even millennia. Human induced or accelerated erosion and associated increases in sediment inputs to rivers can result in major increases in sediment flux and important impacts on water quality and sediment loads. Understanding the causes of human induced or accelerated erosion is very important when studying sediment transport and managing sediment loads in rivers (Oen, et.al., 2010).

Sediment transport, as a natural component of river geomorphology, is generally not in itself a problem. Sediment plays an important role in maintaining fluvial environments such as channel systems, floodplains, wetlands and estuaries, and equilibrium between erosion and deposition usually occurs along a river’s course in natural, undisturbed, systems. Equally, soil erosion must be seen as a natural process and in undisturbed landscapes, rates of soil loss or surface lowering are generally balanced by rates of soil formation. However, natural equilibriums are readily disrupted by extreme climatic events and human activities, such as land clearance which cause increased inputs of both runoff and sediment to river systems. The resulting imbalances can have a range of detrimental impacts on society, economies and the environment. Neglecting to manage sediment in a sustainable way, through effective sediment management strategies or policies, could lead to a higher operational costs and significant adverse impacts on society and the environment. It is therefore important to evaluate the socio-economic and environmental impacts which necessitate sediment management (Oen, et.al., 2010).

Many wetland areas are reliant on a continuous supply of sediment to maintain their ecological functioning and biological diversity. Estuary areas are also often reliant on the deposition of nutrient-rich sediment to support fish breeding. When dams trap sediment upstream these ecological assets may become deprived of sediment and nutrients and may eventually disappear (Oen, et.al., 2010).

Sediment is a pollutant in its own right. Even where sediment is uncontaminated by agricultural fertilizers and pesticides and industrial or human waste, they cause turbidity in the water which limits light penetration and prohibits healthy plant growth on the river bed. The accumulation of sediments on the river bed can smother or disrupt aquatic ecosystems by reducing food sources, and degrading spawning grounds (such as gravel and rocky environments) and the habitats of desirable fish species. Turbidity may also result in eutrophication where nutrient rich sediments are present (particularly sediments from agricultural land with high fertilizer contents). Eutrophication creates a situation where the oxygen present in the water system is reduced to the point where fish species may be unable to survive in the water column. Eutrophication, where it results from toxic algal blooms, can also be a serious risk to human health (Oen, et.al., 2010).

Differences in measurement methodologies can be due to the perceived significance of the impacts of soil loss – either on agricultural land or on receiving waters. Agronomists, on the
one hand, are concerned with the on-site impacts of soil loss on particular land areas. Hydrologists, on the other hand, are concerned with the off-site effects of soil loss on rivers and river infrastructure. Many measures of erosion, in tonnes/hectare, for example, do not account for the soil that is re-deposited during transfer across the landscape and does not end up in rivers. The „sediment delivery ratio” (defined as the proportion of the soil or sediment mobilized by erosion that reaches the basin outlet) should be a key focus of hydrological investigations of erosion rates. Erosion rates can be difficult to measure accurately, because they are highly variable spatially and influenced by many factors. Modelling is, therefore, a very useful tool for extrapolating available measurements and predicting sediment inputs to river systems under different conditions.

The Universal Soil Loss Equation (USLE) has been used extensively in the case study reports to estimate erosion rates in a particular area. It is explained in detail in the World Meteorological Organization’s Manual on Sediment Management and Measurement. To calculate the bed load, can be used Schoklitsch equation. Einstein equations set bed load as the equation of linking motion the base material with local stream (local flow). Equations that describe the equilibrium between the bed material between bed layer and the bed configuration. It balanced to scour with deposition. Frijlink in Vanoni (1989) proposed another formula by taking into account the influence of the bed configuration of the river in particular. Frijlink describe the relationship between the bed load parameters with stream parameters.

2. Method

This research was conducted in the estuary of the Wanggu River downstream. It is located in the Kendari City, Southeast Sulawesi. Data used in this study, in the form of data from surveys in the field. The data is in the form of degradation and aggrades river conditions, the visual condition of the river and surrounding environment of the river. Theoretical basic: methods of collecting information by looking at the text books, research journals, and other relevant materials as the basic theory in this study.

3. Results and Discussions

Estuary’s Wanggu River into the Bay of Kendari, so that all events will Wanggu River go in the direction of Kendari Bay. Kendari Bay is a strategic area for the community and the municipal government and the provincial government. Industry, tourism destinations, Transport, Fisheries, Economic and naval base was in Kendari Bay. There was a severe sedimentation in Kendari Bay. This threatens the strategic function earlier. Wanggu River contributes greatly to the rapid sedimentation rate in Kendari Bay. Wanggu River plays an important role in Kendari and Southeast Sulawesi.

Portions of Wanggu River estuary still a native or natural state. This does not mean it not need special treatment in anticipation of the rate of development of future development is so rapid. The impact of development can change the natural condition of the Wanggu River without being able to stop, when no efforts to overcome treatment.

Raindrop erosion occurs when rain drops collide with bare soil. The force of this impact dislodges soil particles and splashes them into the air. How much this occurs depends on the intensity of the rain (velocity and size of drops) and the texture of the soil (how much sand, silt, or clay). Sheet erosion occurs on unprotected soil when sheet flow runoff begins. The depth of water during sheet runoff is typically no more than ¼ of an inch, but that can be six to six thousand times deeper than the soil particles it is flowing over and depth and velocity is power. This relative tidal wave of water easily picks up soil particles and carries them away. How fast and far this sheet of water flows depends on the surface cover and roughness, and the slope of the land.
Rill erosion occurs when the sheet erosion gains enough power (velocity and depth) to concentrate and cut very small channels into the soil. As more water flows into these small channels, the water depth and power increases and they cut deeper into the soil. These small channels are called rills. They are no more than an inch wide and one to two inches deep.
Gully erosion occurs when water is concentrated and flows with enough power (velocity and depth) to cut into the soil to a depth of over one foot. It will occur as a result of rills coming together on an unprotected slope. On road projects, gullies form near the base of long slopes, in the bottom of an unprotected ditch, or as water flows off of a road surface, parking lot or other flat grade onto a steep unprotected slope. Controlling erosion is all about decreasing the power of the water or wind, and protecting the soil from it. The power is decreased by applying best management practices that influence the soil, surface cover, watershed size, slope, or slope length; or that decrease the volume or velocity of runoff. Decreasing the power is not always possible to do, but protecting the soil from the power of water and wind by covering it can always be done. Providing protection by applying mulch or other protections is usually the most practical method of preventing erosion. Sedimentation is the deposition of soil particles that have been eroded. Soil particles are deposited when the power (velocity and depth) of the water or wind that is carrying them is no longer strong enough to keep them suspended. Sediments are these soil particles once they settle out.

Figure 6. Meetings tide with fresh water and Wanggu River estuaries Hydrometric Measurement.

Figure 7. Box culverts, retaining walls, dikes and Wanggu River valve door.

Figure 8. Mangrove forests remaining, meeting Wanggu creeks, bamboo vegetation, river branching and means of transport.

Socialization, understanding and public awareness needed to participate in maintaining the continuity of the functions and existence Wanggu River for the benefit of society itself.
Environmental destruction, settlement on the banks of the river Wanggu, sewage and garbage even settlements built over the Wanggu River without permission should be avoided.

Some of hydraulic structures that can be an alternative erosion and sediment management:

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NOTES:
1. Width may vary depending on type of material chosen.
2. Follow Manufacturer’s recommendations for anchoring blanket ends, overlaps, and staple spacing. Dimensions for these activities are to be used as a minimum.
3. Staples may be as provided or biodegradable staples according to the Qualified Products List.
4. See section 111.261 of the MaineDOT Standard Specification or MaineDOT Qualified Products List.
   +http://www.maine.gov/mdot/transportation-research/qpl.php

EROSION CONTROL BLANKET
SLOPE APPLICATION

Figure 9. (Maine DOT, February 2008)
Figure 10. (Maine DOT, February 2008)
Figure 11. (Maine DOT, February 2008)

Figure 12. (Maine DOT, February 2008)
4. Conclusion

Socialization, understanding and public awareness needed to participate in maintaining the continuity of the functions and existence Wanggu River for the benefit of society itself. Environmental destruction, settlement on the banks of the river Wanggu, sewage and garbage even settlements built over the Wanggu River without permission should be avoided.

Some Hydraulic structures that can be an alternative management of erosion and sediment: Temporary Slope Drains, Riprap Downspout, Silt Fence Sediment Barrier and Erosion Control Blanket Slope Application.

More detailed research is needed amount of sediment transport that occurs in the Wanggu River Estuary, so it can be determined accurately, precisely and efficiently as well as the appropriate structure as well. In the framework of the assessment and weighting of each criterion and management alternative, it is necessary to stakeholders involvement that reaches the various parties involved in an attempt to compromise the various perceptions, goals, interests, and ways of management. As an advanced research topics need to develop a study on the integral management of erosion and sediment transport Wanggu River estuary.

References


Analysis of Internet Banking Using Technology Acceptance Model by Experience as Variable Moderation

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ABSTRACT

Objective – This study aimed to analyze the variables TAM by adding service awareness as external variables and experience as a moderating variable. In analyzing the study subjects used empirical testing.

Methodology/Technique – Data obtained by distributing questionnaires to internet banking users. Selection of the sample using simple random sampling technique. Hypothesis testing methods Partial Least Square

Findings – The awareness of service support the perceived ease of use and perceived usefulness. Perceived ease of use supports the perceived usefulness. Perceived ease of use has no support on intention to use. Perceived usefulness has no support on intention to use. Perceived ease of use supports the intention to use the experience as a variable moderating. Perceived usefulness has no support on the intention to use the experience as a variable moderating.

Novelty – This research refers to research Al Somali (2008) and Mahardika (2010) which examines Awareness of service, Security, Quality of internet connection as an external variable. The variables that use is awareness of service due to the different results of the two researchers. This study also adds variable moderation is experience. Experience is used for Internet Banking can be different depending on the experience they have.

Type of Paper: This research is empirical.

Keywords: Internet Banking, Technology Acceptance Model, Awareness of Service, Experience

1. Introduction

Along with the increasingly sophisticated and modern variety of technologies, the use of the Internet was increasingly widespread use in various aspects of life. Banking applications concern today is internet banking. Internet Banking open paradigm, a new structure and strategy for retail banks in the face of new opportunities and challenges. In Internet Banking, the physical separation between banks and customers and the absence of physical interaction between the consumer and the bank employees led to a unique situation. The
advantages to be gained from the use of internet banking is that it can provide convenience to conduct banking transactions as using internet banking banking transactions can be done anytime and anywhere (not limited to space and time), and faster than waiting in line at the bank or at an ATM machine (Maharsi, 2006).

Although the various advantages have been offered through the use of internet banking, but some customers prefer waiting in line at a bank or use an ATM (Automated Teller Machines) to conduct their banking transactions while it is possible to use internet banking. The level of acceptance of internet banking services by customers can be influenced by several factors. Studies show that the reason for the lack of customers is more intent on behavioural aspect (Jogiyanto; 2008). To understand the determinants of behaviour, behavioural theory (behavioural theory) should be used.

Changing behaviour cannot be done directly to behaviour, but to know the causes of the behaviour. To understand the determinants of behaviour, behavioural theory (behavioural theory) should be used. Some researchers compared three behavioural theories, namely: technology acceptance model (TAM), theory of Reasoned Action (TRA) and the theory of planned behaviour (TPB).

From some study comparing behavioural theory, it was found that better explains TAM want to receive the technology. Technology Acceptance Model was first introduced by Davis., (1986). This theory was developed from theory of Reasoned Action or TRA by Ajzen et al., (1980). TAM add two constructs main into the model TRA namely usability perceived (perceived usefulness) and ease of use perceived (perceived ease of use). Both of these factors affect the intention to use information technology (intention to use) before finally created using actual in everyday life (actual Usage).

The problem in this study is: Are awareness of the service, perceived ease of use, perceived usefulness and experience as a variable moderating effect on intention to use. In accordance with the formulation of the issues raised, the purpose of this study was to analyze to awareness of service, perceived ease of use, perceived usefulness and experience as a variation of a model variable effect on intention to use.

2. Basic Theory

2.1 Theory of Reasoned Action (TRA)

TRA was first coined by Ajzen in 1980. This theory was compiled using the basic assumption that humans behave in a way that is conscious and consider all available information. In this TRA, Ajzen (1980) states that a person's intention to perform a behaviour will determine whether or not the behaviour is performed.

Ajzen argued that the intention to do or not do certain behaviours are influenced by two basic determinants, the first dealing with the attitude (attitude towards behaviour) and the other dealing with the social influences that subjective norms (norms subjective). In an effort to disclose the effect of attitudes and subjective norms on the intention to be done whether or not the behaviour, Ajzen TRA complement this with confidence (beliefs).

He proposed that attitude comes from beliefs to behaviour (behavioural beliefs), while subjective norms derived from normative beliefs.

2.2 Theory of Planned Behavior (TPB)

TPB is a further development of the TRA. Ajzen (1988) added a construct that does not exist in the TRA, which is perceived behavioral control (perceived behavioral control). This construct was added in an attempt to understand the limitations of the individual in order to perform certain behaviors. In other words, to do or not to do a behavior is not only determined by the attitude and subjective norm alone, but also the individual's perception of control that can be done which is based on his belief in the control (control beliefs).
2.3 Technology Acceptance Model (TAM)

TAM is a model developed by Davis (1989) to explain the acceptance of the technology to be used by users of the technology. In formulating TAM, Davis uses the TRA as the main theory, but does not accommodate all of the components of the TRA. Davis only uses components beliefs and attitudes alone, while the normative beliefs and subjective norms are not used. TAM scheme depicted.

According to Davis, behaviour using information technology initiated by the perception of the benefits and perceptions of the ease of use of information technology. Both of these components when associated with TRA is part of the trust. Davis defines the perception of the benefits (usefulness) is based on the useful, which means capable of being used advantageously or can be used for beneficial purposes. Perception benefit is a benefit that is believed to be obtained if the individual use of information technology. In the context of the organization, usability is of course associated with increased individual performance that directly or indirectly impact the opportunity to obtain the advantages of both a physical or material and non material

In contrast to the perception of the benefits, another TAM variables that can affect the tendency of individuals to use information technology is perceived ease of use. Convenience (ease of use) means without difficulty or freed from the trouble and do not need to try hard. Thus the perceived ease of use means an individual's belief that the use of information technology systems will not be inconvenient or require a great effort at the time of use (free of effort).

The perception of usefulness and perceived ease of use influence attitude (attitude) of the individual against the use of ICT, which will then determine whether the person intends to use ICT (intention). Intention to use ICT will determine whether people will use ICT. In TAM, Davis (1986) found that the perception of the benefits can be influenced by perceived ease of use, but not vice-versa. Thus, for individuals feel that information technology is useful in their duties, then the individual will intend to use it, regardless of whether the information technology it is easy or not to use.

Hypothesis 1
H1a: Awareness of service significantly influence the perceived ease of use
H1b: Awareness of service significantly influence the perceived usefulness

Hypothesis 2
H2a: Perceived ease of use significantly influence the perceived usefulness
H2b: Perceived ease of use significantly influence Intention to use

Hypothesis 3
H3: Perceived usefulness significantly influence Intention to use

Hypothesis 4
H4: Perceived ease of use significantly influence Intention to use moderated by Experience
H4: perceived usefulness significant effect on Intention to use moderated by Experience

3. Methods

Location of research conducted at PT BNI Makassar by distributing questionnaires to customers. The population of this research are customers of Bank BNI registered as users of internet banking services. Sample selection is done using a simple random sampling method. Sampling using the formula Slovin (Umar, 2003), the result amounted to 100 people, but the questionnaires were returned by 95 people. Testing of the hypothesis in this study using the method of Partial Least Square (PLS) using AMOS program.
4. Discussion

**Effect of Perceived Awareness of Service for Ease of Use at Bank BNI in Makassar.**

The results showed that awareness of service \( (X_1) \) has a significant relationship to the perceived ease of use \( (Y_1) \). This means that the higher the level of awareness of the Internet Banking customer service, the customer will be more easy to use Internet Banking, and vice versa. The results of this study support the results of research conducted Al-Somali (2008), showed that awareness of service significant effect on perceived ease of use.

A significant relationship between service awareness to the perceived ease of use is because the majority of respondents internet banking users have a level of education among S1, S2 and S3, which during the course has been used to dealing with the Internet. Through the Internet, students can quickly keep abreast of information in order to know where the internet service banking has been widely used. Awareness that has been held to make the customer want to try to use internet banking and internet banking with the frequency of use is expected to feel ease of use.

**Influence of Awareness of Service against Perceived Usefulness at Bank BNI in Makassar.**

The results showed that the Awareness of Service \( (X_1) \) has a significant relationship to the perceived usefulness \( (Y_2) \). This means that the higher awareness of the Internet Banking service, the customer will know the benefits of using Internet Banking. These results are consistent with the initial hypothesis which states that there is a positive relationship between Awareness of Service of the perceived usefulness.

The results support the results of research conducted by Al-Somali, et al (2008) who said that the level of consciousness is affected by the amount of information received by the customer. The higher the level of consciousness which is owned by the customer, the customer will understand the usefulness of the internet banking service. However, it rejected the results of the study Mahardika (2010) in which the results showed that the relationship between latent variables service awareness and perception of the benefits does not have a significant relationship.

**Effect of Perceived Ease of Use on Perceived Usefulness at Bank BNI in Makassar.**

The results showed that the perceived ease of use \( (Y_1) \) have a significant influence on perceived usefulness \( (Y_2) \). This means that when customers feel the ease of
the Internet Banking, customers will also benefit in using Internet Banking. These results are consistent with the initial hypothesis which states that there is a significant relationship between perceived ease of use against perceived usefulness.

Perceived usefulness constructs a confidence (belief) of the decision-making process. Thus, if one was to believe that the system is easy to use information he will use it. Conversely, if a person feels confident that the information system is not easy to use then he will not use (Jogiyanto, 2008).

A significant relationship between the perceived ease of use with the perception of these benefits in accordance with the TAM theory which states that a customer will feel that the use of internet banking can be useful when such use is also easy for them. The easier operation of an internet banking then this will attract customers to continue using the internet banking. Through the use of continuous makes more customers can feel the usefulness of internet banking.

**Effect of Perceived Ease of use of the Intention to Use the BNI in Makassar.**

The results showed that the perceived ease of use (Y₁) does not have a significant relationship to the intention to use (Y₃). This means that one's intention in using internet banking is not related to the perceived ease, or in other words, even if the customers feel the ease of internet banking service customers will not necessarily use the internet banking service. These results are not in accordance with the initial hypothesis which states that there is a significant relationship between perceived ease of use on intention to use.

In the motivation theory known as the theory of motivation intrinsic and extrinsic. Construct TAM itself, namely ease of use perceived is called intrinsic factor. Motivation is intrinsic is when the nature of work itself makes a motivated, the person gets satisfaction by doing such work not due to other stimuli such as status or money or it could be said to be a doing his hobby. Characteristics of respondents in this study indicate that the user has the level of education and high incomes. This indicates that respondents have often used technology, both when he was attending lectures or may have become a hobby, which is now increasingly mushrooming of social networking sites, which is a major factor increase of internet users. With frequent interaction with computers and the Internet, the use of internet banking is not difficult to learn by experience that have been held, so that the receiving internet banking, they do not look at ease again, but from other factors.

These results support the research Chau and Hu (2002), which examined the application of Technology Acceptance Model (TAM) in explaining the doctor's decision to accept the technology of telemedicine in the context of health, research shows that the construct ease of use perceived (perceived ease of use) does not significantly affect ts to use the system intention (intention to use).

**Effect of Perceived Usefulness of the Intention to Use the BNI in Makassar.**

The results showed that the Perceived Usefulness (Y₂) does not have a significant relationship to the intention to use (Y₃). This means that while customers benefit in internet banking service customers will not necessarily use the internet banking service. These results are not in accordance with the initial hypothesis which states that there is a significant relationship between Perceived Usefulness of the intention to use.

Construct perceived usefulness is a belief (belief) of the decision-making process. Thus, if one was to believe that the system is useful information he will use it. Conversely, if a person feel confident that the information system is less useful then he will not use (Jogiyanto, 2008).

In theory known as the theory of motivation and extrinsic motivation intrinsic. The construct of perceived usefulness TAM itself is referred to as extrinsic motivational factors. Extrinsic motivation is when elements outside of work inherent in such work becomes the main factor that makes a motivated like status or compensation.
Status of the respondents in this study of employees at the same dominant customer at BNI bank, so the intention to use Internet banking preceded by extrinsic factors. This makes why in this study concluded that the intention of using internet banking by the customer is not because of the perceived benefits but it is a necessity of the workplaces.

**Effect of Perceived Ease of Use to Intention to Use moderated by Experience in Bank BNI in Makassar.**

The results showed Perceived ease of use has a significant relationship to Intention to use moderated by Experience. This means that the perceived ease in using internet banking customers will influence the intention to use internet banking when the customer has had experience with information technology. These results are consistent with the initial hypothesis which states that there is a significant correlation between the trust against the perceived ease of use.

Igbaria et al. (1995) showed that the experience of using the technology will affect directly to the reception system. The experience will also affect revenues indirectly through a system of beliefs that is through the perception of ease of use and perceived usefulness. Mathieson (1991) also suggests a relationship between experiences that are expressed as a skill or expertise to use the technology.

**Effect of Perceived Usefulness of the Intention to Use moderated by Experience in Bank BNI in Makassar.**

Perceived usefulness has no significant relationship to the Intention to use moderated by Experience. These results are not in accordance with the initial hypothesis which states that there is a significant relationship between perceived usefulness of the intention to use moderated by experience.

The process of perception depends on past experience and education obtained by individuals. The process of formation of perceptions as meaning the observation that begins with the stimuli. After receiving the stimuli, the next stage of selection that occurred interact with interpretation, as well as interact with the closure. The selection process occurs when a person obtains the information, it will take the process of selecting a message about which messages are considered important and not important. The process of closure occurs when the selection results will be compiled into a single unit that sequentially and meaningful, while the interpretation takes place when the concerned given the interpretation or meaning of such information as a whole (Prayoga, 2010).

Taylor and Tood (1995) in his research shows that there are differences in the causes of the use of information systems by experienced users and inexperienced. With experience, users do not have concerns about ease of use and focus on the perceived benefits. The results of this study show that customers have an experience that is high but not moderate perception of the benefits of the intention to use internet banking. Prayoga (2010) me state that approximately 50% of potential sales lost because users could not find the information, and 40% of users do not come back again to visit the website because of a bad experience when I first visited the website. These inconsistencies, probably because the connection speed and security of the service internet banking. Often a slow connection makes the customer does not feel benefit and get information optimally. Security is also an important factor in the use of internet banking. Experience the bad kind of personal as well as of people around when transacting financial via the internet makes the user does not come back again to visit the website. It can be concluded that, although the user has the experience but not moderate perception of the benefits of the intention because there several factors such as transaction security and network speed.

**5. Conclusions and Suggestions**

Perceived usefulness in using internet banking is influenced by the existence of the service awareness of internet banking which has been owned by the user. Characteristics of
respondents were highly educated, and have an income that is high enough to indicate that they had been aware enable internet banking service both in terms of benefit or risk in the use of internet banking. This information can be searched via the internet, where the look of the characteristics of the respondents, the respondent has used technology, either in school or workplace.

Benefit perceived in the use of internet banking is influenced by awareness of service and ease of use internet banking but benefit perceived no significant effect on the intention to use internet banking. Internet crime is often the case makes internet banking users to be more careful in the transaction using the internet. Characteristics of respondents also indicate that the service is a service that is often used non-financial such as check account balances or mutation, whereas financial services are less used to transfer funds. This means that the intention of customers using internet banking is strongly influenced by the trust owned by the customer in view of internet banking.

Benefits of using moderated experiences significantly influence the intention to use your internet banking. Meanwhile, ease of use is moderated experience no significant effect on the intention to use your internet banking. This indicates that when customers have the experience, the perception of the perceived ease in the use of internet banking has an influence on the intention to use internet banking. However, their experience does not affect the perception of the benefits of the intention to use internet banking. Based on previous studies found that people who have low experience will see the technology in terms of simplicity, otherwise if it has a high experience will see the technology in terms of its benefits. However, contrary to the results of this research. The experience of the respondents in this study is quite high and has an influence to the perceived ease and has no effect on the perception of usefulness. Inconsistencies are likely due to the lack of results in measuring variables experience, thus making the contradictory results of other research beforehand. Questions in the questionnaire in this study makes the results are biased because they do not focus on a questionnaire asking questions about how many times the use of technology and the Internet or future benefits in the use of technology and the Internet. Connection speed and security of the services of Internet banking also affect the results. Often a slow connection makes the customer does not feel benefit and get information optimally. Security is also an important factor in the use of internet banking. Experience the bad kind of personal as well as of people around when transacting financial via the internet makes the user does not come back again to visit the website. Therefore, even if the user has a high experience not moderate perception of the benefits of the intention because there several factors such as transaction security and network speed.

This study has several limitations as follows:

1. This study uses only one company alone. With the use of this single subject has the disadvantage that the results cannot be generalized across other companies in general.
2. This study uses a sampling technique is simple random sampling where the sampling is done randomly, so that research results are very dependent on a sample of respondents research.
3. Generalization done in order to get a picture of the user customers of internet banking in Singapore is still lacking.
4. Researchers do not limit the sample is based on the type of use of internet banking whether financial or non-financial, it will affect the perception of the benefits and ease of use that can be perceived by customers.
5. Questions on the questionnaire regarding variable focus less experience. So it can produce biased results.
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Journal article


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Thesis

A study: History of Buddha by using the Field Studies at Buddhamonthon

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ABSTRACT

Objective The aim of this study is to investigate the knowledge and comprehension of students enrolled in History of Buddha by using the Field Studies at Buddhamonthon by assigning them to visit Buddhist precinct and the instructor then described the History of the Buddha

Methodology All participants were student from Rajamangala University of Technology Rattanakosin (RMUTR’s students) in Foundations of Thai Civilization (HUM 1007) during the first semester of academic year 2015. The study of simulation has the advantage of presenting the abstract idea of the context of the realistic and helping students understand abstract ideas

Findings – The results revealed that the efficiency of the study of simulation in History of Buddha was effective because the criterion (E1/E2) at 93.14/92.14 in first parishes, 92.57/92.14 in second parishes, 90.00/92.14 in third parishes and 92.85/92.14 fourth parishes. The criterion obtained from this study was higher than the hypothesis as 90/90

Novelty – The study of simulation has the advantage of presenting the abstract idea of the context of the realistic and helping students understand abstract ideas more than in classroom

Type of Paper Empirical

Keywords: Field Studies, History of Buddha, Achievement Test

1. Introduction

“And whosoever, Ananda, should release themselves from the physical plane on such a pilgrimage, with his heart to have faith and believe, he at the breakdown of the body, after death, will be reborn in the realm of heavenly happiness.” Mahaparinibbana Sutta Boisvert and Goldberg (2014) the pilgrimage to India’s Buddhist sacred sites also referred to the Middle Land (Majjhima Desa) is becoming an increasingly popular activity among Buddhists around the globe. The pilgrimage is generally associated with religious practices surrounding prayer, worship, and meditation. It also dominates cultural, economic, social, political, and literary dimensions. Huntington (1986) offers a comprehensive historical examination of

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Lumbini, Kapilavastu, Bodhgaya, Sarnath, Shravasti, and Sankasya. Elacqua (2015) the pilgrimage, the spiritually motivated journey to a religious location, is an important part of numerous religions. Pilgrimage four parishes in Buddhamonthon Nakhon Prathom Province, the Holy Land one has to bow to places of pilgrimage 4th parishes are the Buddha's birth, enlightenment and death sermon is considered a benefactor. It is believed that the origin of the Buddha. Because of this, each year, so there are Buddhists all over the world flock to these places of worship. But not everyone will be able to travel all the way of India and Nepal. We have simulated places of pilgrimage 4th Parish into a Buddhist. The Buddhists have the opportunity to pray and commemorate the Buddha.

Four Commemorative Sites: Four groups of sculptures surround the Buddha statue of Buddhamonthon, memorializing the four stations in the life of Buddha. A collection of sculptures in the shape of seven lotus flowers symbolizes the Buddha’s birth. “Bhedhi Banlang” (the throne under the Bodhi tree) symbolizes his enlightenment. “Dharmacakra” (the wheel of doctrine) the seats of the five mendicants symbolize the Buddha’s first sermon. A sleeping pedestal and Anandha’s seat symbolized the Buddha’s death and attainment of Nirvana.

The Field studies: Through educational and research activities in the areas of social science research, students engage in data collection and analysis. Students develop critical thinking and analytical skills transferable to other contexts. Spool (2007) fields to study and provide the advantage of delivering the team information they just cannot receive in any other ways. Even a short field study, such as two or three half-day visits can yield tremendous value involved in collecting data outside an experimental or lab setting. This type of data collection is most often performed in natural settings or environments and can be done in a wide variety of ways for various disciplines. Field studies are known to be expensive and time consuming; however, the amount and diversity of the data collected can be invaluable.

2. Methodology

1. The achievement test

The achievement tests were 10 items in each parish and other two parallel sets achievement tests for students who did not get a score less than 90 percent

2. Satisfaction questionnaires

The satisfaction questionnaires were used for teaching in the learning in content, objective, situated learning, time, and evaluation. The attitudinal measurement of satisfaction with teaching on the field studies components consisted of the estimated value standard of Likert rating the scale of 1-5 from “strongly agree” to “strongly disagree.” Each respondent was asked to check one of the five positions given below. These five positions were given simple weights of 5, 4, 3, 2 and 1 for scoring. The high scale score represented a positive attitude to the students. All positive items were scored they stand:

- 5 Strongly agree
- 4 Agree
- 3 Uncertain
- 2 Disagree
- 1 Strongly disagree
Table I The standard keeping the score of the attitude measurement were interpreted as follows:

<table>
<thead>
<tr>
<th>Mean</th>
<th>Attitudinal Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.51-5.00</td>
<td>showing very good or very high agreement level for attitudes towards the field studies on History of Buddha.</td>
</tr>
<tr>
<td>3.51-4.50</td>
<td>showing good or high agreement level for attitudes towards the field studies on History of Buddha.</td>
</tr>
<tr>
<td>2.51-3.50</td>
<td>showing medium agreement level for attitudes towards the field studies on History of Buddha.</td>
</tr>
<tr>
<td>1.51-2.50</td>
<td>showing low agreement level for attitudes towards the field studies on History of Buddha.</td>
</tr>
<tr>
<td>1.00-1.50</td>
<td>showing very low agreement level for attitudes towards the field studies on History of Buddha.</td>
</tr>
</tbody>
</table>

The process of learning (The Field studies) is as follows:

The teacher describes the History of Buddha by taking students to Pilgrimage four parishes in Buddhamonthon Nakhon Prathom Province

*First parishes LORD BUDDHA’S BIRTH*

1. Teacher lectures about Lord Buddha’s Birth at the four commemorative sites Buddhamonthon Nakhon Prathom Province the time in this step about 25-30 minutes.
2. All students take the test about Lord Buddha’s Birth. The participants could check the answers by themselves after the test, the time in this step about 10-15 minutes.
3. The result of test in the group must be more than 90 percent if the result was less than 90 percent. (correct answer less than 9 items( not relates to the hypothesis, the students who not pass the test must go back to Step 1 and take the post test in which one that are parallel to each other.

*Second parishes ENLIGHTENMENT*

1. Teacher lectures about Lord Buddha’s ENLIGHTENMENT at the four commemorative sites Buddhamonthon Nakhon Prathom Province the time in this step about 25-30 minutes.
2. All students take the test about Lord Buddha’s ENLIGHTENMENT. The participants could check the answers by themselves after the test, the time in this step about 10-15 minutes.
3. The result of test in the group must be more than 90 percent if the result was less than 90 percent. (correct answer less than 9 items) not relates to the hypothesis, the students who not pass the test must go back to Step 1 and take the post test in which one that are parallel to each other.

*Third parishes THE FRIST SERMON*

1. Teacher lectures about Lord Buddha’s THE FRIST SERMON at the four commemorative sites Buddhamonthon Nakhon Prathom Province the time in this step about 25-30 minutes.
2. All students take the test about Lord Buddha’s THE FRIST SERMON. The participants could check the answers by themselves after the test, the time in this step about 10-15 minutes.
3. The result of test in the group must be more than 90 percent if the result was less than 90 percent. (correct answer less than 9 items) not relates to the hypothesis, the students who not pass the test must go back to Step 1 and take the post test in which one that are parallel to each other.
Fourth parishes NIRVANA

1. Teacher lectures about Lord Buddha’s NIRVANA at the four commemorative sites Buddhhamonthon Nakhon Prathom Province the time in this step about 25-30 minutes.

2. All students take the test about Lord Buddha’s NIRVANA. The participants could check the answers by themselves after the test, the time in this step about 10-15 minutes.

3. The result of test in the group must be more than 90 percent if the result was less than 90 percent. (correct answer less than 9 items) not relates to the hypothesis, the students who not pass the test must go back to Step 1 and take the post test in which one that are parallel to each other.

3. Data Collection

The data were obtained through the achievement test and questionnaire surveyed from 35 students (RMUTR’s students) who in Foundations of Thai Civilization (HUM 1007) RMUTR’s at Rajamangala University of Technology Rattanakosin (RMUTR)

4. Data Analysis

<table>
<thead>
<tr>
<th>Table II</th>
<th>The achievement test scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>The achievement test scores</td>
<td>( \bar{X} )</td>
</tr>
<tr>
<td>first parish</td>
<td>92.14</td>
</tr>
<tr>
<td>second parish</td>
<td>92.57</td>
</tr>
<tr>
<td>third parish</td>
<td>90.00</td>
</tr>
<tr>
<td>fourth parish</td>
<td>92.85</td>
</tr>
<tr>
<td>Overall</td>
<td>92.14</td>
</tr>
</tbody>
</table>

All data from questionnaires collected were analyzed by using standard deviation. The procedures were carried out according to teaching in the learning in content, objective, situated learning, time, and evaluation.

<table>
<thead>
<tr>
<th>Table III</th>
<th>The satisfaction of field studies in History of Buddha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
<td>Score(full score =5.00)</td>
</tr>
<tr>
<td>Content</td>
<td>4.14</td>
</tr>
<tr>
<td>Objective</td>
<td>4.48</td>
</tr>
<tr>
<td>Instruction’s learning situation</td>
<td>4.37</td>
</tr>
<tr>
<td>Learner’s learning situation</td>
<td>4.00</td>
</tr>
<tr>
<td>Knowledge</td>
<td>4.08</td>
</tr>
<tr>
<td>Evaluation</td>
<td>4.37</td>
</tr>
<tr>
<td>Timing</td>
<td>3.68</td>
</tr>
<tr>
<td>Overall</td>
<td>4.05</td>
</tr>
<tr>
<td>Total</td>
<td>4.15</td>
</tr>
</tbody>
</table>

5. Conclusion

The data from the achievement test reveals that all students can get to score over than 90 percent an effective criterion higher than the hypothesis as 90/90 (first 90 is mean each students’ scores and last 90 is mean groups’ scores). The scores of third parishes are 90.00 less than another parish score causing from this base is incomprehensible the teacher take the student who don’t pass 80% to the parish again and repeat the test the student can pass 80% in only second time and in the parish 1,2 and 4 students do achievement test very well. This is
consistent with studies of Kong (2015) The Field Studies allows students to experience ground realities, to apply and adapt to the field what they had learnt in the classroom, and to address the gaps that still exist from that classroom-based knowledge. Wilson (2011) world activities and in "real" settings enhance and improve learning, increasing understanding and knowledge. The activities in the field are never limited to one discipline or aspect, they will always between ideas and practical realities. Lonergan and Andresen (1988) stimulate higher understanding and reinforcement of previously learned classroom material broadens awareness and emphasizes connections and an appreciation for, concern or valuing of the visited environment.

The satisfaction questionnaire responses show the mean scores are 4.15 it means showing good or high agreement level for attitudes towards the field studies on the History of Buddha and the scores of timing is 3.68 the reason of these scores may be likely due to the fact that teachers need to teach again. The majority students who have scored more than 90 percent had to wait in line. Consistent with research of Academic office of RCAPS (2011) 85 percent of participating had ability think in the field study. Rickinson et al. (2004) fieldwork can have a positive impact on long-term memory due to the memorable nature and effective fieldwork and residential experience in particular can lead to individual growth and improvements in social skills. In a study using field study method is effective very good learning and students have the good sense to learn in the lessons. in the next study may use this method to get the students to learn about the important people or important place is related to the student's course.

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Public Relations Performance Based on Perception of Media Workers

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ABSTRACT

Objective: Media and Public Relations role have a strong relationship. Media needs events to get news, and Public Relations needs media to promote a good image of companies in order to build a good reputation in their stakeholders’ society. However, media workers must emphasize the importance of news values and ethic code of journalistic. Media workers often think that bad things of institutions become interesting or good news. It is, in fact, the opposite of what public relations wants. This paper aims for exploring how Universitas Brawijaya’s public relations can manage the media relationship to promote its reputation.

Methodology: This research employed Focus Group Discussion (FGD) as the second data gathering technique after collecting data through media monitoring. In this qualitative research, researcher involved 24 reporters including print media, broadcasting media and media online.

Finding: This research found out that local media gave more chance to cover Universitas Brawijaya activities but national media tended to be more stringent to select events. The media workers expected Universitas Brawijaya either supported or cooperated with media by providing some information related to innovation lecturers or students had created. Finally, the media workers also argued that media would not cover events such as ceremonial activities, student activities or guest lecture which have no strong.

Novelty: This research has been really conducted after PR position in the organizational structure in UB is directly under rector.

Type of Paper: Empirical

Keywords: Media Expectation; Public Relations; Universitas Brawijaya; Media Perception.

1. Introduction

The increasing competition of companies realizes the significance of public relations in applying planning, research, and also evaluation program (Austin and Pinkelton, 2008, p. 2).
A trust becomes an important term in developing business and winning in tight competition. Unfortunately, laying advertising as a single power to communicate with the public is not strong enough (Moloney, 2000, p. 7). Publicity contributes significantly to help companies or business institution to create company branding or strong branding. Publicity offers more benefits than advertising because it is marked as a neutral point of view from media. Even though media itself is not neutral. People still think that media has capability as a source of information in information era. For some people, advertising is disturbing, and they tend to avoid to read it. Author wants to emphasise that media publicity is important to influence, persuade or even control how people think. Meanwhile, the main task of public relations is to develop a good image of company in society or market. Therefore, Public Relation should deploy the power of media to reach the public for developing company’s reputation.

Those potential powers of media can be considered as the extension of company to listen what people talk about and to talk what people should know about company. The media handling strategy must be done in order to lead in competitive market. Public relations who have responsibilities to keep good communication with public should know how media work. Furthermore, public relations must know who sets media agenda as well. In regards to control of media content, hierarchies have been found influential; they include media power, media routine, organization, extra media forces and ideology (Shoemaker and Reese, 1996).

Media as an industry must generate profit to keep alive in business competition. For media, the most income is from advertising or sponsorship. Media sells content to audiences and they will categorize the media into popular media list (rating). In some developed countries, media can earn much money because companies also want to keep their brand on their consumers or maybe want to penetrate new market. Therefore, media is required by companies to assist their marketing department and also public relations activity efforts. Media content as a soul of media itself, becomes a very important factor to attract audiences. For this purpose, some media industries decided to serve segmented target or certain audiences in order to make a strong relationship between media and audiences. Others choose specific issue to build specific market. Media character can be identified by its content.

Interestingly, reality finds news take the majority of content composition. There is no space limitation on media for news. The most important thing that we must concern is that an interesting news can be a bad news for some companies. In contrast, a bad news is good news. It means that negative issues of companies can attract media workers to publish the issues as the first priority report. Theoretically, news and opinion belong to the journalist responsibility and how to run the media industry is handled by business department. Journalist department should be autonomous and acquire no business interest allowed to interfere journalists with composing news. However, in some cases it is shown that business interests can influence what media report or what they do not. Other cases also found out that business interest could determine how media report. Furthermore, credibility of media can be influenced by the way media reporting some issues clearly, deeply and independently. Credibility of media is in audiences' perception.

Here, it is very important to know what media expect to company. In secret discussion with local media manager level in Malang, the informant X (2015) said that companies should have had good relationships with media if they did not want media expose their bad things about their business. Additionally, he explained that good relationships must be developed not only institutionally but personally as well. This good relationship reflects how companies can serve media worker in accessing information well and also how they support media in order to survive and get profit. According to Gans (2003), news can help people to understand what companies have done.

Information access is a vital issue for journalists, which Public Relations must serve them well. Publicity can significantly influence the increasing company’s reputation on public opinion. Media publication procedures towards company’s positive qualities are pivotal efforts that Public Relations strategy does. Appropriate information provision becomes a key issue in managing communication issues or internal communication. It means, not every important and interesting information (on company side) can attract media workers to report
and publish it as a news. However, media also must consider the degree of news’ significance and attractiveness for media and readers.

Universitas Brawijaya (UB) as the biggest university in Malang has been facing a challenge to manage its reputation through media since the increasing number of new students. This year, 2015, UB changed public relations position as a unit led by a lecturer being directly responsible to the rector. In this structure, public relations has immediate access to the rector, the vice rectors, the deans and also the head of academic and non-academic supporting unit. In this new position, public relations potentially can increase its role to manage UB’s reputation on public including media. This paper aims to find out what journalists think about UB and what they expect to public relations role in strengthening the relationship between media and UB. This study employed Focus Group Discussion (FGD) to collect data from 33 media journalists. They were from local media such as Radar Malang, Malang Post, Berita Metro, Akbar TV, ATV, KDS 68, Koran Pendidikan, RRI, Surya and national media such as TVOne, Detik.com, Trans7, MNC Group, TVRI, Kompas TV, ANTV, Media Indonesia, Bisnis Indonesia, Tempo.co, MetroTV.

2. Potential Power of Media

As McLuhan (1964) said that media can become the extension of the human senses. People can listen to the news from out of their reach. In this business competition right now, media is used by institutions or companies to reach their consumers or stakeholders, so they can communicate mutually to each other. As a result, media corporates compete to get as many audiences as they can by producing some programs including news and entertainment ones. News content on media serves a key role in attracting audiences and it can influence what and how people think. Furthermore McCombs (2004, p.124) says that “a significant extension of agenda setting” is that media significantly influence and direct audiences attitude and opinions. Media has potential power not only to report the events but also to construct the reality. The journalist is allowed to compose a news from certain angle of events. In this way, journalist can develop a new reality from that real event. In other words, media can frame a social reality with what they want to emphasise. Media also can put certain news in certain time in order to get much more impacts, priming. Comstock and Scharrer (1999, p. 209) explain that the media priming and framing can influence “public evaluation interpretation beyond the imputation of importance.

Furthermore, Lippman (1922) argues that public opinion can be influenced by media. People who never have a personal experience tend to believe what media say, but media cannot change what people have already believed because of their personal experience. In this point of view, author wants to emphasise that media still affects to what people think and want to do. He argued that the news content of media becomes a main source of the “pictures in our heads” about the vast external world of public affairs that is “out of reach, out of sight, out of mind” (1922, p. 29). By doing this the media creates “the ideas in our heads” about what is going on in the world, referred to as an agenda setting. However, the media impact level depends on education and background knowledge of audiences.

3. Journalism and Capitalist Interests

News and advertising should be put in a different side. News as a journalism product must be considered as a fact which people must know. Objectivity and credibility are principal values where journalists or media institutions must obey as a part of the journalist ethic code. As journalism product, Indonesian media must apply the Indonesian Press Law No 40/1999 and its attached journalism ethic code. Additionally, media must be neutral and present facts without intentionally modify them. However, some facts show that media cannot avoid the expectation of the owner or business department. The development of media industries and technology has an impact on media business map. In Indonesia, the ownership of media industries tends to be owned by few people who already have some media business as well (see Lim, 2012). Curran (2006) argues that “the shift from craft to industrial production of
newspapers, the development of advertising dependence and the growth of oligopoly led to a systemic distortion of journalism”. Therefore, news is not only what happened but it can be defined as good news from companies obtaining a very good relationship with media corporates. News is a negotiated product between media industries and certain companies.

4. Public Relations Role in University

UB is a one of state universities in Malang. In UB, public relations role is specifically defined as media relationship or external relationship. In United States and Europe perspective, public relations is known as communication management, corporate communication or communication. For example Cutlip, Center, & Broom (2000); Grunig & Hunt (1984); Vercˇicˇ, van Ruler, Butschi, & Flodin, (2001) emphasizes the meaning of Public Relation on relationship between organization and its relevant publics. The term demonstrates similar definition as in Latin America that emphasizes on two-way symmetrical communication between an organization and its publics. In UB, internal relationship (communication between management level, lecturers and staffs) is not PR authority. However, public relations are responsible for all communication between internal publics and media including how to manage issues on media.

This research found that UB was suggested to give information access to media well. According to Edy, TVOne reporter, it was important that UB initiated and focused on provision and dissemination of any innovations the media regularly. Some informants also suggested that UB should have facilitated the media to connect between UB, media and society. For instance, Udin, Detik.com reporter, stated that public relations had already supported media workers in providing access about Pertamina electric vehicle gate in UB. However, Agus, Trans7 reporter suggests UB to be more aggressive to provide some innovation issues made by students or lecturers.

UB is known as an innovative university and because of this, reporters hoped there were exclusive treatments to certain media. For example, the invention of preservative bread machine was actually a potential issue as a national news, but TV reporter could not promote this invention to national broadcasting media because this information was only disseminated to print and online media.

5. Media Worker Perception: PR as a facilitator and news provider

Perception is a result of what people think about the object. Perception can be influenced by field of experiences and frame of references (Mulyana, 2007). Considering the content control by hierarchy level (Shoemaker and Reese, 1996), media workers who contact, see, and hear the evidence or events have an important role to retrieve and select some facts. In media competition, media always want to get a privilege from informants in order to obtain exclusive report.

Deny (MNC Group), Arif (TVRI), Tiawan (Kompas TV), Hendro (ANTV) believe that UB Public Relations must play its role to develop good relationship with media by organizing media gathering. Good interpersonal communication atmosphere, according to them, will support UB and media journalist in doing each job better. The next step, UB public relations must facilitate media to get informants updated over some issues which media journalists want. By doing this program, they believe that UB can promote effectively on media. Therefore, Aries, Media Indonesia reporter suggests that UB and media must cooperate as a partner relationship. Austin and Pinkleton (2008) define this as relational satisfaction where every one can contribute in developing mutualism cooperation.

In provision of news, journalists agree that UB must regularly release some innovations in print, online and broadcasting media form. At this time, UB only provided print and online media format. In fact, public of UB is not only print and media online readers. UB public relations should consider to provide audio-video news form. As the basis function of public relations, UB public relations must apply information dissemination, projection and
mediation (Roberts, 2004). Creativity and continuity in news provision must consider “the precise content and meaning given to the public interest notion and the means proposed for achieving it vary widely within different contexts (countries) and time segments” (Iosifidis, 2011, p. 25).

The most important thing that UB must do is to understand if media journalists need news for their audiences not for UB only. Therefore, UB reporter needs to improve journalistic skill in order to be able to recognize well what kind of news media want. Journalists even offer to do field trip to increase sense of journalist. Referring to Gotsi and Wilson (2001), UB public relations reputation is already good and in order to continue improving, UB public relations must consistently maintain good relationship with media so its stakeholders can get accurate information related to UB’s actions.

6. Conclusion

UB public relations role concerns and focuses on how to coordinate staff to provide, disseminate and create news. Moreover, public relations must be able to manage an issue on media.

Media relations become an important issue because exposing what UB have done can influence what stakeholders think. It means, by keeping good media relations, UB’s reputation can be managed well.

Media journalists hope very much to UB public relations because they think if UB has a lot of innovations and experts in some public issues, so public relations can facilitate them to get easy access to experts as informants and some innovations information.

Acknowledgements

I would like to thank the Rector of the Universitas Brawijaya and Unit Information and Public Relations for their support in this research. The financial support of the UB makes the researcher is able to present these results at international conferences. Also thank to print media, radio and tv media journalists who are voluntary engaged in this research.

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Impacts of Marketing Mix on the Usage of Library Services towards Library Users’ Satisfaction

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ABSTRACT

Objective – The purpose of this study is to identify the impacts of implementing a marketing mix on the use of library services towards library users’ satisfaction.

Methodology/Technique – This study will be conducted in quantitative method. Primary data will be obtained by distributing of questionnaires survey of the library users and will be analysed using SPSS, while secondary data will be collected from analysis of literature from previous study.

Findings – The marketing mix has a positive influence on the usage of library services towards library users’ satisfaction.

Novelty – This study is about marketing in library services which will increase the awareness of available library services among library users, and thus lead to library users’ satisfaction.

Type of Paper: Conceptual

Keywords: Library Services; Marketing; Marketing Libraries; Marketing Mix; Users’ Satisfaction

1. Introduction

Nowadays, libraries are facing revolutionary technological changes concerning their service development and provision. Chan (2012) mentioned that over the past half-decade, the online social networking phenomenon has continued to grow rapidly. In addition, Garoufallou, Zafeiriou, Siatri, and Balapanidou (2013) stated that free access to information through online search engines, such as ‘Google’ and ‘Yahoo’, which offers simple and user friendly interfaces, have created new challenges for those involved in the information service provision, especially libraries. The development of marketing communications through multimedia has become more relevant than ever within libraries today. With an abundance of online technologies available, users now have the ability to access libraries 24/7 through numerous online tools and platforms (Martin, 2012).

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It is well known that the Internet have user-friendly interfaces and offers easier and immediate available variety of information choices. This new information environment has created a situation in which, libraries no longer hold their role and place in this technological environment. Therefore, Garoufallou, Zafeiriou, Siatri, and Balapanidou (2013) suggest that libraries need to make a greater effort to improve their services, in terms of quality as much as in forms of delivery, in order to convince people to use them, instead of turning to alternative information providers such as the search engine in the Internet. Stated earlier by Rowley (1995), he mentioned that the adoption of marketing could assist libraries in their struggle to survive in the emerging and increasingly competitive information environment.

According to Xia (2009), a library is expected to improve its visibility and image through marketing strategies, thus attracting more users to utilize its materials and services. This is also supported by Seddon (1990), as she mentioned earlier, that the time has come for librarians to demonstrate the real value they bring to their organisations as well as to ensure their role as the primary information providers and consultants. Therefore, they have to actively market their services. Marketing methods can make a vital contribution to libraries and information services if applied appropriately.

Users have been coming to libraries as places with a central role in providing information sources for generations. As the Internet became more available in the mid-1990s, the attention of library users shifted from libraries towards the World Wide Web. The Internet has taken over the role of the main information provider especially among the young generations nowadays, changing their perspective and attitude towards libraries greatly (Vrana and Barbaric, 2007). Mi and Nesta (2006) stated that it happened because of the tendency of users towards search engines instead of library resources. Due to the rapid growth of the popularity of the Internet, libraries need to review their current marketing strategies and make their library services more visible to current and potential users, who are now giving priority to electronic media as their primary sources of information.

This was a new challenge for libraries, not only because of the new types of interactive services but also because of new user expectations, now quite different from expectations users had had towards a library catalogue or a bibliographic (or full text) database (Nielsen, 2005). Library users had the ability to access and use information sources on the Internet without any intermediaries. In addition, most of the content and services on the Internet are available completely free of charge, which make most users feel lucky to use the Internet to search information without any charges apply to them.

Connecting with users to make them aware of the rich array of library resources and services, plus the infrastructure available to them is often a challenge. Conveying the message to users and successfully engaging users so that they utilize what is available to them is one of the primary goals of library’s marketing program (Anderson, 2011). Duke and Tucker (2007) state: “It is easy for libraries to become satisfies about marketing the library; after all, in the not-so-distant past, libraries were the primary information providers in the campus community. However, in today’s world libraries are confronted with competition on a daily basis”.

Similarly, Cole et al. (2010) address the increasing importance of marketing. “These days, users are visiting the physical library less. They want instant access to information and are using commercial search engines more than in the past. Research is becoming very ‘me’-centric, with users growing less aware of the value of the library and less aware of how the library can meet their needs”. Therefore, it is appropriate to conduct this study in order to analyse and identify the impacts of implementing a marketing mix on the use of library services.

2. Literature Review

Marketing library services have always been a major interest of libraries. Through marketing strategies, a library can expect to improve its visibility and image, thus attracting more users to utilize its materials and services. Throughout the years, many marketing policies have been developed and a variety of activities has been carried out, ranging from creating attractive
posters to display upcoming library events to investing in newspaper advertisements, and to even make personal solicitations. It has been proven that marketing does play an important role in publicizing library services (Xia, 2009).

Marketing library services cannot be treated in exactly the same way the physical products of manufacturing firms are treated. It is important here to recognize the two fundamentally different perspectives. In marketing its services, the library must define its users on one hand, and offer services and products to meet the needs of those users satisfactorily on the other hand. By implication, the type of library and the aims and objectives of such library exclusively determines its users’ group and consequently the market (Adeyoyin, 2005).

This is supported by Seddon (1990) statement. She stated that if marketing methods applied appropriately, it can make a vital contribution to library and information work. In an article written by Garoufallou, Zafeiriou, Siatri and Balapanidou (2013), many researchers suggest that the use of marketing can lead to a reorganisation of services in response to user needs and to inform product improvement as well as contributing, considerably towards the achievement of a library’s objectives (Wood and Young, 1988; Bushing, 1995; Renborg, 1997; Arachchige, 2002; ACRL and Reynolds, 2003; Spalding and Wang, 2006). Additionally, promotional tools can be used to raise awareness, in order to publicize the available products and services, and increase their usage and demand (Ojiambo, 1994; Rowley, 1995; Ashcroft, 2002; Adeyoyin, 2005).

Early definitions of marketing tended to be narrow in comparison to contemporary ones. For example, in 1960, the Committee on Definitions of the American Marketing Association (AMA) conceptualized marketing as the performance of business activities that direct the flow of goods and services to the consumer (Alexander, 1960). In view of the criticisms that greeted the marketing definition by the AMA, more acceptable definitions have been proposed.

A noteworthy example is that offered by Pride and Ferrel (1980). According to them, marketing consists of individual and organizational activities aimed at facilitating and expediting exchanges within a set of dynamic environmental forces. In spite of the obvious strength of Pride and Ferrel’s definition, Agbonifoh et al. (1998) improved on it and they stated marketing consists of individual and organizational activities designed to sense and serve the consumer’s needs and to facilitate and expedite exchanges with a view to achieving the goals of the individual or organization through the satisfaction of the consumer’s needs.

Sen (2006) indicated in her paper on defining marketing strategies for library how important this can be. She pointed out that adopting a marketing strategy is a way of successfully managing the impact of changes in the library domain. As a result, for library customers it could mean more appropriate services that meet their needs better and for the library it could mean survival (Vrana and Barbaric, 2007).

The marketing mix is at the core of marketing and is useful in helping libraries to structure their marketing activities. The so-called ‘marketing mix’ is a conceptual framework that is particularly useful in structuring a marketing strategy (Baker and Hart, 2008). The four basic elements of the marketing mix, first proposed by McCarthy (1978), are the four Ps — Product, Price, Promotion and Place (or Distribution). Four Ps marketing mix elements are generated from the product’s point of view and do not recognise customer needs directly. Later, in 1990, Lauterborn proposed a four Cs classification - Customer, Cost, Communication and Convenience which is a more consumer-oriented version of the four Ps.

Table 1 shows the correspondence among four Ps and four Cs marketing mix elements and their common definitions (Kotler and Armstrong, 2014), (Smutkupt, Krairit, and Esichaikul, 2010), (Baker and Hart, 2008), and (Krueger, Lu, and Swatman, 2003).
Table 1. The four Ps and four Cs marketing mix elements and definitions

<table>
<thead>
<tr>
<th>4Ps</th>
<th>4Cs</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>Customer</td>
<td>An effort for studying of customer wants and needs for the best product design.</td>
</tr>
<tr>
<td>Price</td>
<td>Cost</td>
<td>Factors affecting the price and the cost of products, in which price is only a part of the total cost of ownership to satisfy wants or needs.</td>
</tr>
<tr>
<td>Promotion</td>
<td>Communication</td>
<td>Promotes efforts to present and to sell a product by using the right form of customer communication.</td>
</tr>
<tr>
<td>Place</td>
<td>Convenience</td>
<td>Factors effecting not only the place where a consumer can buy a product but the ease of finding the product, finding information about the product and buying the product.</td>
</tr>
</tbody>
</table>

The product element of the four Ps and the corresponding customer element of the four Cs deal with efforts to study customer requirements and needs with the objective of best product or service design. While the product or service element addresses new product or service development from a library point of view, the customer element addresses a customer oriented product or service development with the aim of maximising the customer value and respects customer needs while developing products or services (Smutkupt, Krairit, and Esichaikul, 2010) and (Krueger, Lu, and Swatman, 2003).

Service marketing mix elements, price and cost handle factors influencing the price setting and the production or services costs. The price element considers the cost of purchasing a product or service and the cost element incorporates the total cost of acquiring, using and disposing a product or service which also includes the product or service price. Cost in library services can also means the time and energy the user puts into accessing the library services (Kotler and Armstrong, 2014), (Smutkupt, Krairit, and Esichaikul, 2010), and (Krueger, Lu, and Swatman, 2003).

The four Ps marketing mix element, promotion, and its corresponding four Cs element communication, incorporate all promotional efforts to present and to sell products or services by communicating with customers (Kotler and Armstrong, 2014), (Smutkupt, Krairit, and Esichaikul, 2010), and (Krueger, Lu, and Swatman, 2003). The marketing mix element, promotion deals with encouragement of consumers to buy a product or service especially with advertising content, whereas the element, communication intends to intensify the promotional efforts with a high level focus on consumer communication.

The last element of marketing mix, place or convenience deals with the best possible allocation of products or services. The place element is engaged with distribution channels such as a physical building or the online website while the element, convenience is based on the easiest way of delivering the products or services to the consumer (Kotler and Armstrong, 2014), (Smutkupt, Krairit, and Esichaikul, 2010), and (Krueger, Lu, and Swatman, 2003).

Ashcroft and Hoey (2001) discussed the role of promotion in marketing – promotion being concerned with enhancing the image and reputation of the organization as a whole. They suggested that, in the case of libraries and their services, the four Ps of the traditional marketing mix (product, place, price, promotion) (Kotler, 2001) can be transformed into Kotler’s four Cs in the library environment. The product becomes customer’s wants and needs, place becomes convenient, price becomes cost to the library user (time and energy the user puts into accessing a library service), and promotion becomes communication. If applied properly, the four Cs can serve as a strong tool to support library services, and improving the old services to meet the Net generation’s expectations. Therefore, the four Cs of the marketing mix should be incorporated into the new marketing strategies in academic libraries.

3. Conceptual Framework
The purpose of this study is to identify the impacts of implementing a marketing mix on the usage of library services towards the library users’ satisfaction. The marketing mix consists of the four Cs, adopted from Lauterborn (1990), which are customer, cost, convenience, and communication.

This study will define the relationship between the four Cs of marketing mix on the use of library services, and the effect of implementing the four Cs of marketing mix towards library users’ satisfaction.

Figure 1 demonstrates the conceptual framework of the four Cs of the marketing mix, which is customer, cost, convenience, and communication influence on the use of library services towards library users’ satisfaction.

![Figure 1. Conceptual framework](image)

4. Conclusion

By uncovering the impacts of marketing mix on the use of library services, the librarians will know more about their marketing strategies in order to attract more users to visit their library and use their library services. Based on the purpose of this research, the library will know the impacts of implementing the marketing mix towards their users’ satisfaction.

The library will also know the importance of implementing the marketing mix related to the visibility of the physical building of the library itself. Since nowadays people tend to use alternatives to gather information, such as searching through the internet or online databases, libraries need to take action towards this matter, in order to make libraries become visible and important place for searching information.

Last but not least, implementing marketing in library services will definitely increase the awareness of available resources and services among users. Libraries are places where it may produce users who are more informed and better tooled, which in the end, may result in a greater utilization of resources and services that are currently offered by the libraries.

References


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ABSTRACT

Objective – This study aims to determine the impact of tax inspectors behavior observed of dimensional perception of convenience and expediency perception Tax Application Inspection Report (ALPP) on the performance of tax inspection on the Tax Office Madya

Methodology/Technique – Methology using Multiple linear regression analysis. The research data was obtained from questionnaires given to related parties in the KPP Madya from the examination and the public. Samples were obtained by the method of random sampling.

Findings – Based on the total sample of 50 respondents obtained partial results of the study that each variable utilization and ease of use of ALPP significant effect on the performance of tax inspection with TAM approach. Simultaneously two independent variables (utilization and ease of use) has a significant effect on the performance of tax inspection.

Novelty – The important role technology that affect the performance at the individual level are described in the Technology Acceptance Model (TAM). The core of this model is to make information technology a positive impact on the individual performance of these technologies should be exploited and the technology must be in accordance with the type of work performed.

Type of Paper: Empirical

Keywords: Utilization, Ease of Use and Performance of Tax Audits.

1. Introduction

The principle of self-assessment (independent calculation) forcing the DJP and their staff full trust to the taxpayer, so that the tax inspection becomes the most important process in order to prevent tax evasion. Tax officials should have the competence and capability to optimize one’s policy of tax law enforcement. Directorate General of Taxes continue to improve their

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performance in order to achieve the target of achieving the optimality of tax revenue. This improvement can be done through training and through a mutation in the ranks of employees of the policy of structural, functional officers, tax inspectors, account representatives and reviewers keberatan. The policy objective is to improve the performance of tax officials (Supadmi, 2010).

There is General Information System Direkorat beneficial for users because it can facilitate the performance of the user, but has a constraint that is difficult to be validated, when the information system used by all elements of the user. According to some observers of information technology, information systems are applied in the Directorate General of Taxation that the Tax Directorate General Information Systems (SIDJP) is still chaotic. As a result, the performance of the apparatus is not optimal. Information technology should facilitate the work of humans, however, the modernization of the tax office based on Information Technology was even an obstacle in optimizing tax revenue.

The development of information technology has brought a real impact in society. Computer information technology as an activator has changed every aspect of life. Computer-based information processing started to known and until now has been a lot of software that people can use as a data processing tool to generate information.

Another phenomenon that is still existed is the tax inspectors who have difficulty in using a system such as tax inspectors who are elderly and there are inspectors who are not responsive technology. The information generated by the system is still localized (where appropriate), not connected to another KPP. So the examiner difficulties in obtaining data relating to the registered taxpayers in KPP others to help her work.

Application of Tax Inspection Report (ALPP) is a product of the examination of the tax period of examination and implementation of the inspection. Its function is to monitor the warrant until the bill is paid. All the data included in the application of the Tax Inspection Report, such work has been completed, a warrant is received, a warrant were resolved and the warrant has not been resolved, all results will be obtained with the applications that are used by the tax inspectors. To be able to assess the performance of existing tax inspectors 3 standards are general standards, standards implementation and inspection standards so it can be seen the number of Tax Inspection Report (Risal C.Y Laihad, 2013).

Information technology is a major factor that sustains building tax administration system managed by the DJP, because it is able to present the information accurately. However, if the information presented is not accurate, then the decision is not appropriate. Therefore, the problem of information technology greatly affects the performance of human resources and quality of service to the community.

Based on the explanation above, the problem in this research is how the impact of the inspectors behavior with dimensions of use and ease of use of the performance of tax inspections as the application of tax assessments report (ALPP) by using a Technology Acceptance Model (TAM) on KPP Madya ?, while research purposes is to study the inspectors behavior with dimensions of use and ease of use of the performance of the application user taxes as tax assessment report (ALPP) by using a Technology Acceptance Model (TAM) on KPP Madya.

2. Theoretical Based

2.1. Theory TAM (Technology Acceptance Model)

Technology Acceptance Model (TAM) was first introduced by Davis et al. (1989). TAM is the development of TRA (Theory of Reasoned Action), which is an assessment model that identifies technology acceptance level of individual acceptance of the technology. TAM main goal is to provide a description of the factors that influence the acceptance of information technology in general, and was able to explain the attitude of the user in a very wide range covering a population of computerized technology and its benefits. TAM assume that there are two individual beliefs, namely the perception of benefits (perceived usefulness) and
perceived ease of use (perceived easy of use) that affect the behavior of the receiver technology (Davis, 1989).

TAM usability and ease of use will affect the individual intentions in using information technology, the determinants attitudinal, each separated into user behavior (usage) with two sets of variables perception of the usefulness (perceived usefulness) and perceived ease of use (perceived ease of use) is applied to the various contexts acceptance of computer technology.

2.2 Individual Performance

This performance is a combination of the three most important factors, namely, (1) the ability and interest in one's work, (2) the ability to receive for an explanation delegate and participation, (3) the level of motivation of a worker. The higher the three factors above, then the greater the work performance of employees concerned. Performance can mean a critical component to do an assessment of performance. Performance assessed based on the achievement of the quantity and quality of output is generated from a series of tasks that must be performed.

2.3 Application of Tax Inspection Report (ALPP)

Information systems used by the tax inspectors today that Application Inspection Report Tax (ALPP) formerly namely Information Management System Audit Tax (SIMPP), but these changes do not alter the function or purpose of ALPP is a tool used by tax inspectors to assess the performance ( supervising) or assess the final outcome of a tax inspectors. (Thomas, 2011).

2.4 Behavior of Tax Inspectors

The behavior of a human being includes two components, namely the attitude or mental and behavioral (attitude) as expressed by Bilson Simamora (2008: 4) that a person's behavior is the result of learning from the accumulated experience of a lifetime. In other words, the behavior is the attitude and behavior which is the result of learning from experiences throughout life. While understanding the tax inspectors by Erly Suandy (2008: 93) is the Civil Service of the Directorate General of Taxes or experts appointed by the Director General of Taxation who was given the task, authority and responsibility to carry out tax inspection.

2.5 Utilization of Information System

Utilization and user satisfaction is widely used as a benchmark of success of an information system. Two variables are used by Doll and Torkzadeh (1998). Other researchers basing his research on the theory of attitudes and behavioral aspects of technology for example high-quality systems that affect the attitudes of the user, the system in the form of confidence and affection of the system concerned (Kurniawan, 2008). Model usefulness of information technology has been widely adopted on the theory of attitudes and behavior developed by Triandis (1971) and the theory of reasoned action (Fishbein and Ajzen, 1975, in Jogiyanto 2007).

2.6 Ease of use

Perceptions about ease of use (Perceived Ease of Use) a technology is defined as a measure in which a person believes that computers can be easily understood and used (Davis, 1989). This belief determines a user's attitude towards the use of a system then determines the intention of behavior and lead to the use of the system significantly. Davis (1989) also defines the perceived ease of use as "the degree to which a person believes that using a particular system would be free of effort" which reflects that the business is a limited resource for someone who will allocate to various activities.
3. Hypothesis Development Research

3.1 Relationship Utilization of Information Technology and Individual Performance

Goodhue and Thompson (1995) states that the use of information technologies affect the user whether the technology is having an impact that is better or worse. Better performance is achieved because it can meet the needs of individuals in carrying out and finish the job. Research conducted by DeLone and McLean (1992) shows the influence of utilization and user behavior on the performance of the individual. Research Igbaria (1997) states that the use of information technology provides a significant relationship to individual performance. Based on the literature the description above, the first hypothesis is formulated as follows:

Hypothesis 1: Utilization ALPP with TAM approach has positive influence on the performance of tax audits.

3.2 Relationship Ease of Use of Information Technology and Individual Performance

Research that focuses on ease of use of information technology in general use variables attitudes and beliefs users of the system to predict the ease of information systems (Davis, et al 1989; Doll and Torkzadeh, 1998; Swanson, et al (1991) revealed that the effectiveness of the performance will be affected by capacity processing the information required, where the performance will increase when there is harmony in the use of technology.

Doll and Torkzadeh (1998) (in Kurniawan, 2008) using the measurement of the effectiveness of work as a form of evaluation of information systems which emphasize on the satisfaction (satisfaction) end users to the technological aspects. The satisfaction ratings seen from the perspective of five pieces, namely, content (content), accuracy (accuracy), format, ease of use (ease of use), and time (timeliness).

Technology Acceptance Model (TAM) is an evaluation model of information systems success seen from the use of the system. This model will give you an idea that there are a number of factors that influence the user's decision to use the new system the usefulness and ease. Usefulness shows the user confidence in information systems contribute to the performance of users of information systems. While ease indicates the degree to which users believe that the use of information systems is easy and requires no effort.

Hypothesis 2: Ease of use APP with TAM approach affect the performance of tax audits.

4. Framework

TAM describe that there are two dominant factors affecting the integration of technology. The first factor is the user's perception of the benefits of technology. The second factor was the user's perception of the ease of use of the technology (ease of use). Both of these factors affect the willingness to use technology (usefulness).

The relationship between the use of the system (information technology) and the objectives described behavior in TAM implies forms of individual goals for positive action. The relationship between the feeling of usefulness and purpose of behavior based on the idea that in the preparation of the organization, people form goals for behavior that is believed to improve its performance.

To analyze the effect of the use ALPP with TAM approach towards individual performance, this study will use a variable utilization and ease of use ALPP with TAM approach, as well as individual performance.

5. Research methods

The population in this study are employees who work in the KPP Madya, Makassar and samples in this study were selected using random sampling techniques and collected as many
as 50 people. Data used in this research is quantitative data based on the results of the questionnaire. The data source of this research is the source of primary data, i.e., data obtained directly from the original source and not through an intermediary medium (Ghozali, 2005). Data obtained by distributing questionnaires directly to the taxpayer who was in KPP Madya, Makassar.

5.1 Data Test Quality

In a study, the data having the highest position, because it is a depiction of the studied variables and functions as a means of proving the hypothesis. Therefore, whether or not the data will determine the quality of research results. While whether or not the data depends on the instruments used in data collection. A good instrument must meet two essential requirements are valid and reliable. Hypothesis analyzed using multiple regression analysis.

6. Results and Discussion

6.1 Test Validity and Reliability

The test results demonstrate the validity of the questionnaire items that statement items in each variable has a correlation value above 0.3 as limit value of an item questionnaire studies say can be used (unacceptable). So it can be said that all item questionnaire study variables that tax inspectors conduct consisting of the utilization (X1) and ease of use (X2) and the performance of tax inspection (Y) is valid and can be used to measure the variables studied. Reliability test results for the entire statement on the use of variables (X1) of 0.664, ease of use of variables (X2) of 0.887 and performance of tax inspection (Y) of 0.855, it can be stated that the instrument is reliable.

Table 1: Coefficient of Determination

<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>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.747</td>
<td>.558</td>
<td>.543</td>
<td>1.45384</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Absx1_x2, Zscore: Utilization, Zscore: Ease of Use
Source: Primary data processed

7. Hypothesis Test Results

Coefficient determination test is performed to determine how far the ability of the model to describe the independent variables. The following table is a coefficient of determination of test results. SPSS output display Adjusted R2 value of 54.3%, which means that the variable individual performance can be explained by the variable ALPP utilization, ease of use ALPP with TAM approach around 54.3% and the remaining 45.7% is explained by other variables outside the model.

Simultaneous Significance Test (Test Statistic F) F test is used to determine whether there is influence together (simultaneously) the independent variable on the dependent variable. The following table is the result of simultaneous significance test (Test Statistic F).

Table 2 Significance Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>237.004</td>
<td>3</td>
<td>79.001</td>
<td>37.377</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>188.115</td>
<td>89</td>
<td>2.114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>425.118</td>
<td>92</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), AbsX1_x2, Zscore: Utilization, Zscore: Ease of Use
From the results of the test or ANOVA F test yield calculated value of 37.377 with a significance level far below 0.05 0.00. This means that the independent variable utilization and ease of use ALPP with TAM approach together or simultaneously affect individual performance. Individual Parameter Significance test (statistical test t).

T statistical test used to determine the effect of each variable partially or individual in explaining the dependent variable. The following table is the result of individual parameter significance test (test statistik t).

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12.212</td>
<td>.247</td>
<td>49.415</td>
<td>.000</td>
</tr>
<tr>
<td>Zscore: Pemanfaatan</td>
<td>.341</td>
<td>.156</td>
<td>.159</td>
<td>2.179</td>
</tr>
<tr>
<td>Zscore: Kemudahan</td>
<td>1.486</td>
<td>.166</td>
<td>.692</td>
<td>8.969</td>
</tr>
</tbody>
</table>

Dependent Variable: Individual Performance
Sources: Primary data processed 2010

From the above table, the regression formula is as follows

\[ Y = 12.212 + 1.468 \times 0.341X1 + X2 + e \]

SPSS output display the results in the table show that individually variable utilization ALPP with TAM approach gives the coefficient of 0.341 with a significance probability of 0.032. Variable ease of use give the coefficient of 1.486 with a significance probability of 0.000. Both of these variables can be inferred affect the individual's performance.

Based on test results Individual Parameter Significance (statistical test t) in the table above, the results of hypothesis testing can be described as follows:

7.1 Testing Hypothesis 1

Hypothesis 1 states that the use of ALPP with TAM approach has positive influence on individual performance. In the table, we can see the value of the t variable use of ALPP at 2.179 while t table value at 5% significance level of 1.99 or \( t > t \) table (2.179 > 1.99). Meanwhile for significant value owned magnitude of 0.032 which is smaller than 0.05. These results indicate that the use of variable ALPP with TAM approach significantly positive effect on the performance of individual variables, so that it can be concluded that the utilization accept the hypothesis 1 ALPP with TAM approach is positive and significant impact on Individual Performance.

7.2 Testing Hypothesis 2

Hypothesis 2 stated that the ease of use ALPP with TAM approach affect the individual's performance. Variable ease of use ALPP with TAM approach has the t value of 8.969. While the value of t table at the 5% significance level of 1.99 or \( t > t \) table (8.969 > 1.99). Meanwhile for significant value owned magnitude is 0.00, which means less than 0.05. These results indicate that the variable ease of use ALPP with TAM approach significantly positive effect on the variable individual performance.
8. Conclusion

Technology can be utilized effectively so as to contribute to the performance, therefore, members of the organization should be able to use the technology well as utilization and ease of use of information technology can affect the performance. ALPP function or purpose is to assess the performance of a tax audit. Information technology is a major factor that sustains building tax administration system managed by the DGT. From the results of this study indicate that the variable behavior of tax inspectors consisting of variable utilization and ease of use ALPP with TAM approach has positive influence on the performance of tax inspection. This means that the higher the level of utilization and ease of use ALPP with TAM approach can improve the performance of tax inspection on STO Associate.

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Qordul Hasan; The Solution for Traditional Financial “Helping Hand” Instrument Trap

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ABSTRACT

Objective – The aim of this study is to identify how Qordul Hasan, an Islamic financial scheme, can be a solution for traditional financial “helping-hand” instrument trap.

Methodology/Technique – By investigating on facts and literature, the results show that the Qordul Hasan scheme appropriate to solve the financial trap that cause by traditional financial “helping-hand” instruments.

Findings – There are (1) Traditional financial “helping-hand” instruments such as rentenir, ijon, and arisan Pyo, lead to increase financially high dependency for the poor. Eventually, the dependency becomes a trap. (2) Qordul Hasan has a suitable scheme to alleviate the poor from financial trap. As a social scheme, Qordul Hasan gives a financial help. It is useful for paying debt or starting up. Gradually, when the poor have been detached from the trap, Qordul Hasan can be converted to commercial finance.

Type of Paper: Conceptual

Keywords: Qordul Hasan, Traditional Finance, Financial Trap, Indonesia

1. Introduction

The traditional finance system (informal) develops in the poor community for several reasons. The first reason is the limited access to the formal financial institutions like bank. Loans granted by the bank are containing risk, therefore a bank has to work effectively in managing the risk and minimizing the potential losses (Djumhana, 2006). Another reason is the flexibility and the independency of the traditional financial institutions. The independency of these institutions is the freedom of who, where, when, why and how it operates. Meanwhile, the flexibility shows in the procedures and services in the lending process. Until these days, there is no government regulation on the informal financial institutions.

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There are several forms of traditional financial instruments in Indonesia. The forms are *rentenir* (loan shark), *ijon* (debt bondage), and *arisan Pyo* (Pyo gathering). These instruments evolve and are considered as a form of mutual aid within communities. Simply put, *rentenir* can be defined as loans with interest. *Ijon* is a form of credit that will be paid by the crops, while *arisan Pyo* is a collection of funds within a group in which received by the members in rotation with a system called “diskonto.”

Flexibility and the easy access allows informal finance institutions to be an important source of funds for the community. However, high interest system make the poor people has to always interact and make transaction with these institutions. The institutions become almost the only option to meet the financial needs of poor people. Therefore, people become very dependent and trapped in this system and it becomes hard for them to get out of the system.

Meanwhile, the Islamic financial system provides loan system that is in accordance to the needs of the poor. The loan system is in the form of *Qard*. The virtues of Qard are able to release the poor from the snare of the traditional financial system, and can even make their business thrive without dependence.

2. Literature Review

2.1 Rentenir (Loan Shark)

*Rentenir* is one of the traditional financial institutions that are commonly encountered in the form of activity, where there is a person or a group of people who lend money for working capital or household needs to families and small businesses (Kartono, 2012). *Rentenir* exists in urban and rural areas. In rural areas, *rentenir* is often run by the member of society who lends funds to the neighbors. Meanwhile, *rentenir* in urban areas thrive in traditional market environment. The characteristic of *rentenir* is a very high interest rate in a daily system. For example is the interest of 10n, which means that if someone borrows 100 million rupiah, he must return IDR 100,000 every day as principal plus IDR 10,000 (10%) as interest.

2.2 Ijon

According to Wijaya (1991), *ijon* is a form of informal loans that is developed in the villages. *Ijon* transactions are not uniform and varied, but generally *ijon* is a form of loan that is paid back with crops. This is a “pawn” of plants that are not yet ready to be picked or harvested. The interest rate that is being counted at the time of return is considered very high, between 10 to 40 percent. Generally, lenders are also traders of the crops that are being the debt repayment.

2.3 Arisan Pyo

Generally, *arisan* is a collection of funds by a number of members in a group and then are received by members in rotation or by an auction system (Astutik, 2008). *Pyo* itself describes as a special system from *arisan* where the turn is given to members who dared to “bargain” the lowest price. This auction is similar to auction with diskonto system. This system will make the members who desperately need funds make a very low bid. In other words, the more in need a member will receive smaller amounts.

2.4 The Anatomy of Qardul Hasan

The general definition of Qard (Qardul Hasan) is a lending and borrowing system where there is no compensation fund for the transactions but only the obligations to return the loan principal in a lump sum or in installments within a specified period (Muhamad, 2014). The scheme of Qard is basically a scheme with the social instrument rather than business. According to Hosseini and Shahbazi (2008), Qardul Hasan is deposit (or loan) with zero interest rate. Valuable gifts and moral incentives influence their attraction. In fact, this deposit is used to help everyone who needs it.
National Sharia Board of MUI (Indonesian Ulama Council), through the National Sharia Board Fatwa No. 19/DSN-MUI/IV/2001 on Qard, confirmed it. Islamic financial institutions are not only commercial institutions but also a social institution which can help the society to prosper. One way to improve the economy is to channel the funds through the Al-Qard principle.

Islamic financial institutions act as a provider of funds for loans (Qard) to customers based on agreement. Bank is prohibited for any reason to request repayment of the loans to exceed the nominal amount of the corresponding contract. Financial institutions are prohibited to charge any fee for the loans distribution on the basis of Qard, except for administrative costs within reasonable limits. Refund of the Qard funding should be done by the customers at the agreed time. In the case of customers who are classified as able to afford the loan but did not return some or all of its obligations at the agreed time, then the bank can impose sanctions based on sharia (Muhamad, 2014).

3. Discussion

3.1 How Traditional Financial “helping-hand” Instruments became a Trap

Traditional financial “helping-hand” instruments such as rentenir, ijon, and arisan Pyo, lead to increase financially high dependency for poor. Eventually, the dependency becomes a trap. Explanation of how the financing instrument/ traditional loans lead to dependence and even traps can be explained as follows.

First, the mechanism of rentenir is allowing them to be the ‘right’ option for the poor. It is triggered by two things, which are the needs of a relatively small and quick fund for the poor cannot actually be provided by the formal financial institutions that must meet certain procedures with certain unit cost. Secondly, the poor cannot access the rather-large loans for business especially for small medium enterprise with the guarantee term. In the other hand, the flexibility and easy access to loans by rentenir must be paid with a very high interest rate. If the high interest (and usually have to be paid daily with principal) is not paid at the specified time, it will transform into a principal who will then be the basis for a new interest calculation. This is known as compound system.

Second, Ijon, which is generally known among farmers, comes from the urgent needs or consumptive lifestyle that force farmers to pledge their crops. The word ijon comes from the word ijo which means green. Green illustrates the plant that is not feasible to be harvested yet. In some cases, farmers borrow money because there is an urgent need, and middlemen who lend money are considered as to give help. In rural areas, the relationship between farmers and middlemen is very personal and patronage. They see themselves as family who help each other and keep trust between each other. The procedure of loans with ijon system is easy, flexible and informal, not bound by time and place. This is the main attraction for farmers to obtain loans quickly and practically. Farmers should be able to obtain a decent price if sold in a reasonable terms, which is at the time of harvesting. Meanwhile, when the crop is being bonded by ijon system, the farmers only receive a low price for their crops. Sometimes, there is nothing left for them to do the next planting. Therefore, the lack of capital will encourage the farmers to go back in debt with the middlemen. It makes the ijon system can turn into a dependency and financial trap.

Third, arisan Pyo is a gathering held by a group of people with similar profession (usually traders) or from the same neighborhood/ area. A group of people have agreed to collect funds periodically (weekly, biweekly, or monthly). Arisan in general is held to determine (by draw system) the members who earn their turn in getting the collected money. For example, if there are ten members with dues IDR 100,000 for each member, then the amount earned in each draw will be IDR 1,000,000. Meanwhile, arisan Pyo have different system comparing to arisan in general. The auction is not done by draw system, but by bid with the lowest price. Member who bargain (Pyo) lower than one million is the member who will get the first turn.
If the lowest bid is IDR 800,000, every member only has to pay IDR 80,000. This system makes the member with desperate needs of funds to bid in a lower amount and in turn gain the smallest funds.

3.2 Qordul Hasan has a Suitable Scheme to Alleviate the Poor from Financial Trap

As noted earlier that the poor find difficulty in accessing formal financial institutions. Procedures and requirements specified are not affordable for them. The situation puts the poor in unfortunate condition without many options except the traditional financial instruments such as rentenir, ijon and arisan Pyo. Traditional financial instruments are initially able to address the financial needs of the poor, but the system nowadays encourages dependency and financial traps. Therefore, people cannot get out of the system. It makes them hardly able to develop themselves and to become more prosperous.

Meanwhile, Islamic financial institutions have a system that can be the answer to this issue. Islamic financial institutions have two roles to be performed, namely for business and for social. Furthermore, Qard scheme is one of the systems to distribute funds, which is a part of the implementation of its social role and opportunity to obtain fees from other services that is accompanied by Qard facilities. On the other hand, Qard is a scheme that is appropriate to meet the funding needs of the poor. For customers, Qard is a source of non-commercial loans and financing sources for the needs of the bailout fund, among others, related to warranty and refund obligation.

Based on MUI Fatwa, Al-Qard are loans given to the customers (muqtarid) in a need-basis. Its nature is the virtue. The nature of this virtue is reflected in the absence of additional payment or liability for the loans except the principal of the debt repayment and small administrative costs. This scheme allows the people to meet their financial needs, either to pay debts or to get the initial capital for opening a business. If the customer is unable to return some or all of its obligations at the time agreed and the Islamic financial institutions have ensured its inability, the institutions can extend the repayment time or write-off some or all of its obligations.

3.3 Gradually, when the poor have been detached from the trap, Qordul Hasan can be converted to commercial finance.

Debt settlement and/or the initial capital through Qard financing system allows the poor to escape from the trap of traditional financial instruments. It is easier for them to reorganize business activities or their farm. For producers, they can determine the scale of production that can increase their production. For traders, they can increase their turnover to develop their business. For farmers, they can sell their crops when it is time to harvest, therefore farmers earn a decent price for their crops. The goal of this process is the poor people can gradually become bank customers that are able to afford financial instruments in a commercial nature.

4. Result

Traditional financial “helping-hand” instruments such as rentenir, ijon, and arisan Pyo, lead to increase financially high dependency for the poor. Eventually, the dependency becomes a trap. Qordul Hasan has a suitable scheme to alleviate the poor from financial trap. As a social scheme, Qordul Hasan gives a financial help. It is useful for paying debt or starting up. Gradually, when the poor have been detached from the trap, Qordul Hasan can be converted to commercial finance.

References

A comparative study on the work reward preferences between Generation X and Generation Y

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ABSTRACT

Objective – The objective of this research is to analyse the reward preferences of Generation X and Generation Y in the workplace

Methodology/Technique – This research was conducted using the qualitative method. In-depth interviews were done to gain a deeper understanding of the phenomenon.

Findings – One of the main findings is that Generation Y prefers non-monetary rewards over monetary. The findings will be able to help organisations to cater the demands of its employees that are predicted to consist of Generation Y in the near future.

Novelty – This paper gains a deeper insight on the preference of Generation X and Generation Y in terms of reward preferences in the workplace. This paper contributes to the management literature and provides insights on what employees from different generations prefer to provide them with job satisfaction.

Type of Paper: Empirical

Keywords: Generation X; Generation Y; Management; Monetary; Non-monetary.

1. Introduction

There have been ongoing debates on the reward preferences of Generation X and Generation Y in the workplace over the past years. The Generation Y (or Gen Y) which is gradually taking over the workforce as Generation X (or Gen X) retires, are becoming significant to understand due to past research highlighting the differences in their behaviour, wants, and needs (Smith, Christoffersen, Davidson & Herzog, 2011; Twenge, Freeman & Campbell, 2012; Twenge & Campbell, 2012). Rewards which comprises of monetary (fixed and...
variable) and non-monetary rewards (recognition, personal growth, job security, etc.) are essential to encourage employees to perform well in their tasks and reach an organisation’s goals (Schuler & Jackson, 1996; Cheema, Shujaat & Alam, 2013). Hafiza, Shah, Jamsheed and Zaman (2011) believe that organisations at times focus too much on monetary rewards as to non-monetary rewards. But in reality, both are equally as important (Hafiza et al., 2011). Hafiza et al. (2011) further highlighted that appreciation and recognition can lead to an increase in job performance.

Despite the benefits of rewards are often mentioned, however, organisations can no longer rely on one strategy in retaining their employees (White & White, 2014). Also, they cannot perceive that all generations want the same rewards (White & White, 2014). Bjornebekk (2008) underlined that employees, regardless of generation will only feel committed to their work once they are satisfied with the rewards given by the organisation. In addition, Bassett (2008) also believes that understanding the differences between employees from different generations is crucial in order to make the significant adjustments in the workplace to attract and retain old and new employees. The soon retirement of Baby Boomers and small size of Generation X, will lead to Generation Ys in high demand in the job market in the several years to come (Bannon, Ford & Meltzer, 2011). Therefore, this research will answer the following research question:

- What are the reward preferences of Generation X and Generation Y employees?

2. Literature Review

Nowadays employees’ age in the workplace is becoming more diverse (Cogin, 2012). The age diversity which encompasses of four generations – the Veterans, Baby Boomers, Generation X, and Generation Y is perceived as “the great generational divide at work” by Kowske, Rasch and Wiley (2010). This division has a significant impact on the employees’ working conditions, especially among both the Gen X and Gen Y employees (Westerman & Yamamura, 2007).

2.1 Understanding Gen X in the workplace

Past research has clearly indicated that there are significant differences between the Veterans with Baby Boomers, and Baby Boomers with Generation X (Smola & Sutton, 2002). However, it is less uncertain between Gen X with Gen Y due to the lack of research conducted (Smola & Sutton, 2002). Various researches stressed that Gen X are often more focused towards their career and that they are also loyal towards the organisation compared to other generations (Moore & Bussin, 2012; Flewelling, 2014; Gannoñ, 2015). They tend to work in an organisation for many years as long as they are comfortable with the environment and that they have friends working in the same place (Flewelling, 2014; Gannon, 2015).

However, there are contrary findings that claim Gen X as unloyal employees (Hewlett, Sherbin & Sumberg, 2009; Masibigiri & Nienaber, 2011). These researchers suggest that Gen X is more driven with money and will move to another organisation if they get better pay (Hayes, 1999; Hewlett, Sherbin & Sumberg, 2009; Masibigiri & Nienaber, 2011).

When it comes to work values, Gen X is said to be less focused on work advancement (White & White, 2014). This generation enjoys being independent (prefer freedom), and also informality (White & White, 2014). Apart from that, Gen X prefers a balanced work and life and they put their family as their top priority (Smola & Sutton, 2002; Moore & Bussin, 2012; White & White, 2014). These characteristics of Gen X can thus have a direct influence on the way they perform in their workplace (Flewelling, 2014).

2.2 Understanding Gen Y in the workplace

Unlike Gen X, those from Gen Y are described as technology savvy and prefer working in an organisation that supports technology use in the workplace (Karefalk, Petterssen & Zhu, 2007). They also prefer working for an organisation that can put their needs first over the
organisation’s needs (Bassett, 2008) and are highly likely to pursue on new opportunities if they are less appreciated (Cruz, 2007). This generation is bold and not afraid to work in multiple organisations as they believe that the experience from the previous organisations is considered as an added advantage (Safer, 2007).

What Gen Y seeks for in an organisation is a fast track up the corporate ladder (Gursey, Maier & Chi, 2008). This can at times be considered unreasonable by those of other generations (Karefalk, Petterssen & Zhu, 2007). Other than that, like Gen X, they prefer a flexible job where work can be done anywhere they want (Gursoy, Maier & Chi, 2008). But they prefer putting their personal lives a top priority than their work life and believe that they “work to live and not live to work” (Kilber, Barclay & Ohmer, 2014).

To add, what Gen Y also seek from the organisation is not necessarily monetary rewards (Hewlett, Sherbin & Sumberg, 2009). Döckel, Basson and Coetzee (2006) believes that Gen Ys as prefer intrinsic rewards such as work/life balance, and constant support and feedbacks from the top management. The feedbacks provided should also be instantaneous due to them being accustomed to technology, which provides them instant gratification (Barnes, 2008).

This generation also feels that there are other needs that they would rather satisfy rather than having a high salary (Twenge, Campbell, Hoffman & Lance, 2010). But Anik et al. (2013) believes that most employees prefer cash rewards (e.g. raise or bonuses) as they could use the cash to spend on their wants and needs.

3. Research Design and Methodology

This research was conducted using the qualitative approach. The approach was selected by the researcher to seek an in-depth understanding of a phenomenon (Miles & Huberman, 2006). A total of 14 employees working in various private institutions in the state of Selangor were selected. A total of 7 employees from the X generation and another 7 from the Y generation were selected. Convenience sampling was used to select these respondents as the researcher required those who were easily accessible and willing to partake in the research.

To collect the data from the employees, a total of 15 questions were asked through in-depth interviews that were conducted on a one-on-one basis. The data were then transcribed, analysed, and divided according to the appropriate research questions.

4. Findings

This section presents the results that were yielded from the employees’ interviews. The employees were asked 15 questions and the responses were divided according to the research question mentioned.

4.1 The reward preferences of Gen X and Gen Y

4.1.1 Generation X reward preference

One of the questions asked to all of the respondents is on their reward preferences (monetary or non-monetary) in their workplace. From the findings, a majority of the Gen X respondents (5 respondents) prefers monetary rewards over non-monetary. One of the respondents believes that money plays a vital role in people’s lives to survive and raise their children in a country where the living costs are spiraling. Another respondent also believes that money can satisfy people’s needs and boost their morale to perform better in the workplace. Meanwhile, one of the respondents indicated:

\[ \text{I prefer monetary rewards over non-monetary rewards as it is the most relevant reward for everyone to receive. It is the best reward that can motivate me to do my work better.} \]

The statements given by the selected respondents match with Anik et al. (2013) findings whereby it is believed that most employees love cash rewards in terms of raise or bonuses.
which they can freely spend it on themselves. Although a great majority preferred monetary rewards, 2 of the respondents felt otherwise. One of the respondents who selected non-monetary rewards stated:

*I prefer non-monetary rewards as these types of rewards are long lasting. For instance, certificate of achievements and trophies. Through these rewards, people can know what I have done and contributed to the company, and also, I can keep it for memories sake.*

Responding somewhat similar, the other respondent also believes that non-monetary rewards can be shown to friends and family to indicate the accomplishments achieved in the workplace.

4.1.2 Generation Y reward preference

Meanwhile the same question that was asked to the Gen X respondents was also asked to Gen Y. Based on the data received, 4 out of 7 of the respondents felt that organisations should focus on giving more non-monetary rewards towards the employees. One of the respondents explained:

*I've been working in this company for close to four years. What I really want is to work in a company that encourages career development. I don't mind the salary. All I want is for me to be able to climb the corporate ladder easily. In the company that I am currently working with, I can easily do that and right now I am already the assistant manager.*

This statement also matches with Gursey, Maier and Chi (2008) whereby Gen Y anticipates a fast track up the corporate ladder. Another Gen Y respondent who chose non-monetary rewards believes that recognition either verbal or non-verbal is crucial to retain the employees. She suggested that her corporate leaders should practice more verbal recognition such as praises and acknowledgement as it can help boost her esteem. One of the other respondents who felt the same indicated:

*The problem about our corporate leaders is that they hardly praise us verbally whenever we successfully complete a certain project. Yes, they do give bonuses for the hard work, but the feeling is a lot different if you get verbal recognition. I hope they will know that it isn’t much that we're asking for.*

However, unlike the others, 3 respondents felt that money is a top priority. They believe that money can make them happy and survive in the current economically challenged world. One of them stated:

*With money, we can purchase everything that we need and desire. Be it clothes, food, and items for the family. Plus, it is something that everyone expects when they perform a good job.*

5. Discussion

From the findings, it can be seen that there are significant generational differences between Gen X and Gen Y. For instance, Gen X is highly likely to perform better through monetary rewards while Gen Y, non-monetary. Gen Xs are motivated towards money as one of the reasons is that money can be used to help raise their family. Meanwhile, Gen Ys prefer organisations which can give them a high rank and they are also easily motivated whenever the top management compliments and praises them for a job well done. These findings also support some of the past research highlighted in the literature review. Although some had the same preferences, however, a great majority felt differently. With Generation Y gradually dominating the workforce, it is essential for organisations to understand what these two
different generations prefer as rewards to motivate the employees to perform well. As mentioned, there should not be just one reward scheme for all generations, especially when different generations are slowly taking over the workplace from the veterans and baby boomers.

6. Conclusions and recommendations

It can be seen that Gen X and Gen Y expect different rewards from their organisation. Understanding the differences can help employees to achieve the organisational goals and thus boost the organisation’s performance. What these generations seek may slightly differ from one another, however, some prefer the same rewards. Since this research was only conducted with 14 respondents, it may not be enough to generalise the whole population of Gen X and Gen Y in Malaysia. Thus, it is highly recommendable that future researchers to widen the scope, especially there are still inconsistent findings from past research that states the expectations of both generations. This is so that there will be a clearer view what Gen X and Gen Y prefer as rewards in the workplace.

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References


Visitor Perception on Food Court Servicescape The Study of Two Shopping Center Food Courts in Indonesia

Astrid Kusumowidagdo

ABSTRACT

Objective-This research was aimed at describing the role of servicesapce in two food courts in Indonesia at the visitors’ perception, with a specific aim to understand the elements of the serviscape setting for both its kinds and roles which are configured into a holistic and unified public space interior.

Methodology/Technique - This research consisted of two stages, under the method of sequential exploratory. The first stage was done qualitatively to explore the understanding of serviscape indicators of food courts of shopping centers. The second stage was aimed to map the shaping of those factors quantitatively under the survey method.

Novelty – The findings of factors that create the servicespace in shopping center context. The result shows that Gandara City Food court, Jakarta has several factors that indicate the factors of serviscape: food court legibility, food court decoration, tenant mix, and social image-interaction. While Ciputra World Food court, Surabaya, has several factors that attract the visitors: food court legibility, food court decoration, and social image-interaction.

Type of Paper: Empirical

Keywords: Food Courts, Serviscape, Visitor Perception.

1. Introduction

Properly designed food courts are likely to transform themselves into new social spaces (Manfredini, et al., 2014). People are likely to make use of food courts as meeting spots for either family or business matters. Rooms in the food courts as inseparable parts of the shopping centers not only reflect mathematical dimensions which are measured based on the agronomy standard but also offer special experience for the visitor to feel extraordinary modern shopping experience.
The setting of the food courts must be well planned so that the relations between the visitors and the shopping center become possible. In this present study, that is called the sense of place. Well setting food courts are likely to promote closer relationships with the visitors. Further studies need to be conducted in setting to investigate how the elements in the public room setting can become the factors that create the sense of place. Other studies usually focus on the customer behaviour or psychology. A few deal with visual environment cues of food courts, and hence this is the gap to fulfil in this present study.

Based on the rationales above, the following are the research problems of the present study: what factors become the preferences of the visitors?

2. Theoretical Background

A place, according to Najafi & Bin Mohd Shariff (2011), consists of physical and social aspects. The physical aspect is the aspect derived either from the human made environment and natural environment. In fact, social environment is mostly influenced by socio culture aspect. In reality, food courts can be separated with their physical and social conditions.

First, with regard to the physical aspect, among some aspects that make food court designs interesting are the public area setting, interesting tenants’ area design, seating and furniture design configuration (fixed or loose) in the eating areas (Kramer, 2008). Attractive physical design is one of the successful factors to make eating areas fascinating (Boon, 2011). In line with Kramer’s ideas, it is important that the configuration of the seating arrangement in the eating areas considers the circulation.

In line with Kramer’s ideas (2008), when configuring the eating areas, it is necessary to notice the importance of the visitors’ circular movement and the possibility for them to see each other. The layout is also worth noticing especially when it comes to creating comfortable shopping areas (Baker, 1986; D’Astous, 2000; Boon 2011). Dining areas can be in open space serving as the meeting or attraction points. Food court areas are commonly known as favourite areas (Sari, Kusuma, & Tedjo, 2010). In fact, they are likely to open up any possible chances of creating the image of the shopping centers. Furthermore, furniture design is also one of the aspects that most customers like to see (Maharani, 2014).

Lightning can be either human made or natural ones. In fact, the latter is more commonly seen than the former. (Wee & Tong, 2007). In the same way, music affects the visitors in terms of its volume (Smith & Curnow, 1966), music preference (Herrington & Capella, 1996). Other elements also include the scent and the airing technique. The scent has impacts on the visitors (Baker, 1986; Mitchell, et al., 1995; D’Astous, 2000). Signage gives the clarity about the direction (Baker, 1986; D’Astous, 2000; Wee & Tong, 2007; Boon, 2011). Man-made-airing technique is very important to comfort the visitors (Kramer, 2008; Boon, 2011) especially the temperature, humidity, and the circulation (Baker, 1986; D’Astous, 2000). All of these physical elements are essential aspects that make visitors feel comfortable in the area of shopping centers.

Second, with regard to the social setting, marketing and promotion departments have an important role to attract people to come over. Interesting programs and events become the necessity in setting to invite people to visit the places as many as possible. In this case, it is important to consider the number of visitors or the crowd (Bell, et al., 1996), and lifestyle (Astuti & Hanan, 2011).

3. Research Method

The identification of factors of food court settings in shaping a sense of place will be done by using quantitative data, which have previously resulted from the qualitative identification process. Phase 1 Research is an understanding of indicators of the food court environment. Phase 2 research aims to more directly map the shaping of more factors that are valid on the perception of visitors, as well as to map the factors. This last phase research will aim to shape understanding of the background factors.
4. Research Objects

There have been three main criterias for the different location chosen. Firstly, is that the similarities in spatial character and regional width character (one or two department stores as leading tenant) (Kramer, 2008). Secondly, is that the chosen shopping centers should have similarity in term of being placed in the platinum category by Association of Shopping Centers in Indonesia. Thirdly, is that there is the ages of chosen shopping centers are similar. In the development of the modern shopping center in Indonesia, the shopping centers built during period of after 1998 with more attractive shape and thematic were chosen as the objects of this research (Kusumowidagdo, et al., 2013; Kusumowidagdo, et al., 2012).

5. Findings of Research Phase 1

In the food court area, comfortable setting is actualized by some indicators in the creation of a sense of place, among others are decoration of thematic corridor, accent, elements of area, dining room zoning, furniture, decoration in the tenants’ area, wall finishing, floor finishing, visitors, various restaurant outlets, crowd, lifestyle, and directory. Each of them will be explained furthermore.
In food court setting, thematic decoration for food court is implemented under the theme. Thetheme in the food court setting will give the visual impression that will give a different sensation when eating. Accent covers three-dimension accent and two-dimension accent. Three-dimension accent is actualized in art sculpture shape and interior element. Two-dimension accent is actualized in certain pattern shape. Besides shape, sizes and colors can also become room accent. Those indicators shown as proven by the research informants’ opinions.

*Food Court Eat-and Eat, has a theme. Interesting furniture and accessories such as lighting, wall ornaments also support the traditional theme, including its wall and floor finishing. Tenant’s areas are also decorated under that theme. Those are stylish. For me, who often get bored of daily routines, visiting these kinds of places are very relaxing (Female, 23)*

*There is an interesting ceiling pattern play on food wave, which involves tassel on the center area of food court, and reflective material play on the front of food court stands and on the column. There is also a line from Fun World that is passing through the ceiling of food court area. Those things make dining activities fun and interesting (Male, 27)*

One of important zones in a food court area is appropriate and comfortable hand-washing area. This area is a condition to dine comfortably in a food court, as reflected in an opinion of one participant during focus group discussion. This indicator shown as proven by the research informants’ opinion.

*Maybe, for me, appropriate and clean hand-washing area is important, since there is a food court that does not have appropriate hand-washing area. In this Eat-and Eat are, the hand-washing area available is appropriate enough (Female, 30).*

Zoning for dining area is the group of dining places based on visitor numbers and ambience atmosphere that will be built. Zoning for dining area is separated by different furniture, color for interior elements, material for interior, material for floor, height, and ceiling processing. This indicator shown as proven by the research informants’ opinion.

*If going with friends, we often choose a place in the center. It is more familiar for us, can accommodate many people, and uses the sofa as its seat so it is more comfortable (Female, 29).*

Furniture is another element which is significant to support the theme. Shape, color, and material being used; besides should reflect the theme, should also give uniqueness in shaping a sense of place. This indicator shown as proven by the research informants’ opinion.

*There is a setting for sofa seating which gives an exclusive impression. The food court area is also near the Fun World, and it makes children who are sightseeing with me and my family is happy (Male, 30).*

For decorating tenants’ area, the decoration covers serving area. Decoration at serving area is aimed at giving real information on the tenants’ products. The lighting in this case means lighting at the tenants’ area and food court.

*Food kiosks in the center of food court are orderly and well-designed (Male, 32).*
They have unique accessories, such as expired vintage cans and chandeliers (Female, 30).

Lighting for food court should support the theme. Wall finishing can be seen from the material use, color, or wall shape processing. Wall finishing is usually oriented at themes that will be implemented. Theme existence does not only affect the interior for the wall, but also the floor finishing. Floor finishing is affected by color play, pattern setting, and texture choice.

Decoration for tenant and its interior is unique. The flow line is comfortable, the lighting is also dramatic, and they give a different impression to me (Female, 28).

Of all interior elements of Ciputra World, the most interesting is the wave concept ceiling design and wall which are very dynamic and support the interior ambience of the food court. The difference between food court zone and mall zone is very sound (Male, 23).

The factor of intimate visitors appears when the visitors look friendly and have light activities. This factor contributes to create food courts as a comfortable place for the visitors’ perception.

This mall is quite crowded on Saturday and Sunday, many youths and families come sightseeing in this mall. A very fun and relaxing thing to see, especially in some places such as food courts, V-Walk and cafés (Female, 22).

The various tenants’ area also contributes to this food court uniqueness in setting to create a sense of place, which cover diverse food types from different places in Indonesia. Food court density is also positively perceived. Food court density should consider the territorial and capacity conditions of food court existing. If above its capacity, then the food court becomes uncomfortable and uninteresting for the visitors. Lifestyle is another thing that should be considered, which covers style of clothing and types of activities. Watching other visitors’ lifestyle has become an important attraction for them and intermezzo for their activities in the food court. Informative tenant signage is significant to make easier for the visitors to search for desired product and display differences of products.

What makes this food court interesting is diverse food types, starting from favorite vintage food, unfamiliar food types, with food from abroad are served here (Female, 21).

6. Findings of Research Phase 2

For conditions in Surabaya, it can be concluded that there are three influential factors for shaping food court, which are food court legibility, social image and interaction, and decoration.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Eigen value</th>
<th>Variable to shape factor</th>
<th>Loading value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food court legibility</td>
<td>3,227</td>
<td>Floor Finishing</td>
<td>0,798</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furniture choice</td>
<td>0,708</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wall finishing</td>
<td>0,695</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interior</td>
<td>0,610</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hand-washing area</td>
<td>0,555</td>
</tr>
</tbody>
</table>
The first factor is food court legibility with eigen value 3,227. Food court legibility is the originality element of food court. Food Court in Ciputra World is under contemporary theme and spread serving system. Indicators of influential factors that shape this food court are floor finishing, furniture choice, wall interior finishing, zoning of dining area, and good lighting. Finishing for floor contributes to the food court legibility because of the material combination between parquet and homogenous tile which mark two different zones in the food court. Furniture choice is also quite unique, since there is a combination between contemporary furniture and modern classic furniture with bright cushion suede color. Wall interior is dominated with white, although there are some parts with stainless steel ornaments and natural stone.

The second factor is social image and interaction, with eigen value 3,103. Social image and interaction is a factor of visitors’ lifestyle image when in shopping centers and social interaction between visitors which influence the food court’s sense of place. Supporting indicators for this factor are visitors’ density, visitors with intimate atmosphere, visitors’ lifestyle, various tenants’ area, and tenant signage. Visitors’ density can attract other visitors to join the crowd. Another indicator is visitors with an intimate atmosphere that contributes to create the desired nuance.

The third factor is the decoration for food court with eigen value 2,237. Decoration for food court here is decorative elements in the interior of food court area. Influential indicators for food court are accents/focal points/art sculpture existences, thematic decoration that give different atmosphere, and decoration of the tenants’ area. The dominant accent in the food court area is lighting sculpture that is positioned at the center of the food court. Meanwhile, thematic decoration can be seen in the curvy leaf on one wall of the food court, and column design. Decoration of the tenants’ area stands out harmoniously, marking the settingly tenants’ area and diverse products.

Table 2. Factor Analysis Result on The Food Court at Gandaria City

<table>
<thead>
<tr>
<th>Factor</th>
<th>Eigen value</th>
<th>Variable to shape factor</th>
<th>Loading value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food court legibility</td>
<td>3,202</td>
<td>Zoning for dining area</td>
<td>.839</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hand-washing area</td>
<td>.825</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Good lighting</td>
<td>.805</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furniture choice</td>
<td>.794</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Floor Finishing</td>
<td>.762</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wall finishing</td>
<td>.749</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accent</td>
<td>.743</td>
</tr>
<tr>
<td>Decoration for food court</td>
<td>2,716</td>
<td>Thematic decoration</td>
<td>.735</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decoration for tenants’ area</td>
<td>.684</td>
</tr>
<tr>
<td>Various tenants’ area</td>
<td>2,284</td>
<td>Various tenants’ area</td>
<td>.758</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Informative tenants’ signage</td>
<td>.628</td>
</tr>
</tbody>
</table>
The first factor is food court legibility with eigen value 3.303. Food court legibility means the uniqueness existence of food court interior at Gandaria City under the theme of traditional. The influential indicators for food court legibility are zoning for dining area, the availability of hand-washing area, good lighting, furniture choice, floor finishing, wall finishing, and accent in the area. Food court zoning in Gandaria City is divided into food court concept with centralized payment services; thus, both tenants’ stalls and zoning for dining area are spread out. Zoning for dining area has clusters that satisfy the number of seats. The hand-washing area is also considered as one of the indicators. Dim lighting gives relaxing impression for the food court. Furniture, floor finishing, and finishing that is completed all support the traditional concept. Accent in the area can be seen at the interior accessories.

The second factor is food court decoration eigen value 2.716. Decoration for food court reflects the traditional theme, and it has its shaping indicators, which are thematic decoration and decoration of the tenants’ area. The accessories for thematic decoration in the tenants’ area are vintage cooking utensils and food cans. Tenants’ area is decorated under the theme of traditional hut, using wooden material and the products are ordered as inspired by traditional food stalls.

The third factor is various tenants’ area, which are the range of products offered. Indicators of this factor are various tenants’ area and tenant signage. Tenants’ outlets in the food court at Gandaria City are complete enough, and are well supported with informative signage with similar format for all outlets.

The fourth factor is social image and interaction. Social image and interaction mean that image of visitors’ lifestyle when in shopping centers and social interaction between visitors that influence the sense of place of the food court. Indicators for this factor are intimate atmosphere among the visitor, visitors’ density, and visitors’ lifestyle. Visitors with intimate atmosphere, as well as all the employees of Gandaria 8 office complex, use food court with a traditional theme as a relaxing area. Visitors’ density in this food court ranges from 0.7 m²/person for the most crowd food court to 2m²/ person for the most deserted food court. Lifestyle of visitors is the modern lifestyle, as seen from their activities and clothing style.

As for the food court in Ciputra World, the influential factors are atrium legibility, social image and interaction, atrium atmosphere, and atrium decoration. Meanwhile, in Gandaria City, the shaping factors for public space setting that should be considered are, consecutively, atrium legibility, atrium decoration, event space decoration, social image and interaction, and event atmosphere.

There are similarities and differences between both research objects, which are explained furthermore. The similarities between both food courts are the factor of legibility, factor of social image and interaction, and the factor of decoration. These three similar factors show that there is legibility or originality of setting character at the food court in both shopping centers, which satisfy the concept of each shopping center. These two research objects have social image and interaction which is well-perceived by the upper class society.

7. Conclusion

The following are the conclusions of the present study:

7.1 The factors of food courts that create visitors’ preference.

Some factors integrated to the food court setting that is likely to create the image of the sense of place, the preference of the visitors are the legibility of the food court, food court
decoration, kinds of tenants, social image and interaction. The following is the description for each:

7.1.1 The legibility of the food court

The legibility of the food court refers to the spatial characteristics of the food court that make them different from food courts of other shopping centers. The legibility of the food court such as shapes and the service can serve as the identity of the visitors. The legibility of the food court can be in the form of floor finishing, furniture selection, zoning and service system, washing facilities, and lighting.

7.1.2 Social image and interaction

Social image and interaction have two aspects: social image and social interaction. The social image refers to the images recorded and manifested in the lifestyles, ethnics, and segments in the food courts. Meanwhile, the social interaction refers to the activity situations and friendliness among the visitors in the food courts. The crowd is also one of the social interaction aspects.

7.1.3 Food court decoration

Food court decoration is the interior element that functions to decorate the food courts. Food court decoration commonly has themes in the form of different ornaments such as art accents and tenant area decoration either with fixed or movable characteristics. The food court decoration has functions as the accent in the rooms.

7.1.4 Various kinds of tenants

Various kinds of tenants refer to the various types of tenants in the food court areas: kinds of stalls with different kinds of products, different ways of service and informative tenants’ signage.

7.1.5 The primary factors that create visitors’ preference

There are two primary factors as the findings of the present study: legibility as the uniqueness of the place and social image and interaction. The aforementioned four aspects cannot be separated from the early understanding (Najafi & Bin Mohd Shariff, 2011), that is, the formation of the sense of place image is closely related to both physical and social factors. The theory that this present study has found is the extension of the previous theories. Among the physical factors is the legibility of the corridor and food court decoration. Meanwhile, those that belong to social factor are social image and interaction and various kinds of tenants.

8. The Implications

This present study offers both scientific and applied contribution. The scientific contribution will be explaining the effects of the study in filling in the scientific gap and opportunities for further studies. Meanwhile, the applied one will be explaining the possibilities of the use of the theories in the field of design study.
References


Using Digital Simulation as an e-learning tool to create dynamic learning in Architecture students

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ABSTRACT

Objective – E-learning has been an integrated teaching and learning approach in higher educational institutions and considered as a way forward in creating lifelong learners. In Architectural studies, where design is a major component, softwares are vastly used as designing tools. Recent years saw an increasing awareness of green architecture, taking into account the sustainability where the absence of or efficient technology in a building playing a major role in creating sustainable architecture. In an attempt to enhance the design through technical module a traditional case study project has been converted into a simulation project to create a dynamic learning much needed by Architecture students. This paper examines the value of using simulation to study the effectiveness of shading device and its effect on student’s learning.

Methodology – The investigation is conducted by evaluating the learning outcome of architecture students in a private institute of higher education in Malaysia by using a questionnaire to collect data from a group of 30 volunteers from 105 architectural students whom have completed the module.

Findings – Architecture Design Studio based learning in a Technical Study module, students were able to enhance their critical thinking skills based on the scientific approach. Overall, it allowed for the development of the student’s discipline-specific knowledge, gaining new knowledge and skills to simulate using digital tool and enhance their analytical skills.

Novelty – The paper emphasises the dynamic learning as an integrated approach to designing and an effective way to intensify lifelong learning by instilling e-learning methods as a way forward in teaching and learning architecture students.

Type of Paper: Empirical

Keywords: E-learning; Architecture; sun-shading; simulation; sustainability

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1. Introduction

Simulating in digital tool is an authentic learning experience and involves higher order of thinking skills as an e-learning method. As technology advances, it needs to be included in teaching and learning in order for graduates to fit into the current industry. Becerik-Gerber, Gerber, & Ku (2011) in their study of the pace of technological innovation in architecture, engineering, and construction education stated that integrating recent trends into the curricula explained that the increasing global emphasis on sustainable approaches and the need to increase efficiency and improve cost over the lifecycle of projects, demand new approaches to architecture, engineering, and construction education. Emphasis on programs focusing on emerging subject areas of Building Information Modeling (BIM) and sustainability in Architecture programme in Higher Education globally also impacts the teaching and learning at higher educational institutions in Malaysia. This study intends to relate new learning experience of gaining knowledge and skills by digital simulation for architecture students and willingness to apply their design studio. This study aims to develop a positive attitude among architecture students towards using e-learning technique in applying new technical knowledge and skills learned, in their design studio.

1.1 Architecture Design Studio Learning and Technical Studies

The most important part of the architectural student’s education and the core of the architectural curriculum is the design studio. As Allen (1997) mentioned that experience has shown that students learn technical skills more efficiently and incorporate them more readily into the building design process when the skills are acquired on and as-needed basis during ongoing design projects. While the importance of technical studies is undeniable, thus the researchers administered project based learning with similarities to the design project in Architecture Design Studio. While Krause (2003) emphasized that within the realm of architecture and design, technology interactions are becoming more sophisticated and that traditionally, computer/architect interaction centered on models of efficiency and documentation, but recently, this interaction has shifted away from productivity tools and moved towards design exploration and experimentation.

Case study or precedent studies are often assigned as a research activity in architecture design project. Heylighen, Bouwen & Neuckermans (1999) highlights the importance of studies of case studies in formulating design ideas and concepts in architectural design that are traditionally using case study or precedent study to “emphasize that knowing components and concepts on a passive, technical–rational level enabling an architect to analyse and evaluate existing designs. Yet, it is not constructive, as it does not point the way to create a new design”. The point to note in their statement is a traditional way of learning by acquiring knowledge without an opportunity to test or experiment and verify the function of certain elements in designing certainly does not inform how to create a novel design. Therefore the precedent studies are seen on a surface level, as an aesthetic feature and often not by validating the functionality of the studied element in a case study. In designing, traditionally, ideas and assumptions are often heard and not verified. These concepts and ideas then can be concluded that the aesthetics of the design precedes the functionality of the said design.

The traditional act of learning passively does not encourage the development of meta-cognitive skills. As mentioned by Chance (2010) linear thinking just does not work with architecture students. The constructive mode of learning taking it further in this research emphasizing Learning by Doing is a small example of a technical study module emphasizing and realigning a case study project that can be easily replicated in the Architecture Design studio with a scientific approach. This project emphasizes on the process of learning as much as acquiring the knowledge and skills. The process learnt is meant to be replicated as a process of relearning that was emphasized by Kolb in 1984 (cited in Chance, 2010). The project uses digital tool to simulate sun-shading of a case study and to evaluate and judge the intended function. In architecture design studio students can replicate the process easily and use it as a designing tool by creating and experimenting prototypes to evaluate the function and reassess the aesthetics of the building fabric. The coinciding activity of realigning a case
study project in technical module using digital tool to replicate the design function and its principles is mapped in Table 1 by Kirschner, Carr and Merrienboer, (2002) by reporting Visscher-Voerman’s distilled 16 design principles from her case analyses as highlighted in the table below. This then facilitates the Architecture Design Studio’s learning method of Active Learning or Learning by Doing.

Table 1: Modified from Sixteen Design Principles from Visscher-Voerman in 1999 (cited in Kirschner, et al., 2002)

<table>
<thead>
<tr>
<th>Design Principles by Visscher-Voerman</th>
<th>Project using digital simulation of sun-shading</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Designers should make a prototype in an early stage of the design process.</td>
<td>The digital tool can be used as a designing tool to test the prototypes of sun-shading device that best fits the function and aesthetic of the building fabric.</td>
</tr>
<tr>
<td>2. Designers should split the design process into phases with formal decision moments and concrete products, and should only plan the upcoming phase in detail.</td>
<td>Concrete products means fully acknowledging the functionality – digital simulation tool allows testing and verifying functions thus allowing designers to move to a next phase.</td>
</tr>
<tr>
<td>3. During the design process, designers should pay as much attention to creating ownership with clients and stakeholders, as to reaching theoretical or internal quality of the design.</td>
<td>Quality although very subjective it also facilitate the functionality.</td>
</tr>
<tr>
<td>4. Designers should base their work in scientific knowledge and principles as much as possible.</td>
<td>Sun-shading is a basic knowledge in designing as sun is the source of heat which affects the thermal environment of user. The biggest issue of sustainability in highest energy consumption in tropical climate is to cool building through air-conditioning. Digital simulation uses scientific knowledge and principle to allow real time simulation of an actual condition. It is the way forward in teaching with technology.</td>
</tr>
<tr>
<td>5. Even if designers have a clear idea for the (potential) solution at the start of the process, consideration of possible alternative solutions is essential.</td>
<td>Digital tool allows designer to design –test –redesign –retest …. and conclude easier and faster than working on paper or physical model.</td>
</tr>
<tr>
<td>6. Designers should not only ask clients and (future) users for content-related input, but should also give them the right to decide about the design itself.</td>
<td>NA</td>
</tr>
<tr>
<td>7. A useful means to help clients, partners, and other stakeholders to choose a solution and to formulate product specifications is by showing products from former projects.</td>
<td>NA</td>
</tr>
<tr>
<td>8. In order to clarify product specifications, designers should spend their time on carefully planned formative evaluations of early versions of a prototype, rather than on an elaborate preliminary analysis.</td>
<td>Historical research is important but elaborate scientific analysis is possible now with digital tools in a very short time with simulations thus providing avenue for creativity, inventions, interventions and innovations.</td>
</tr>
<tr>
<td>9. Designers should share the responsibility for creating favorable conditions for the implementation of a design.</td>
<td>Favorable conditions can be simulated in digital tool.</td>
</tr>
<tr>
<td>10. For efficient and effective formative evaluations, several (about three) sources and several (about three) data gathering instruments should be used.</td>
<td>Digital tool can be the instrument for various reliable data for formative or summative evaluations.</td>
</tr>
<tr>
<td>11. The creativity and artistic skills of the designer should be clearly visible in the final product.</td>
<td>Digital tool can heighten the creativity and artistic skills of a designer.</td>
</tr>
<tr>
<td>12. Designers should ask those with an important role in the development and implementation for their early participation in the design activity.</td>
<td>NA</td>
</tr>
<tr>
<td>13. While making an educational design, designers should start from the needs of the learners, rather than from the content-based structure.</td>
<td>NA</td>
</tr>
<tr>
<td>14. Designers should conduct formative evaluations themselves.</td>
<td>Digital tool allows designers to conduct formative evaluations on their own.</td>
</tr>
</tbody>
</table>
Successful design is served by the use of step-by-step schemes and design models, provided that they have adapted. Digital tool not only allow adapting but validating the function. It may take the function of a design models as it promotes more of a 3 dimensional approach in designing and may heighten their creativity level.

An essential part of the analysis phase is a consideration of possible pitfalls and problems during the design and implementation phases. Possible pitfalls and problems may be identified with simulations.

2. The Technical Module

In order to examine the outcome of incorporating digital simulation as an e-learning tool to create a blended learning environment, the dynamic learning in terms of knowledge and skills acquired by architectural design students are investigated. The study was conducted within a technical study module conducted in an undergraduate architecture programme in a Private Institute of Higher Education in Malaysia. Brunton (2006), states that effective integration of sustainability concepts as part of teaching and learning is characterized by full integration of sustainability concepts into the curriculum, student-centered activities and assessments that reward critical thinking and reflective learning, multidisciplinary teaching and learning, teaching that emphasizes that sustainability is an ongoing process without hard and fast answers.

2.1 Sustainability

The module addresses sustainability in depth by addressing the basics; addressing and incorporating natural environment, the sun in analyzing an existing building as a case study. This process is explicitly done in many architectural design projects as an initial exercise, but not carried through in the student’s individual design. This technical module supplements in a way of direct integration studying sun-shading element of a case study in an attempt to instill critical thinking by simulating, evaluating and justifying the functions in order to create a thermally comfortable environment for users. This is a basic attempt to curb the internal heat gain to avoid high energy consumption for air-conditioning being the biggest issue of sustainability in tropical countries. By modelling a sun-shading element in Autodesk Revit, the function or the internal condition can be simulated by understanding the principles behind the sun-path in relation to buildings.

2.2 The Case Study Project

The case study project uses learning by doing approach advocating blended learning comprising of (1) Traditional Learning (Lectures and tutorials), (2) Experiential Learning (Field trip), (3) E-learning (Digital simulation), and (4) Informal Learning (reading, research, You Tube, learning from peers, etc.). This approach requires a high level of commitment from students to achieve the intended learning outcome. Marquardt and Waddill (2004) believe that learning by doing or action learning can be applied in a variety of ways and settings, both face-to-face and virtually because of its flexibility in learning. They call it a powerful tool as action learning stimulates learning at any level; individual or team. By completing the project in groups, students are expected and intended to learn from each other’s learning style to cultivate holistic design thinking in architecture students. The case study starts with formulating groups of students whom then each group proposing a case study followed by a site visit to create experiential learning. Prior to the site visit, students went through lectures and research process to obtain preliminary knowledge through resources such as books, journals, videos, and online archives amongst others. According to Ng and Sujatavani (2010) field trip is a common strategy which exposes students to architecture and the built environment through real-life experiences and integration of field trips into the syllabus enhances the quality and process of learning. During the site visit, students are encouraged to conduct their data collection, such as recording temperature, date, time, interviewing users for satisfaction of their thermal environment and photographing.
interior and exterior spaces. Subsequently, they interpreted the data collected to analyse the simulation.

2.3 Digital Simulation as e-learning

Siemens and Tittenberger (2009) state that academics need research mind-sets to succeed in their discipline and it is more important when teaching with technology. This e-learning method of using simulation incorporated in this technical module is adaptive type (Littlejohn & Pegler, 2007) of e-learning and content based (Atif, Benlamri, & Berri, 2003), requiring high level of Bloom’s Taxonomy to simulate and to decipher the digital simulation thus advocating in acquiring dynamic skills (Aldrich, 2005) which then results in transformational learning which is highly vital in teaching and learning in architecture. Apart from this, using technology for communication through facebook, Instructional Management System (IMS), you-tube, re-wind and such that higher educational institutions categorising as e-learning platforms were also being used but not measured in this study.

The simulation is based on re-creating effect of actual sun light and shadow of a chosen sun-shading element in a case study according to the annual sun path for tropical climate. E-learning using digital tool for simulation designed for this project requires integration of knowledge and skills acquired through all 4 various learning in this module. Emphasis is given on each learning type to facilitate students to complete the project in a successful level. Each group are given similar attention by tutor and guided through the process of learning. The project encompasses high-level of Bloom’s taxonomy; analyze, synthesize, and evaluate the function of a sun-shading device. This simulation project is the researchers’ initiative in developing content based knowledge as an e-learning approach and according to Atif et al., (2003) this shift in e-learning to content development based system is recent, nevertheless, significant work have been undertaken to develop e-learning standards and specifications.

The digital tool used for this project was Autodesk Revit, building design software specifically built for Building Information Modeling. This software is included as part of creating, simulating and analyzing the results in the form of visual data in this module and if reversed it has a great potential as a designing tool. A demonstration workshop session and instructional video were provided. The student was not penalized for using other software with the same competencies, but required prior approval from the instructor. Using digital tools or simulation enables students to formulate many thoughts as opposed to designing on paper or physical model in a very short time. Testing the functions of a shading device on paper and physical model may take longer time to acquire the skills and the complexity of applying and testing might be a tedious labour intensive work that might not motivate the students to even try. The learning outcome or the project submission is an A3 analysis board graded using the rubric.

3. The Method

The data collection for this study was administered at the completion of the module by obtaining students’ feedback using a questionnaire. The questionnaire is used as a data collection technique because it enables the researchers to cover an extensive amount of information -from demographic characteristics, to behavioural habits, to opinions or attitudes on a variety of topics - across a large number of people in a limited amount of time. This technique is selected because the study compared students’ overall assessment of their dynamic learning by incorporating e-learning approaches achieved in this module.

The questionnaire is obtained from a total of group of 30 volunteers who have completed the simulation project. The questionnaire used a Likert scale of 1 to 5 and was divided into 3 parts: (1) Overall perception of the project and experiencing Blended Learning which has 11 questions to investigate more on the different learning methods and the outcome. (2) Knowledge and skills acquired for critical thinking which has 14 questions which emphasizes the aim and objective of the module, (3) Skills for Life-long learning: metacognitive strategies and reflections. This aimed to find out about the transferable skills gained by
students and how the module impacted on their intent for learning in a dynamic learning environment by instilling a digital simulation. This part has 8 questions which asked about abstraction, relearning, and the application of knowledge to design module in architectural studies. The questionnaire provided data on the overall perception of students towards the dynamic learning, to examine the outcome of the integrated e-learning method, and to further understand how the developmental blended learning is useful and where it is failing. Face and content validity of the instrument were done by two experts in the architectural education field. Statistical Package for the Social Sciences (SPSS) Version 20 software programs was used to analyse the quantitative data. Descriptive statistical analysis was used to determine mean scores, percentage, and standard deviation.

4. Results and Discussion

From the questionnaire conducted, students ranked the following in terms of their understanding of the various dynamic learning of gaining knowledge and skills used in the blended learning techniques to achieve the Learning Outcome of this project. The first and second ranking both are Traditional Learning; the first being tutorial and followed by lecture. The third ranking and fourth are very close to each other and they are Informal Learning using video instructions (E-learning) and site visit, Experiential Learning. The Last two (2) read suggested material, Informal Learning and E-Learning workshop about Autodesk Revit sun shading simulation. Architecture students have been explicitly exposed to all the teaching and learning method introduced in this project in their prior semester’s learning except simulating. Thus, in this module the students were able to learn new skill using a software (Autodesk Revit). Although students found it hard to comprehend the whole project in the beginning, with high level of guidance and informal learning most of the students were able to apply the knowledge gained and skills in achieving a good Learning Outcome. This proves that Architecture students are inquisitive and with guidance could achieve the capability of being a good designer. According to Aldrich (2005) too within the most e-learning focused learning, instructor-supported dynamic learning of using simulation is highly effective. Recent instructional design theories for project-based or problem-based learning tend to focus on authentic learning tasks that are based on real-life experiences as the driving force for complex learning (Merrill, 2002). According to these theories, authentic learning tasks have many different solutions, are ecologically valid, cannot be mastered in a single session, and pose a very high load on the learner’s cognitive system. Consequently, complex learning has little to do with learning separate skills in isolation, but foremost it is dealing with learning to coordinate the separate skills that constitute real-life task performance. The lowest ranking for instructions for e-Learning had only 16.7% disagreeing and 66% agreeing to the statement, “I am able to understand workshop to introduce Autodesk Revit”. Thus the students’ were able to comprehend all the teaching and learning method, but low on the E-learning as it is a new method being introduced to them for the first time. The rest of the other learning methods are very familiar to architecture students.

As noticed by the researchers and the data suggest that students cannot comprehend the whole project at one time, but were able to understand the timeline and assigned weekly tasks. Kester, Paas & Van Merriënboer (2010), explain that in complex learning the whole is clearly more than the sum of its parts, because it also includes the ability to coordinate the parts. Thus the delivery of the project was highly instructional based as weekly tutorials were highly assisting students in successfully achieving the Learning Outcome and was ranked first for learning method most understood by the students. From the grade distribution for the project was; 64% scored A, 21% scored B, 4.9% scored C while 10.1% scored D and F. Whereas the participants’ grade distribution were 80% for A, 10% for C and 3% for F.

The data collected explicitly portrays that students were able to highly understand the new knowledge and skills imposed to be gained in order to complete this project, followed by analysing skills much needed for critical thinking and familiar to Architecture students and explicitly used in the Architecture Design Studio. In an open ended question the frequency
rate was higher for those listing “software” skills and followed by “analysing” to a question that said list the new skills acquired in this module.

The meta-cognitive skills or comprehension of assimilating, abstracting and deducing the data from various sources were challenging to these students. According to Kester et al. (2010) on project based learning effective performance relies on the integration of skills, knowledge and attitudes. Complex knowledge structures are underlying problem solving and reasoning skills and require differentiation by recognizing qualitative differences among the task characteristics that influence the constituent skills that have to be applied. The most challenging task for the students was acquiring skills to simulate sun-shading using a digital tool. The students found difficulty in relating to knowledge gained in various learning methods and to digitally simulate; such as visualizing 2D sun path introduced in lecture in 3D in Autodesk Revit, gauging the size and scale experienced during a site visit in the 3D model. Students also found that critically relating the findings to the aesthetics of the building fabric daunting, but not to an alarming state. These skills will be essential in Architecture Design Studio and as to incorporate nature as part of sustainability initiatives. Owen (2007) emphasized that design thinking is in many ways the obverse of scientific thinking. Where the scientist sifts the facts to discover patterns and insights, the designer invents new patterns and concepts to address facts and possibilities. In a world with growing problems that desperately need understanding and insight, there is also a great need for ideas that can blend that understanding and insight into creative new solutions. Implicit in this notion is the belief that design thinking can make special, valuable contributions to decision making.

The two (2) highest scores for mean comparison based on all statements on this survey are from the reflection component. The table below highlights the mean comparison based on the statement for the reflection component. The researchers found that although 90% of the students understood that sun-shading is the basic knowledge to address sustainability in a building only 80% of the student will be able to adopt it in their Architecture Design Studio. 93.3% of the student agreed to the statement that they learnt new skills by attempting this project and had the highest frequency of listing software (digital simulation) followed by analytical skills.

Table 2: Mean Comparison based on statements

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>I agree that by creating sun shading in my design I am addressing sustainable architecture</td>
<td>*4.33</td>
</tr>
<tr>
<td>I agree that sun-shading is a basic design that can reduce heat gain in building</td>
<td>*4.30</td>
</tr>
<tr>
<td>I am able to learn new skills by attempting this project</td>
<td>4.17</td>
</tr>
<tr>
<td>I am able to adopt the same procedural experiment in designing sun-shading in my Architecture Design Studio</td>
<td>3.90</td>
</tr>
</tbody>
</table>

Notes: (*) statements for highest mean comparison

5. Conclusion

A project based learning using case study and learning by doing approach creates a dynamic learning for Architecture students. E-learning was carefully selected in this module as a content based use of technology to benefit the teaching and learning and to facilitate in accomplishing the learning outcome. As computer technology advances rapidly, it is essential for students to be adoptive and adaptive to the current technology. Dynamic learning skills of adoptive and adaptive capabilities are essential as meta-cognitive capacities in design thinking to be creative. Simultaneously scientific thinking encourages experimental method to create novel designs. In this project, by replicating and supplementing Architecture Design Studio based learning in a Technical Study module, students were able to enhance their critical thinking skills based on the scientific approach. Overall, it allowed for the development of the student’s discipline-specific knowledge, gaining new knowledge and skills to simulate using digital tool and enhance their analytical skills. However, further studies need to be researched if students do apply their new gained knowledge and skills in their Architecture Design Studio projects. The insights on whether they do or don’t would
provide a valuable understanding of teaching and learning in an undergraduate architecture programme.

References


The Coverage of Islam/Muslims and Terrorism in International Media

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ABSTRACT

Objective – In portraying Islam, especially after the September 11 attacks, a number of studies found that terrorism has been repeatedly associated with Islam/Muslims by most of the international media. There is a perception that international media play a vital role in creating a relationship between Islam/Muslims and terrorism in their coverage that leads to the formation of frames on Islam/Muslims and terrorism.

Methodology/Technique – Based on this view, the researcher has conducted a content analysis of two international news magazines, Time and The Economist, aimed at examining the frames at four different periods of sampling; a one year period right before September 11, a one year period right after September 11, a one year period after five years of September 11 and a one year period after ten years of September 11. This study has applied a content analysis as the research methodology in collecting, coding and analyzing the data. All paragraphs pertaining to the issue during the study periods were analyzed. A total of 4,443 paragraphs was analyzed to determine the existence of frames.

Findings – The researcher has found the total of ten significant frames used by both Time and The Economist in covering stories related to Islam/Muslims throughout the four periods being studied.

Novelty – This study expands the research made before on the labeling of international media on Islam and terrorism in terms of the time frame, scopes of indicators and measurement as well as the types of media selected.

Type of paper: Empirical

Keywords: Islam, Muslims, Terrorism, Media, International, Western, September 11.

1. Introduction

The role of media is to shape opinions and to present a particular version as reality. They work to disseminate information and create public opinion. Media are also believed and
expected to portray a fair picture on any issues occur both at the national and international level (Hashim, 2009). However, in portraying Islam, especially after the September 11 attacks, a number of studies found that international media tend to depict Islam negatively by associating it with terrorism (Hashim, 2009; Winegar, 2008). Issues concerning the way international media, specifically in the US and UK, equate Islam/Muslims with terrorism have been widely debated (Tahir, 2011; Cesari, 2011). Research showed that after the September 11 attacks, terrorism has been repeatedly associated with Islam/Muslims by most international media (Fauziah, 2011; Dina, 2010; Hashim, 2009).

The attacks on the World Trade Center in New York and Pentagon on September, 11th 2001 have greatly influenced the whole world. The impact on the United States was much bigger in various aspects, including economic and military as well as the US credibility as the most powerful nation in the world. This has led the US to take revengeful actions against those who were targeted to be responsible for the attack, thus making this an opportunity for the US to attack any parties they believe to be their enemies. Although there were disagreements shown by international society, the attack continued. The US has made an initiative in hunting and targeting any parties involved in a so called terrorism. The first step taken besides arresting a few targeted individuals was to attack Afghanistan, where the Taliban government was claimed to have an affiliation with the terrorists who were responsible for the September 11 attacks.

This study argues that international media play a vital role in creating a relationship between Islam and terrorism in their coverage that leads to the formation of labels on Islam and terrorism. Some scholars said that the dominant views of international media on Islam and terrorism represent the visions of the elitist establishment of its society (Dina, 2010; Mahathir, 2003). Gerges (2003) claims that it is hard to segregate between the views of the mainstream media from the views of the US policy makers. These media are said to be supportive of Western policy towards Islam and terrorism, while members of the policy elite may get their input from the mainstream media. Thus, this research has scrutinized the source of news available in the studied articles irrespective of whether it is an official or unofficial source. The study specifically looks at how these media frames Islam or Muslims and terrorism by making a comparison at four different periods; a duration of one year before Sep 11, another duration of one year duration after Sep 11, a duration of one year in 2006 (5 years after Sep 11) and finally a one year duration in 2011 (10 years after Sep 11).

2. Statement of the Problem

The negative coverage of Islam and Muslims has appeared in the western media before the September 11 attacks, yet the turning point of such discrimination occurred after September 11 (Hashim, 2009). Naming Muslims as terrorist and Islam as the religion of terrorism made by western media, especially those in the US and the UK, have existed far before the September 11. Many studies have been conducted in proving this statement to be true (Tahir, 2011; Mahathir, 2003). For instance, the conflict between Israelis and Palestinians has been regarded as related to the issue of terrorism. In this conflict, Western media have always put the blame on the Palestinians and Islam has been portrayed as violent and attacking (Hashim, 2009). Moreover, the accusation and negative portrayal made by the media have increased dramatically following the September 11 attack. News reports, featured articles and photos of Islam or Muslims have received wide coverage and presented by the Western media or international news agencies after the incident on September 11 (Sofia et al., 2013; Fauziah, 2011; Dina, 2010; Hashim, 2009).

The issue of Islam and terrorism is therefore a never ending story. The bad image received by the Muslims following the September 11 attack has continued with some major incidents especially within five to ten years after the September 11 attacks. The media coverage in the US and the UK has led to the association of Muslims with terrorism. Esposito and Ibrahim (2011) reported that people who have negative perceptions or prejudices against Muslims are in favour of using specific security measures with Muslims as a way to prevent terrorism. Such an association continued after 2006 following a series of attacks such as the London and
Bali bombings, which occurred in 2005, as well as negative media coverage along the period. In 2010, another survey made by the Gallup Centre for Muslim Studies revealed that about 5 of 10 Americans (45 percent) admitted to having at least “a little” prejudice towards Muslims. While 10 percent had a feeling of “a great deal” of prejudice towards Muslims, and 20 percent admitted to have a feeling of “some” prejudice and such feelings were very much admitted by the respondents in this research as a consequence of negative media coverage of Muslims and their religion.

The negative media framing was believed to continue after 2010 causing an intense increase of anti-Muslim sentiment. The efforts made by the Muslim American Community to build up new mosques has sparked Islamophobic comments mostly by the media, politicians and right-wing bloggers as well as political pundits. On June 22, 2010, a New York Post editorial attacked on the plans to construct new mosques in the state of New York by claiming that the plans for mosques constructions either in Sheep’s Bay, Staten Island or Ground Zero would bring no joy to all New Yorkers because when there are Muslims, there are always problems and evils (in Esposito & Ibrahim, 2011).

3. Literature Review

Most of the previous studies of Western media concentrated on the portrayal and the representation of Islam as associated with terrorism or the image of Muslims right after the September 11 attacks, yet these researches were done in a very limited time frame. Hashim (2009) studied the labeling of Time magazine on Islam and terrorism within a six months’ time frame while Dina (2010) conducted a case study of American network news coverage post 9/11 which involved sampling from transcripts and video of the network evening newscasts on the three national networks, ABC, CBS and NBC for the first 14 days after the attacks.

Another research of similar nature is done by Malcolm, Bairner and Curry (2010). The study investigated how Islam and Muslims were represented in the aftermath of 9/11 through an analysis of British newspaper coverage of the death of Pakistan cricket coach, Bob Woolmer during the 2007 Cricket World Cup. The researchers found that there is a reproduction of the Muslim and Eastern cultural stereotyping ‘violence’, ‘irrationality’ and ‘backwardness’, similar to the one identified by Edward Said’s Orientalism (1997), which showed that the sport related coverage seems to be as negative and hostile as mainstream reportings (Malcolm et al., 2010). In this content analysis, the researchers collected 768 articles published in nine British national daily newspapers between March 19 and May 21, 2007. Mahathir (2003) claims that there is an extension of negative stereotype, discrimination and hatred towards Muslims by international media, especially after the September 11 attack. Hashim (2009) conducted a full content analysis of the labelling attitude relate to Islam and terrorism in Time news magazine for a six month period right after the attacks and found that the labelling attitude tendency in this magazine was remarkably high. In analyzing discourse elements of the media portraying issues related to terrorism, while Kumar (2008), in his content analysis study of Western media found five negative discursive frames that have been employed to represent Muslims, Arabs and the Middle East post September 11.

4. Research Methodology

The qualitative technique of content analysis of this study follows the technique in textual analysis and uses the idea generated by Entman (1991) where he measured frames by closely scrutinizing the narrative structure of news stories and then identified different frames when a focus is paid to some elements like adjectives in the structure. For this particular study, the researcher has collected all the extracts related to Islam/Muslims with terrorism taken from the source as examples, which were selected by the coders for the overall framing variable. By closely examining the narrative structure in the extracts, the researcher identified a series of frames that emerged in the discourse using a textual analysis method. Some of the frames were found to be similar to those of previous research (Hashim, 2009; Kumar, 2008).
Textual analysis aims to highlight the different ways in which most researchers use language to construct an explanation of the events and its participants (Achugar, 2004). It is believed that the choice of words in any news reports or articles is deliberately chosen by the journalist who is influenced by his or her society (Pan, 2002). Therefore, wordings may represent differentiation of systems of ideas; pertaining social process that involving conflict and this is where the framing takes into place. The analyzed texts will help to identify ideological positions of the news story explaining opinions in the news articles through identification of relevant connotation for a specific social group and in this matter, the Muslims. The choice of different words for referring to the same thing by different speakers or writers will reveal the ideological affiliations on the part of organizations such as the usage of “terrorists” versus “freedom fighters”.

The analysis of social representation of the actors in this textual analysis will look at the affirmation of the ideology put forward by Time and The Economist. Ideological representations will express the opinions, perspective, position, interests or other properties of groups, in this case the Muslims. Another aspect that is looking into is the use of vocabulary to describe the actors and events and the rhetorical structures of discourse in all related incidents. This includes imagery, overstatements, understatements, hyperbole euphemism, and mitigation. All these will finally lead the coders to see the frames that are formed in both Time and The Economist in relation to Islam/Muslims with terrorism.

5. Findings and discussions

Qualitatively, the researcher has built up the frames that believed to be existed after the textual analysis was done on each unit of analysis. These frames were identified by the researcher based on textual analysis method on the excerpts taken from both Time and The Economist during the process of identifying the overall framing in each paragraph of both news magazines. The selection of excerpts to be considered in creating these frames was done by looking closely at words and phrases in every line of the selected excerpts. The researcher identified a total of ten frames associated with Islam and terrorism used in the coverage of Time and The Economist.

Framing 1: Muslims are terrorists. This is the main frame found in this study. For example, in Time dated October 12, 2001, in the article entitled “Down and Dirty”, it was clearly stated that Muslim Taliban leader, Mullah Mohamad Omar was cited as offering a reward to anyone who kills any Western journalist within Afghanistan. The article said that this has become a fear among Western journalists and this article portrayed a negative frame of Muslims as if Muslims are terrorist as the Taliban leader requested for a death of the Western journalist in return of a reward.

The Economist also used frames that lead to the formation of “Muslims are terrorists”. One of the articles dated August 26, 2006 titled “Immune No More”, the article mentions that a country such as Germany does have a shield against “Islamic terrorism” anymore as too many Muslims have migrated to Germany. Another article that used this frame is the one from The Economist dated April 13, 2002 titled “No End To the Desolation” in which Muslims in Palestine were characterized as suicide bombers and Palestine was labeled “the home to several suicide bombers” (p:45).

Framing 2: Muslim countries are in chaos. There is a strong frame in both news magazines about the chaos in Muslim countries that have been responsible for the unstable political, economic and social conditions in these nations countries. In Time dated April 24, 2006, an article titled “Far From Mayhem in Baghdad, Kurdistan Is Showing Signs of Growth”, mentions the critical scenario in Iraq whereby “most Kurds don’t seem to want any part of a greater Iraq. Especially while ethnic violence continues in Baghdad”. (p: 32).

Another example of this frame was found in The Economist where Palestine has been visualized as one of the most chaotic Muslim countries with a never ending war between Palestine and Israel, which creates terrorists among Muslims in Palestine.

Framing 3: Leadership in Muslim countries is in catastrophe. The countries where Muslims are the majority often have been framed by the media as problematic, not only the people, but also the leaders. The researcher of this study found a dominant frame of “leadership in Muslim countries is in catastrophe” as in Time, dated May 5, 2001, in the article entitled “Spring-cleaning Arafat’s Way”. The article shows how the leadership of Arafat is shattered as he was accused for all the so called “violent actions” committed by the Palestinians against Israelis. Arafat was further portrayed as incapable of leading Palestine due to various wrong decisions he made.

Framing 4: Islam is a religion of extremism and terrorism. There are many articles in both Time and The Economist that frame Islam as extreme and a religion of terror. One of the examples is an article entitled “The Taliban Resurgent” that can be found in The Economist, dated June 10, 2006. The article remarked that there should be a war against extremism in Islam and that those who are impatient in this war would lead to disaster. The article further elaborated on the connections of Islam with terrorism.

Framing 5: Islam encourages Muslims to involve in violent acts. There are many parts in the news magazines selected for this research in which the researcher could easily locate a frame that tells that Muslims are encouraged to do violent acts. For example, in Time, dated August 5, 2002, the article entitled “Gunning for Cops”, mentions about violence that has become a commonly “hallowed tradition” in the poor and desolate provinces of any Muslim countries.

Framing 6: Islam teaches provocation. This frame shows how the media set the agenda by forming a frame that is originally against the principle of Islam. Islam discourages fighting unless obviously threatened. Yet, provocation is absolutely not part of Islamic teachings. There are many discourses in this study that contain statements showing how Muslims have been inspired to create provocations. Two of the followings are among the examples for this frame:

“Scenes of Palestinians and other Muslims are celebrating this week’s horror may be seen an unendurable provocation”. (The Economist, September 15, 2001. “The Day the World Changed”, p: 14).

Framing 7: Muslim leaders lead terrorism. This frame has been one of the dominant frames found in this study and shows how some Muslim leaders inspire and lead their followers to conduct violent act and commit in terrorism. One article from Time, dated May 13, 2002 entitled “Inside Saddam’s World”, shows how terrorists who were in need of “weapons of mass destruction” would come and ask Saddam Hussein, who was described in the article as a leader who always gave his blessing to terrorists by providing them with destructive weapons.

Framing 8: Islamic state means fundamental state. Another strong frame identified here, describes an Islamic state as a fundamentalist state. Many articles in both news magazines noted that should there be an Islamic state, that it will be indeed Islamist or fundamentalist. One article in The Economist dated March 17, 2001 entitled “Holy War in the Spice Islands”, clearly visualizes the belief that everyone should have pertaining to the Moluccas in Indonesia in which one day not only Moluccas, but all of Indonesia, as “part of a wider long term-strategy to turn” into a “fundamentalist Islamic state”.

Framing 9: Israel is the victim of Islamic terrorism and always the one being attacked by Palestine. Another important frame that has been identified in this study is the frame that depicts Israel as a victim and Palestine as the attacker. In The Economist, dated April 28, 2001, the article entitled “Israeli settlements and the Palestinian Uprising”, visualizes Palestinians as militants who start the strikes between Palestine and Israel. The Palestinians were described as justifying the attacks as a “way of deterring ordinary Israelis” from entering and settling on the land that they claimed as theirs. The Israelis were described as helpless and tortured, while the Palestinians further elaborated as vicious and cruel towards ordinary Israelis.
Framing 10: Islamic sects are doing nothing but clashing against each other. The final frame found in this research is a frame on Islamic sects. Most articles that talk about Islamic sects were found to portray them as having frequent disputes and there was no indication that these media would show the reconciliation between the sects. The most popular sects covered were Shia and Sunni. One article in *The Economist*, dated April 29, 2006, entitled “A Man They Can Deal With”, shows how Shias and Sunnis were described as having a series of “tit-for-tat militia murders” in Syria, Iran and other Muslim countries.

6. Conclusion

This study concludes that when it comes to Islam or Muslims, the international media especially from the US and UK likely to make news coverage on issues such as politics, terrorism/violence and conflict. Very rare news stories can be found on other topics such as education or the economy. The portrayal is more towards negative than positive and it is remarkably high when tragic incidents occurred and Muslims are targeted for the blame. This can be seen right after the September 11 attack in 2001 and London bombing in 2005. The negative framings were obviously high and opposite framings were almost unavailable. However, during periods where no tragic incident reported, the coverage turned to be slightly more on positive stories such as news stories on education, culture and economy.

Finally, this study is hoped to expand the research made before on the labeling of international media on Islam and terrorism in terms of the time frame, scopes of indicators and measurement as well as the types of media selected. The researcher also expects that this study will add to a growing knowledge of research regarding Islam and terrorism as labeled by international media, particularly after the September 11 attacks, Muslim society has been targeted and labeled unjustly by the respective media as a result of uncompromising policy making by the world superpower through mainly under the pretext of eradicating terrorism.

References


Integrated Sectoral Planning Through The Region Industrial Agglomeration Mapping That Promote Agricultural Sector In Semarang Regency

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ABSTRACT

Objective – The objective of this study is industry mapping through the production factor identification that used. The mapping results will be used as a justification for preparing to the sectors planning in Semarang Regency.

Methodology – This research was implemented in a West Ungaran district become the highest number industry with 236 industries. Mostly, the industrial sector that located in Semarang Regency was engaged in the food sector. Chemical and building materials industry is the second largest after food industry. The regional planning in this region considered to the agricultural sector. The development planning of timber production, flour base commodity, soybeans and nuts industrial cluster should be synchronized with agricultural development strategy.

Findings – The region having the largest industrial number is West Ungaran District with 236 industries. The total majority of the industry located in Semarang Regency is the industry engaged in the food sector

Novelty – Finally, this research is expected to provide the strengthening effect for the agricultural sector, which will increase the contribution to the regional economy.

Type of Paper:

Keywords: Industry, Planning, Economic Sector, Agriculture, Semarang, Agglomeration

1. Introduction

The natural or artificial differences among the regions within a territory may lead to differences in opportunities to grow and develop. The regional economic improvement can be carried out by utilizing and developing the potential of every region. One potential region that can be utilized as a means of improving the regional economy is the presence of industrial agglomeration. One region in Indonesia as one of the industrial agglomerations is Semarang Regency.
Semarang Regency is located in Central Java Province. Semarang Regency is famous for its industrial agglomeration region. The strategic location with a variety of access these are the sea, land and air makes a lot of investors set up industries in this regency. Currently the number of industries in Semarang Regency is 1521 consisting of 1341 small industries and 180 medium and large industries. But unfortunately the existence of industrial agglomeration in Semarang Regency has not been utilized by the local government as a means to increase the regional economy.

The analysis result of Input Output of Semarang Regency (Fafurida, 2010) found that Semarang Regency is a place of industrial agglomeration, but in fact the industrial sector is not the dominant one. It is because the industrial sector has no high backward linkage with the input provider sectors and also has no high forward linkage with the output user sectors. This reflects that there are many industries in Semarang Regency, but the raw materials used by these industries do not come from Semarang Regency but from other regions. Similarly, most users of the industrial result are not the sectors existing in Semarang Regency, whereas, if it is observed, the linkage between the industrial sectors with other sectors is quite a lot. For example, the linkage with the agricultural sector, there are many industries that use raw materials (input) from the agricultural sector, such as the industries of food, garment, furniture, and so on. Industries are also very closely related to the transport and services sectors. Industries have also the linkage with transportation and service sectors. To carry out the distribution of goods, industries definitely need transportation or delivery services for export, and there are still a lot of linkage between industries and other sectors. It is very unfortunate if the local government cannot examine these opportunities because it illustrates that many industries in a region will not have any influence on the increase of the regional economy.

The arrangement of regional planning should be based on the potential of every region. The planning arrangement should be based on an analysis and a solid foundation to reach a successful development and increase the regional economy. The utilization of local potential as one tool for increasing the economy has not been carried out by the government of Semarang Regency, and this must be corrected immediately.

The strong potential owned by Semarang Regency, which is the industrial agglomeration region, should be utilized as one means for increasing the regional economy. Although the industrial sector is a sector having major contribution to the regional revenue, unfortunately the existence of industries accounted for 1521 has not been utilized as a means of increasing the income in other sectors.

From the five types of industries that exist in Semarang Regency, the most numerous type of industry is the food industry. The second is the chemical and building material industry, followed by the clothing industry, the metal and electronics industry and the last is the handicraft industry. From this diversity of industry types, there are certainly great opportunities for the development of other sectors through such a number of industries. One example is the agricultural sector, with the type of industry that mostly is the food industry, which raw materials are derived from the agricultural sector. These opportunities can be utilized by the farmers in the region to produce the agricultural products that are the raw materials of the food industry considering that most of the existing land in Semarang Regency is used for the agricultural sector.

2. Literature Review

Empirical study of the agglomeration performed by Didi Nuryadin et al (2003) analyzing the impact of agglomeration on regional economic growth on 26 provinces in Indonesia with the dependent variable of growth rate of GDP per province throughout Indonesia at constant prices and the independent variable is the agglomeration, the rate of labor force, the rate of inflation, the rate of economic openness (the rate of openness), and human capital. By using regression analysis with Generalized Least Squares (GLSD) method or least squares method that produces a linear and unbiased assessment (Gujarati, 1995: 52), it can be concluded that the agglomeration variables have the highest coefficient value compared with other
independent variables, these are the rate of labor force, the rate of inflation, the rate of openness, and the level of education. This shows that if the agglomeration (industrial grouping) is more developed, it can provide a substantial contribution to support the increasing rate of regional economic growth.

The research of Glenn Ellison, Edward L. Glaeser and William Kerr entitled "What Causes Industry Agglomeration? Evidence from the Co-agglomeration Patterns.” (2007), which examined the manufacturing industry in the United States and the United Kingdom, concluded that the agglomeration or industrial grouping is required because it can save the cost of transportation of the raw material sources and the cost of the industrial products to the final consumers.

Another research result of agglomeration is conducted by Todd M. Gabe, which entitled "Effects of Industry agglomeration on Indicators of Growth and Development in Maine". Todd M. Gabe studied the relationship between industrial agglomeration with the location of the company, the growth of employment and incomes. The research result concluded that there is a positive relationship between the industrial agglomeration with the location of the company, the growth of employment and incomes. This can be shown by seeing that the existence of agglomeration encouraged the growth of the company's location at 31.5 percent, the growth of employment at 29.3 percent and the increase of incomes at 15.5 percent.

Juoro (1989) analyzed the determinants of concentration in Indonesia (and he also analyzed the concentration of industry in the Philippines). By using the function similar to CES developed by Dhrymes (1965), he did a regression of wages as a function of output and employment. From the estimated parameters of the degree of homogeneity, which represents the economic scale or an economy of localization for the industrial level, the result showed that almost all industries of three digits in Indonesia have a greater degree of homogeneity than one. This situation is a sign that the economy of localization is important to make the industries concentrated in the large urban areas.

Hanson (1998) who examined the impact of trade liberalization was focused on the transport costs, in which the company moves into a relatively good area to access foreign markets. The backward-forward linkages encourage the company to be located close to the buyers and distributors (suppliers), and the economic agglomeration encourages the growth before the industrial center exists. The fact here particularly considers the growth of the regional industry workers in Mexico before and after the trade reforms. It is consistent with the hypothesis from the transportation cost that the growth of workers after the trade reform is higher in the region that is relatively closed in the United States. It is consistent with the backward-forward a linkage hypothesis that the growth of workers is higher in the region that is located close to the upstream and downstream industries. There is no evidence that the economic agglomeration has a positive correlation with the growth of workers. The result illustrates that the decomposition of the manufacturing belt in Mexico City and the wider specialization of industrial center is located in North Mexico.

2. 1 Theory Underlying the Research

The Development of Regional Economic Potential

A potential region is a region that is less developed or not developed at all but has factors that may lead it to develop quickly if there is a development (Sukirno, 1985: 78). The development and economic development of a region in principle are based on the utilization and the processing of natural wealth potential and other resources available in the region. The economic potential of a region is the natural wealth sources and their results and also the human resources and others available in the region (Kamaludin, 1989: 90). Potential of regions in various sectors both the ready processing and the potential ones are quite widely available and reliable for the economic development and improvement in the region.

Program of linkages between the sub-sectors and sectors in the pattern of the national economic development is a good and suitable policy to be implemented and continued in the
economic development in a region. However, the implementation needs to be adapted to the conditions and the real potential of the region. The regional development should pay more attention to the advantages and characteristics of every region. Various results of the development and growth of the economic sector in a region may lead it to have various advantages, which can be absorbed in the process of implementation (Kamaludin, 1989: 84). These advantages include:

1. The production result of the economic sector in the form of revenues is getting higher.
   It will give more contribution both for the people and the formation of GDP in the regional management through the emphasis on economic development in various sectors.
2. The rate of economic sector growth and development is getting higher.
   A high level of economic development will be achieved through optimal resource utilization.

**Agglomeration Concept**

In the context of geographic economy, the concept of agglomeration is related to the spatial concentration of population and economic activities (Malmberg and Maskell, 2001). This is in line with what was stated by Montgomery in Kuncoro (2002) that the agglomeration is the spatial concentration of economic activities in urban areas because of the savings due to the adjacent sites (economies of proximity) that is associated with spatial clusters of companies, workers and consumers. The advantages of spatial concentration as a result of scale economies are called the agglomeration economies. (Mills and Hamilton, 1989).

The definition of agglomeration economies is also related to the geographical proximity externalities of economic activities that an agglomeration economy is a form of positive externalities in production, which is one factor that leads to the growth of the city. (Bradley and Gans, 1996). Agglomeration economy is defined as a decrease in production costs because the economic activities are located in the same place. This idea is donated by Alfred Marshall that uses the term localized industry as a replacement of the term agglomeration economies.

Economist Hoover also makes the classification of agglomeration economy into three types, those are large scale economies, which are the corporate profits due to the growing scale of the production company at a certain location, localization economies, which are the benefits for all companies in the same industry in a certain location, and urbanization economies, which are the profits for all industries in the same location as a consequence of the growing scale of economies (population, income, output or prosperity) of the location. In contrast to the opinion of other economists, O'Sullivan (1996) divides the agglomeration economy into two types those are localization economies and urbanization economies. In this case the meaning of agglomeration economy is the positive externalities in production, which is the decreasing cost of production of most companies as the result of the increasing production of other companies.

**3. Research Method**

The data used in this research is mostly the secondary data. The secondary data is obtained from the Department of Industry, Trade and Cooperatives, the Central Bureau of Statistics and every district in Semarang Regency. The data collecting in this research applies the documentation method, in which the data is obtained and collected from various sources among others are from the Department of Industry, Trade and Cooperatives and the Central Bureau of Statistics and every district in Semarang Regency. The data analysis technique used in this research is the statistic descriptive. The survey result conducted will be tabulated and analyzed and then presented in the forms of tables, graphs and figures to be analyzed qualitatively.
4. Results and Discussion

Identification and Industrial Mapping

Semarang Regency has the considerable industrial number exceeding other regencies. There are 1649 industries of various types of existing industries consisting of small, medium, and large industries. As for the distribution of industrial locations in Semarang Regency can be seen in the figure 2. The industrial distribution number in every district in Semarang above, it can be seen that the region having the largest industrial number is West Ungaran District with 236 industries, while the regions having the second and the third largest industrial number are Bergas District and Ambarawa with 193 and 173 units respectively.

From the total number of 1649 existing industries after being identified, it shows that the number is the total of the five types of the existing industries those are the industries engaged in food, clothing, chemicals and building materials, metals and electronics and also the industries engaged in handicraft, industrial food, clothing, chemicals and building materials, metals and electronics and handicraft industry in 561, 292, 538, 145 and 113 units respectively. From this analysis, it appears that a majority of the number of industries in Semarang Regency is industries engaged in the food sector. The food industry is very closely related to the agricultural sector. The input from this type of industry is mainly the agricultural products. Therefore, it is appropriate if Semarang Regency develops its agricultural sector based on the food industry. Here is presented the distribution industry based on types in every district in Semarang Regency.

Table 1. The amount of the industrial distribution based on types in every district in Semarang Regency

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>Food</th>
<th>Clothing</th>
<th>Building Materials and Chemistry</th>
<th>Electronics and Metals</th>
<th>Handicraft</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>West Ungaran</td>
<td>74</td>
<td>58</td>
<td>63</td>
<td>27</td>
<td>14</td>
<td>236</td>
</tr>
<tr>
<td>2</td>
<td>East Ungaran</td>
<td>24</td>
<td>58</td>
<td>44</td>
<td>9</td>
<td>8</td>
<td>151</td>
</tr>
<tr>
<td>3</td>
<td>Bergas</td>
<td>34</td>
<td>24</td>
<td>44</td>
<td>9</td>
<td>8</td>
<td>193</td>
</tr>
<tr>
<td>4</td>
<td>Pringapus</td>
<td>24</td>
<td>24</td>
<td>40</td>
<td>11</td>
<td>10</td>
<td>171</td>
</tr>
<tr>
<td>5</td>
<td>Bawen</td>
<td>25</td>
<td>15</td>
<td>48</td>
<td>12</td>
<td>10</td>
<td>173</td>
</tr>
<tr>
<td>6</td>
<td>Ambarawa</td>
<td>24</td>
<td>24</td>
<td>48</td>
<td>10</td>
<td>10</td>
<td>173</td>
</tr>
<tr>
<td>7</td>
<td>Sumowono</td>
<td>14</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>8</td>
<td>Jambu</td>
<td>41</td>
<td>6</td>
<td>24</td>
<td>11</td>
<td>9</td>
<td>93</td>
</tr>
<tr>
<td>9</td>
<td>Tuntang</td>
<td>15</td>
<td>36</td>
<td>8</td>
<td>5</td>
<td>14</td>
<td>141</td>
</tr>
<tr>
<td>10</td>
<td>Banyubiru</td>
<td>29</td>
<td>7</td>
<td>13</td>
<td>7</td>
<td>8</td>
<td>64</td>
</tr>
<tr>
<td>11</td>
<td>Getasan</td>
<td>10</td>
<td>2</td>
<td>5</td>
<td>0</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>12</td>
<td>Tengaran</td>
<td>30</td>
<td>7</td>
<td>37</td>
<td>3</td>
<td>9</td>
<td>86</td>
</tr>
<tr>
<td>13</td>
<td>Susukan</td>
<td>30</td>
<td>4</td>
<td>10</td>
<td>0</td>
<td>5</td>
<td>49</td>
</tr>
<tr>
<td>14</td>
<td>Suruh</td>
<td>11</td>
<td>5</td>
<td>21</td>
<td>2</td>
<td>2</td>
<td>41</td>
</tr>
<tr>
<td>15</td>
<td>Pabelan</td>
<td>11</td>
<td>8</td>
<td>18</td>
<td>0</td>
<td>3</td>
<td>40</td>
</tr>
<tr>
<td>16</td>
<td>Bringin</td>
<td>9</td>
<td>5</td>
<td>16</td>
<td>0</td>
<td>1</td>
<td>31</td>
</tr>
<tr>
<td>17</td>
<td>Bancak</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>18</td>
<td>Kaliwungu</td>
<td>6</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>19</td>
<td>Bandungan</td>
<td>4</td>
<td>14</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td><strong>Total input</strong></td>
<td><strong>561</strong></td>
<td><strong>292</strong></td>
<td><strong>538</strong></td>
<td><strong>145</strong></td>
<td><strong>113</strong></td>
<td><strong>1649</strong></td>
</tr>
</tbody>
</table>

Source: Department of Industry, Trade and Cooperatives, Semarang Regency, the data processed

From the table 1 it can be seen that from the type of food industry, the most dominant regions as the location of this type of industry are Tuntang, West Ungaran, East Ungaran, and Ambarawa with 77, 74, 66 and 66 units respectively. From the type of clothing industry, the regions having the largest industries are West Ungaran, Pringapus and Bergas with 58, 50 and 48 units respectively. Chemical and building material industry is the second largest one after the food industry with 538 spread over almost the entire area of Semarang Regency. The...
dominant regions that become the start building of the chemical and building material industry are Pringapus, Bergas and West Ungaran with 76, 74 and 63 units. The next type of industry is the metal and electronics industry with 145 units spread over the area of Semarang Regency. The regions having the great metal and electronics industries are West Ungaran, Ambarawa and Bergas with 27, 25 and 24 units respectively. The last type of industry is the handicraft industry with a total number of 113 industries. West Ungaran, Bergas and Jambu are the districts having the large handicraft industry compared with other districts, with 14, 13 and 11 units.

By observing the types of industrial distribution in every district that is presented in the figure below, it will be obvious which regions that have the dominant food, clothing, chemicals and building materials, metals and electronics and craft industries. From the figure, it can be concluded that the dominant food industry is located in Tuntang, the dominant clothing industry is located in West Ungaran, the dominant chemical and building material industry is located in Pringapus, the dominant metal and electronic industry is located in West Ungaran, and the dominant handicraft industry is located in West Ungaran.

**Food Industry**

The food industry is a type of industry that is dominated in Semarang Regency. Observed from the spreading, these types of industry are dominantly found in Tuntang District with 77 industries with the industrial majority of crackers, West Ungaran with 74 industries with the industrial majority of bread, crackers and soft drinks, East Ungaran with 66 industries with the industrial majority of the food industry from soybean and nuts, Ambarawa with 66 industries with the industrial majority of livestock feed rations, the food from soybeans and nuts and crackers.

**Clothing Industry**

The Clothing industry is an industry that is engaged in the convection where the output of this industry is the clothing worn by the people. These types of clothing industry are also commonly found in Semarang Regency. The number of this type of industry is quite a lot that is 292 units. The regions dominated with clothing industry are West Ungaran, Pringapus and Bergas. The majority of this type of industry in every district is as follows: West Ungaran is a location dominant with the apparel industry, Pringapus is a location dominant with the textile industry of finished goods, except for clothing and apparel industry, Bergas is a location dominant with the apparel and garment industry.

**Chemical and Building Material Industry**

Chemical and building material industry is the second largest type of industry after the food industry with 538 units. This type of industry is dominantly located in three districts those are Pringapus with the industrial majority of the wood panel, moulding and component of building materials and the furniture industry. Bergas is dominant with the furniture industry and West Ungaran is a location dominant with the printing and furniture industry.

**Metal and Electronic Industry**

The fourth type of industry in Semarang Regency is the metal and electronics industry. This type of industry has 145 units spread over the areas in Semarang Regency. The dominant regions having this type of industry are West Ungaran with the industrial majority of car maintenance and repair, Ambarawa with the industrial majority of various special services for the metal and metal goods, Bergas with the industrial majority of various kinds of jobs.

**Handicraft Industry**

There are 113 business units in Semarang Regency that are engaged in the handicraft industry. This industry is spread throughout the whole regions in Semarang Regency. There are several regions that are the location dominant with this type of industry. They include
West Ungaran with the industrial majority of carving crafts, precious jewelry and other processing, Bergas with the industrial majority of handicrafts, Jambu with the industrial majority of handicrafts.

**Regional Planning**

The sector planning of every region is based on the result of the identification and mapping of the existing industries in Semarang Regency. It is based on the theory stating that every sector has the good forward and backward linkages. In this case, the backward linkage from the industrial sector to the input provider sector that is the agricultural sector is very much available. This can be exemplified from the majority of the food industry in Semarang Regency as the industries of bread, soy bean cake, chips, etc., which notably have the raw materials for the agricultural sector. There is also the building materials industry and handicrafts linkage using an input of wood from the agricultural sector product. Under these conditions, this research can formulate a plan of agricultural sector development based on the industrial mapping. The planning is arranged based on the result of the industrial mapping and the location and condition of the region.

From the consideration of the location it can identify the layout of every district as a basis for determining the planning of industrial centre and industrial input providers regions. The planning is arranged based on the majority of the industrial types and based on the location that is possible to be the input providers on the existing industries. The following table of planning is based on the above conditions.

The planning arranged in Semarang Regency above is based on the existing industrial potential. The table shows that the majority of development recommendation based on agriculture is the determination of timber production centre, flour commodity, soybeans and nuts. This is because the majority of the industry located in Semarang Regency uses timber, flour, soybeans and nuts. Considering that these industries are dominant with weight loosing activity, then the input of production must be closer to the industry. So it is appropriate if the development of industry-based agricultural commodities is carried out. The next expectation if the planning is carried out, the existence of industries that are located in Semarang Regency can encourage the increase of the agricultural sector as the input provider so as to increase the value of backward linkage between the industrial and agricultural sectors.

**Table 2. Regional Planning of Semarang Regency**

<table>
<thead>
<tr>
<th>No</th>
<th>District</th>
<th>Planning Direction</th>
</tr>
</thead>
</table>
| 1  | West Ungaran | • Bread industrial centre and its kind  
|    |            | • Cracker industrial centre and its kind  
|    |            | • Soft drink industrial centre  
|    |            | • Apparel industrial centre  
|    |            | • Printing industrial centre  
|    |            | • Wooden furniture industrial centre  
|    |            | • Flour commodity production centre  
|    |            | • Timber production centre  |
| 2  | East Ungaran | • Food industrial centre from soybeans and nuts  
|    |            | • Soybean and nut production centre  |
| 3  | Bergas     | • Apparel industrial centre  
|    |            | • Garment industrial centre  
|    |            | • Furniture industrial centre  
|    |            | • Timber production centre  |
| 4  | Pringapus  | • Industrial centre of goods to be textiles  
|    |            | • Apparel industrial centre  
|    |            | • Wooden furniture industrial centre  
|    |            | • Industrial centre of moulding and building material components  |
5. Conclusion

The region having the largest industrial number is West Ungaran District with 236 industries. The total majority of the industry located in Semarang Regency is the industry engaged in the food sector.

The most dominant regions as the location of the food industry are Tuntang, West Ungaran, East Ungaran and Ambarawa. From the type of clothing industry, the regions having the largest industry are West Ungaran, Pringapus and Bergas. Chemical and the building material industry are the second largest after the type of food industry. The dominant regions as the start building of the chemical and building material industry are Pringapus, Bergas and West Ungaran. The type of metal and electronics industry is dominantly located in West Ungaran, Ambarawa and Bergas. And the handicraft industry is dominant in West Ungaran, Bergas and Jambu.

The majority of the direction of regional development based on the agricultural sector is the determination of the centers for timber production, flour commodity, soybeans and nuts. The majority of the industry located in Semarang Regency uses timber, flour, soybeans and nuts. Considering that these industries are dominant with weight loosing activity then the input of production must be closes to the industry. So it is appropriate if the development of industry-based agricultural commodities is carried out.
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Do Ethical Climate and Machiavellianism Affect Ethical Perceptions of Earnings Management? Evidence from Indonesia

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ABSTRACT

Objective – The purpose of this paper is to examine whether both ethical climate and Machiavellianism influence ethical perceptions of earnings management.

Methodology/Technique – The authors surveyed 143 managers, internal auditors, supervisors, finance and accounting staffs employed by listed companies in Indonesia.

Findings – The results show that ethical climate negatively affects ethical perceptions of earnings management. Inconsistent with the expectations, Machiavellianism does not influence ethical perceptions. In addition, the results of the indirect effects analyses did not support the mediating effect of ethical climate and Machiavellianism on ethical perceptions through the perceived importance of ethics and social responsibility.

Novelty – To our knowledge, this is the first study to address the direct and indirect effect of ethical climate and Machiavellianism on ethical perceptions of earnings management among private industries’ employee in Indonesia. The findings have important implications, suggesting that organizational efforts to enhance the ethical climate may actually increase employees’ perceptions of the importance of corporate ethics and social responsibility to organizational success. Moreover, by enhancing ethical climate in an organization that encourages ethical behavior may lead employees to be more critical to earnings management.

Type of Paper: Empirical

Keywords: Earnings Management; Ethical Climate; Ethical Perceptions; Machiavellianism; Perceived Importance Of Ethics And Social Responsibility

1. Introduction

An earnings management still exists because having a positive impact for a company. For instance, in view of earnings management from the perspective of efficient contracting, it gives managers an earnings management flexibility to protect themselves and the company in
anticipation of events unexpected to join the parties involved in the contract. The manager has
the flexibility to choose among several alternative ways of recording transaction as well as
selecting the options that exist within the same accounting treatment (Scott, 2009:415).
However, earnings management also gives a bad effect to the company, managers see it as
opportunistic behavior to maximize their bonuses. Consequently, some groups of society have
different perceptions, whether earnings management is ethical or unethical.

Bruns and Merchant (1990) found that participants perceived earnings management was not
explicitly prohibited if there was a slight deviation from GAAP. In other words, participants
believed that earnings management as an ethical practice regardless of who might be affected.
On the other hand, Fischer and Rosenzweig (1995) argue that earnings management involves
distorted in ways which mislead users of financial statements. Fischer and Rosenzweig (1995)
also found that there were significant differences among the mean responses of the three
groups of respondents. Earnings management actions were considered by accounting
practitioners as ethical, whereas students rate as less ethical. Those findings are the same as
the results of several studies in Indonesia. Abdullah (2003) found that public accountants and
business students have a different ethical acceptability toward earnings management. Public
accountants tend to consider that earnings management was less ethical than business
students. In addition, Yulaika (2011) observed that students tend to rate earnings management
actions more harshly than businessman. Moreover, Kawedar (2005) found that professional
accountant and users have a different ethical perception toward earnings management. There
are still significant differences among the ethical perceptions of the business student,
businessman, public accountants, and professional accountants in Indonesia. Thus, there is
clearly a need to obtain a better understanding of the behavioral factors that influence ethical
perceptions of earnings management, especially to the employee who directly involved in
managing earnings.

2. Literature Review and Hypothesis Development

2.1 Earning Management

Earnings management was defined by Healy and Wahlen (1999) as manager using “judgment
in financial reporting and in structuring transactions to alter financial reports to either mislead
some stakeholders about the underlying economic performance of the company or to
influence contractual outcomes that depend on reported accounting numbers”. This definition
focuses on the exercise of judgment in financial reports to mislead stakeholders and also to
make financial reports more informative to users. Therefore, there is a good side and bad side
to earnings management. As a result, some recent studies report different findings of the
respondents’ perceptions of earnings management. However, several observations (Bruns and
Merchant, 1990; Merchant and Rockness, 1994; Rosenzweig and Fischer, 1994) of earnings
management focused primarily on assessing and reporting ethical perceptions of earnings
management and limited number of independent variables affecting such perceptions have
been investigated. Thus, there is a much opportunity for further work in this area.

2.2 Ethical Perceptions

Rest (1986) proposed a four-stage ethical decision making sequence to describe individuals’
cognitive stages when they faced an ethical dilemma. Rest’s four-component model
comprises 1) ethical perception – being able to interpret the situation as being ethical or
unethical; 2) ethical judgment – deciding which course of action is morally right; 3) ethical
intention/choice – prioritizing ethical alternative over other alternatives; and 4) ethical
behavior – engaging in ethical behavior. This model influenced by various individual factors
(e.g., personality trait, attitudinal measures) and environmental factors (e.g., ethical climate)
(Jones, 1991; Trevino, 1986). This current study primarily focuses on the first stage of the
ethical decision making (ethical perceptions) because this stage is the fundamental and
crucial stage in the ethical decision making process and helps to initiate ethical decision
making. Hunt and Vitell (1986) describe ethical perceptions as the catalyst that entirely drives
ethical decision making process. Thus, an ability to identify and properly assess the ethical issue in a situation is a necessary prerequisite to right ethical decisions (Rest, 1986).

2.3 Ethical Climate

The organizational ethical climate is “the prevailing perceptions of typical organizational practices and procedures that have ethical content” (Victor & Cullen, 1988). The ethical climate constructs developed by Victor and Cullen (1987, 1988) is a two-dimensional matrix, which captures both the ethical criteria and locus of analysis involved in decision making. The ethical criteria derived from theories of moral philosophy and psychology, include egoism, benevolence and principle. The locus of analysis derived from sociological theory, specifies the scope of consideration when making ethical decisions, which may be on the individual, local or cosmopolitan level. The cross section of the two dimensions forms a 3 x 3 matrix consisting of nine types of ethical climates, as shown in Table 1.

Table 1. Theoretical ethical climate types

<table>
<thead>
<tr>
<th>Ethical Criteria</th>
<th>Locus of Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individual</td>
</tr>
<tr>
<td>Egoism</td>
<td>Self-interest</td>
</tr>
<tr>
<td>Benevolence</td>
<td>Friendship</td>
</tr>
<tr>
<td>Principle</td>
<td>Personal Morality</td>
</tr>
</tbody>
</table>

Source: Victor and Cullen (1988)

In the ethical criteria dimension, egoistic climates focus on self-interest; benevolent climates on the well-being of the parties involved; and principled climates on following rules, laws and professional codes of conduct. An individual locus of analysis encourages a focus on self-interest, relationships and personal moral principles of organizational members. The local level of analysis is usually interpreted as an emphasis on the company or organizational subunits. A cosmopolitan focus extends the scope of concern on the societal level. The research has documented the intuitive proposition that egoistic climate will tend to result in less ethical decisions in organizational contexts, while benevolent and principled climate will result in more ethical decisions (Peterson, 2002; Trevino et al., 1998). When the ethical climate in an organization is perceived as supportive of ethical behavior and intolerant of unethical behavior, this should influence the employees’ views of the moral acceptability of questionable actions. It seems apparent that these relationships should also true in the contexts of earnings management. Shafer and Wang (2011) found that ethical climate was influenced earnings management decisions. Consequently, we propose the following research hypotheses:

H1. Ethical climate affects ethical perceptions of earnings management

2.4 Machiavellianism

The Machiavellianism construct was intended to describe individuals with manipulative, cold and calculating personalities and little concern for conventional standards of morality (Christie and Geis, 1970). High Machiavellians have traditionally been viewed as relatively aggressive and possessing a strong desire to pursue “winning” even at the expense of morality of ethics (Geis et al., 1970). Recent studies have recognized the potential negative effects of Machiavellianism on ethical decision making. Shafer and Simmons (2008) found that high Machs’ believe less strongly in the importance of corporate and social responsibility and are more likely to condone aggressive tax avoidance. Hartmann and Mass (2010) also found that Machiavellianism has significant effects on business unit controllers’ propensity to create budget slack. Moreover, Shafer & Wang (2011) found that high Machiavellians were more likely to perceive accounting manipulations as ethically acceptable. We sought to
replicate and extend this finding by examining the effect of Machiavellianism on ethical perceptions of earnings management. According to Gunnthorsdottir et al. (2002), “high Machs with their cool, rational attitude, should be true gamesmen, and better than Lows at going after their short-term self-interest […]”. This reasoning clearly suggests that high Machiavellianism will be more likely to perceive earnings management as more ethical. Accordingly, we propose the following hypothesis:

**H2. Machiavellianism affects ethical perceptions of earnings management**

### 2.5 Perceived importance of corporate ethics and social responsibility

Singhapakdi et al. (1996) developed a scale to measure perceptions of the importance of ethics and social responsibility (PRESOR) to organizational success. Singhapakdi et al. (1996) argue that such attitude is “…likely to be a key determinant of whether or not an ethical problem is even perceived in a given situation…” by corporate employees. Thus, attitude toward corporate ethics and social responsibility should affect perceptions of ethical issues (Singhapakdi et al., 2001). Some consensus has emerged that the PRESOR scale items may be classified into two broad categories: the stockholder view and the stakeholder view (Shafer and Simmons, 2008). Employees who believe that a corporation’s ethical and social obligations extend only to shareholders, should be more likely to engage in a rationalization process that leads them to perceive earnings management as acceptable (“ethical” or “socially responsible”). In contrast, individuals who adopt a broader stakeholder view feel that business has a social responsibility beyond making a profit. They feel that being ethical and socially responsible business behavior is critical to long-term business success. Therefore, employees who endorse the stakeholder view should perceive earnings management more harshly (as less “ethical” or “socially responsible”). Thus, we propose the following hypothesis:

**H3. The perceived importance of ethics and social responsibility affects ethical perceptions of earnings management.**

### 2.6 Mediation Effect

In addition to the hypothesized direct effects above, we anticipated that ethical climate and Machiavellianism would indirectly affect ethical perceptions through its impact on the perceived importance of ethics and social responsibility. A study by VanSandt et al. (2006) indicated that ethical climate is a primary predictor of individuals’ ethical perceptions. Additionally, Singhapakdi et al. (2001) found that when the ethical climate in an organization is perceived as supportive of ethical behavior and intolerant of unethical behavior, this may actually encourage employees to perceive that ethics are important to organizational success. In other words, employees’ behavior will be more ethical and reflect greater social responsibility if ethics and social responsibility are considered by employees as something vital to organizational effectiveness (Singhapakdi et al., 2001). On the other hand, if the organizational climate places an emphasis on achieving company profitability (egoistic/local climate), employees may justify dysfunctional behavior such as earnings management as being in line with the stockholder view of corporate ethics and social responsibility (Singhapakdi et al., 2001). This will lead them to perceive that earnings management as ethical. Thus, the effect of ethical climate on ethical perceptions may be indirectly exerted through the employees’ perceptions about the importance of ethics and social responsibility (Shafer, 2013). This line of reasoning leads to the following hypothesis:

**H4. Attitude toward the importance of corporate ethics and social responsibility will mediate the effect of ethical climate on ethical perceptions.**

In their widely-cited article, Baron and Kenny (1986) discuss the role of mediator variables, suggesting that such variables may be viewed as a mechanism through which an independent variable (Machiavellianism) affects a dependent variable (ethical perceptions). In essence, mediator variables (PRESOR) account for the relationship between an independent and
dependent variable. According to Baron and Kenny (1986), the concept of mediation may be applied to a wide variety of settings, including the effects of basic personality trait on cognitive process. This argument was supported by Shafer and Simmons (2008) finding, indicated that PRESOR mediates the relationship between Machiavellianism and ethical decision making. Thus, we propose the following hypothesis:

**H5.** Attitude toward the importance of corporate ethics and social responsibility will mediate the effect of Machiavellianism on ethical perceptions.

### 3. Research Method

Participant responded to (1) two earnings management scenarios adapted from Shafer (2013); (2) fifteen items from the Ethical Climate Questionnaire (ECQ) (Cullen et al. 1993); (3) twenty items from the Mach IV Machiavellianism scale (Christie and Geis, 1970); (4) 13 items from the Perceived Importance of Ethics and Social Responsibility (PRESOR) scale (Singhapakdi et al., 1996); and (5) a demographic questionnaire. The respondents of this study were general managers, finance managers, controller, internal auditors, supervisors, finance and accounting staffs employed in Indonesia listed companies. Access to participant was obtained through personal contact and corporate secretary. A total of 101 companies engaged in a wide variety of industries participated in the study. The survey was accompanied by a cover letter assuring participants that their responses would be treated as strictly confidential. The mailing also contained pre-paid, addressed envelope for sending replies directly to the researchers. The mailing was undertaken in early March 2015. Approximately 404 instruments were distributed and 162 respondents returned their instrument, giving a response rate of approximately 40.1 percent. Nineteen instruments were discarded because of incomplete information given and completed by non-finance and accounting staffs, resulting in a usable sample of 143 responses. In order to check for non-response bias, early and late responses were compared, and no significant differences were noted.

### 4. Findings

To test the convergent and discriminant validity of the measures of ethical perceptions, ethical climate, Machiavellianism, and the perceived importance of ethics and social responsibility, we adopted the procedures recommended by Chin (1995). Chin (1995) recommended that to establish adequate convergent validity, the average variance extracted (AVE), commonality and factor loading should exceed 0.5. This criterion was met for each of the latent construct. To establish discriminant validity between latent construct, Chin (1995) suggests that the squared correlation between the constructs should be less than each of the constructs’ AVEs; and cross loading should exceed 0.5. This criterion was met for each of the comparison between the ethical perceptions, ethical climate, Machiavellianism, and PRESOR measures, providing evidence for discriminant validity.

As shown in Table 2, ethical climate was negatively affected ethical perception, consistent with H1. Inconsistent with H2, the result of the study shows that Machiavellianism was not affected respondents’ ethical perceptions. According to H3, PRESOR should have an effect on ethical perceptions. Inconsistent with this argument, the result in Table 2 reveals that PRESOR responses were not influenced employees’ ethical perception of earnings management. According to Baron and Kenny (1986), to test the mediating effect, it is necessary to show that 1) ethical climate and Machiavellianism significantly affect ethical perceptions; 2) ethical climate and Machiavellianism significantly affect PRESOR attitude; 3) PRESOR attitude significantly affect ethical perceptions. Because of Machiavellianism and PRESOR attitude did not affect ethical perceptions, the results of the indirect effects analyses did not support the mediating effects of ethical climate and Machiavellianism on ethical perceptions through the perceived importance of ethics and social responsibility. Thus, H4 and H5 were not supported (see Table 3).
Table 2. Result of partial least square analysis of direct effect

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Dependent variables – Ethical Perceptions</th>
<th>Path Coefficient</th>
<th>Error Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Climate</td>
<td></td>
<td>-0.3537*</td>
<td>0.055362</td>
</tr>
<tr>
<td>Machiavellianism</td>
<td></td>
<td>-0.0498</td>
<td>0.062735</td>
</tr>
<tr>
<td>PRESOR</td>
<td></td>
<td>0.012902</td>
<td>0.092790</td>
</tr>
</tbody>
</table>

Note: *p<0.05

Table 3. Result of partial least square analysis of indirect effect

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Mediator Variable</th>
<th>Dependent variables – Ethical Perceptions</th>
<th>Path Coefficient</th>
<th>Error Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Climate</td>
<td>PRESOR</td>
<td></td>
<td>-0.348415</td>
<td>0.059426</td>
</tr>
<tr>
<td>Machiavellianism</td>
<td>PRESOR</td>
<td></td>
<td>-0.049089</td>
<td>0.071048</td>
</tr>
</tbody>
</table>

5. Discussion and Conclusions

This study provides some interesting findings with respect to ethical perceptions of earnings management in Indonesia, and raises questions that should be addressed in future research. The results indicate that ethical climate negatively affects ethical perceptions of earnings management. In other words, respondents of this study feel that the company places a strong emphasis on the pursuit of instrumental concerns such as self-interest and firm profitability. This clearly encourages them to perceive earnings management as more ethical. The result of the current study consistent with Martin & Cullen (2006), indicates that instrumental climates are positively correlated with dysfunctional and unethical behaviour. This finding also supports Shafer and Wang (2011), if employees find themselves in an environment that encourage unethical behaviour, organizational pressure may lead them to rationalize the earnings management as morally acceptable. The result of the current study provides support to the Rest’s (1986) four-component model, which is ethical perceptions were influenced by environmental factors, such as ethical climate.

Inconsistent with prior accounting and business studies (Wirtz & Kum, 2004; Shafer & Simmons, 2008; Hartmann & Maas, 2010; Shafer & Wang, 2011), we found that Machiavellianism as a basic personality trait of the respondents was not influenced their ethical perceptions. This result is surprising, inconsistent with four-component model Rest (1986), which is ethical perceptions were not influenced by individual factors (Machiavellianism). This finding may be due to the fact that the vast majority of the respondents’ Machiavellianism scores were low (ninety three percent of the respondents’ MACH IV score was below 100). In addition, different findings with the prior studies may be also due to cross-cultural studies. According to Hofstede (1991), Indonesia is classified as collectivism country with individualism score 14 (range 0-100). In other words, Indonesian may tend to do something together rather than relatively aggressive and possessing a strong desire to pursue “winning” or personal success at the expense of morality and ethics.

The results of the current study also provide some interesting contrast with the findings of Shafer (2013) and Elias (2002) with respect to the effect of PRESOR attitude on ethical perceptions of earnings management. They found that PRESOR attitude was significantly influenced ethical perception of earnings management among accountants working in private industry. In the current study, the PRESOR attitude was not affected employees’ ethical perceptions. These contrast findings may be due to their decisions made according to non-ethical aspects, such as economic motivation (Jones, 1991). This relates to the findings of the current study that respondents find themselves in an environment which emphasizes on the pursuit of instrumental concerns such as self-interest and firm profitability (instrumental climate). In addition, previous studies have found that perceptions of the importance of
corporate ethics and social responsibility were affected by the Hofstede cultural dimension (Vitell et al., 2003). This suggests that cross-cultural studies of the issues addressed in the current paper may actually reveal differences in employees’ ethical decision-making process. Because of the direct effect of the independent variable (Machiavellianism) and mediating variable (PRESOR) did not significantly affect dependent variable (ethical perceptions), this current study did not find an empirical support for the indirect effect of ethical climate and Machiavellianism on ethical perception through the perceived importance of corporate ethics and social responsibility. However, this study found that the perceived importance of corporate ethics and social responsibility was influenced by ethical climate and Machiavellianism. Thus, the findings of the study have practical implications. If corporations take proactive steps to enhance the ethical climate in the organization, this may increase employees’ belief in the importance of corporate ethics and social responsibility to organizational success. Moreover, by enhancing ethical climate in an organization that encourages ethical behavior may lead employees to be more critical to earnings management.

This study is subject to a number of limitations; consequently, the results should be interpreted with caution. First, the current study is that relied on a convenience sample obtained through a network of personal contact and corporate secretary. Therefore, future research may consider using probability sampling method in order to assess high external validity of the research findings. Second, as the study was restricted to private industry employees in Indonesia, further research is required in order to assess the generalisability of the result outside that territory. Finally, approximately nineteen instruments were discarded because of incomplete information given and completed by non-finance and accounting staffs. Thus, further research could confirm to the personal contact or corporate secretary when the instruments have already distributed in order to minimize discarded instruments. One possible avenue for future research could also expand on the model used in the current paper to simultaneously examine the effects of Machiavellianism, ethical climate, and other personal or environmental variables that have been found to influence ethical decision making such as cognitive moral development and code of ethics.

References


The Impact of Service Innovation on Tourist Satisfaction: Evidence from the Malaysian Tourism Industry

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ABSTRACT

Objective – This study proposed a model to test the impacts of the four dimensions of service innovation (i.e., process innovation, organisational innovation, marketing innovation and product innovation) on tourist satisfaction in the Malaysian tourism.

Methodology/Technique – Measurement items for the dimensions of service innovation were developed through focus group interviews. A convenience sampling approach was adopted with the distribution of 400 questionnaires among local and foreign tourists. Statistical tolls in the Statistical Package for the Social Sciences (SPSS) were adopted to analyse the reliability of items and the hypothesised relationships in the proposed research model.

Findings – The findings reveal that the respective dimensions of service innovation are significantly related to tourist satisfaction. These findings contribute to the services marketing body of knowledge by providing insight on the impact of service innovation on tourist satisfaction.

Novelty – Limited studies have been done to examine the impact of service innovation dimensions on tourist satisfaction. The findings of this study contribute to the services marketing body of knowledge by providing insight on the impact of service innovation on tourist satisfaction. At the same time to address the practical implications by recommending relevant and effective service innovation strategies for the tourism industry in Malaysia. This knowledge is useful for benchmarking better service innovation practices among the industry practitioners.

Type of Paper: Empirical.

Keywords: Service Innovation; Process Innovation; Organisational Innovation; Marketing Innovation; Product Innovation; Tourist Satisfaction

1. Introduction

Tourism has been highly contributive to the worldwide economy and society with China (57.7 million visitors), Malaysia (25.0 million visitors) and Hong Kong (23.8 million visitors) as the most popular tourist destinations across 2013 in the Asia region (Carter, 2013).
MasterCard has positioned Malaysia at the 8th position globally as the top tourist destination as of 2013 (Wong & Choong, 2014). An increase of 8.93% is further recorded as of 2013 with relations to the Visit Malaysia Year (VMY) initiative (Euromonitor International, 2014). With both economic benefits and the lucrative tourism achievements, Visit Malaysia Year 2014 is a drive in promoting the country, while being the driver for the nation’s income and economy. Therefore, favourability of a tourism destination is dependent over the chain of offerings, consisted of both tangible and intangible goods on tourism experiences (Soteriades, 2012). Tourism offerings are differentiated upon destination attractiveness, service and facilities, accessibility, image and visiting costs (Middleton & Clark, 2001). Destination image and the condition turn out to be determinants of tourist satisfaction (Mohamad, Abdullah, Ali and Ghanii, 2012; Nasir and Nasir, 2013). Tourist satisfaction further possesses influence on loyalty in ensuring ongoing support and returns (Cladera, 2009). Multiple studies have suggested the direct relationship between service innovation and destination image, with limited explorations between service innovation and tourist satisfaction (Laws, Scott & Parfitt, 2002; Beerli & Martin, 2004). Specifically, this study aims to investigate the perception of tourists about service innovation within the tourism industry in Malaysia, by primarily determining the dimensions of service innovation, and evaluate the influence of these dimensions on tourist satisfaction.

2. Literature Review

2.1 Service innovation

Innovation is the series of new thoughts, actions, processes or products that is considered for a person (Rogerson, 1983). Ever since 1930’s researcher (e.g., Schumpeter, 1934) has argued that innovation is aligned to the need arose from heightened competition and reduced income, through the combination of entrepreneurial activities in ensuring economic growth. The Community Innovation Survey (CIS) has differentiated the field of innovation into four main categories: product innovation, process innovation, organisational innovation and marketing innovation, as practiced within the national statistical offices across the European Union. Likewise, services are included within the area of innovation. Understood from Gaidrey, Gallouj & Weinstein (1995), service innovation is the form of innovation within the procedures and the organisation, in aligning to the existing services. Agarwal & Selen (2005) has described innovation of services as a system constructed upon the accumulated capabilities and roles among diverse stakeholders, executed for the development and convention of core values, essentially toward healthy transformation, new market opportunities and the creation of competitive advantages.

Considerably, innovation has been an essential element to a firm’s success (Hu, Horng & Sun, 2009). Various aspects of innovation have been pillared within studies across various organisations; yet, it has been vaguely studied within the service industry (Hu, Ou, Chiou & Lin, 2012). While innovation in a form of delivery, it involves the internal preparation toward facilitating the creation and execution of contemporary concepts among employees (Den Hertog, 2000). Thus, diverse approaches, as differentiated among traditional ones, are needed to explore improvements and the introduction of new ideas for existing products and services (Kim & Mauborgne, 2000). Specifically, innovations which create positive values would induce satisfaction among customers (Heim & Sinha, 2001; Nagar & Rajan, 2005). The findings from Simon and Yaya (2012) further proposed a positive relationship between improving customer satisfaction, alongside the improvement of innovation in process, organisational and marketing. While the components toward service innovation remained multiplicity, the proposed components by Sundbo & Gallouj (1999) consisted of product innovation, process innovation, organisational innovation and marketing innovation have been adapted for the current study.
2.2 **Product Innovation**

Product innovation refers to the introduction of contemporary goods or services in terms of functions and performances into the marketplace (Oslo Manual, 2005). Cooper (2001), as well as Cooper & Kleinschmidt (1993) have further suggested the need for both internal and external innovation toward new product development. The importance of new product development has been highlighted in achieving market positioning and differentiation (Weiermair, 2004). In term, the commercialisation of new or improved goods and services would benefit firms through established uniqueness within the marketplace. As understood from Da Silveira & Cagliano (2006), Devaraj, Hollingworth & Schroeder (2004), Hayes, Pisano, Upton & Wheelwright (2005), as well as Slack, Chambers & Johnston (2005), product innovation would entail flexibility by firms, alongside quality, cost and accessibility. As such, product innovation has been recognized to be essential in achieving long term profitability across firms (Koellinger, 2008).

Nevertheless, innovation which enhances product varieties increases the possibility of favourable product-customer match, in gaining competitive advantage (Kekre & Srinivasan, 1990). Gardial, Clemons, Woodruff, Schumann & Burns (1994) further suggest that superior value would result to the enhancement of the industry as a whole. The value delivered by firms in an industry would be the determinant of their profitability (Huber, Herrmann & Morgan, 2001). Thus, product innovation through the interactions between both customers and organisers are, deemed crucial to deliver superior service values (Chen, Lin & Yang, 2011). Adapted to the tourism perspective, well-designed goods and services of tourism firms have been important to deliver service values through flexibility, customer value, product-customer match, competitive advantage and profitability. As such, the first hypothesis developed for the study is:

\[ H1: \text{Product innovation has a significant positive influence on tourist satisfaction in the Malaysian tourism industry.} \]

2.3 **Process Innovation**

Process innovation refers to the improvement of procedures and processes involved in the production, distribution and support toward existing goods and services (Oslo Manual, 2005). An organisation is involved with process innovation through an exponential transformation of its supply chain, to respond to achieve enhanced productivity of existing product lines (Reinganum, 1981). In this case, the growth of services is based upon service delivery workforce to attain genuine thoughts for further organisational growth (Heracleous, Wirtz & Johnston, 2004). Tourists’ perceptions on specific destination are founded upon underlying experiences, buzz and organisational capabilities; process innovation is deemed crucial to develop innovators within the industry (Stankovic & Dukic, 2009). Zhou & Wang (2010) further highlight the importance of customer-company identification, induces actual behaviours among customers through the establishment of favourable climate on service organisations.

As understood, conditions of service possesses possess significant influence on customer satisfaction (Dean, 2004; Dietz, Pugh & Wiley, 2004; Schneider, White & Paul, 1998; Schneider, Ehrhart, Mayer, Saltz & Niles-Jolly, 2005). Idea generation toward innovation, as well as further developmental process of existing services has shown to be important for the sustainability of an organisation (Chai, Zhang & Tan, 2005). Lages & Piercy (2012), Berry, Shankar, Parish, Cadwallader & Dotzel (2006), as well as Wang & Netemeyer (2004) also suggest the role of frontline employees in engaging, understanding and satisfying fellow customers to ensure idea generation, service improvement and competitive advantage. Within the service industry, idea generation and improvement are required to customer satisfaction; whereas, process innovation is important toward tourism industrial growth. Therefore, it is hypothesised that:-
**H2:** Process innovation has a significant positive influence on tourist satisfaction in the Malaysian tourism industry.

### 2.4 Organisational Innovation

Organisational innovation refers to any general form of organisations and managements which is contemporary to firms (Sundbo & Gallouj, 1999). Changes in the form of organisational innovation are less obvious in the marketplace; yet, the improvements can aid in attaining exclusivity in quality, cost efficiency, vulnerability and momentum (Gallego, Rubalcaba & Hipp, 2013). According to Smith, Collins & Clark (2005), organisational innovation is classified into several aspects, including:

1. Previous innovations;
2. Product improvements;
3. Production and process technologies; and
4. Programme development in management, legislation and workforce.

Tang, Pee & Iijima (2013) further propose that the process orientation of an organisation can directly influence its internal management and organisational innovation to enhance customer integration and employees’ innovativeness.

Transformations through organisational process innovation would promote added-value, thereby increases organisational performance. Performance and sales growth are also dependent over innovations undertaken by organisations (Gallego et al., 2013). Customer satisfaction and financial performance can be positively influenced by organisational undertakings (Chiou, Cornelia & Sangphet, 2002; Luo & Bhattacharya, 2006; Roman & Ruiz, 2005; Valenzuela, Mulki & Jaramillo, 2010). While organisational innovation has been significantly influenced by leadership (Elkins & Keller, 2003) and creativity (Shalley & Gilson, 2004); little findings have signified its direct impact. Moon & Choi (2014) further show the relationship between perceived organisational innovation and satisfaction in the marketplace. In the climate of the tourism industry, it is hypothesised that:

**H3:** Organisational innovation has a significant positive influence on tourist satisfaction in the Malaysian tourism industry.

### 2.5 Marketing Innovation

Marketing innovation refers to the array of incremental changes to the development of contemporary market behaviours, new strategies and market (Sundbo & Gallouj, 1999). Innovations have been widely applied in the field of marketing to ensure marketing effectiveness, despite the potential challenges within the current marketplace (Arjunan, 2012). As understood from Diamantopoulos and Hart (1993) and Harris (2001), organisational performance is directly associated to the effort of market orientation. Naidoo (2010) further suggests the positive influence of market orientation on marketing innovation, toward competitive advantage and organisational performance. Innovation has been essential to explore the potential to achieve competitive successes, strategic assets aside (Dierickx & Cool, 1989; Hamel, 2000). Under social circumstances, organisational successes are dependent over sustainable innovation on marketing activities (Peters, 2009).

Arjunan (2012) proposes incremental innovation as the key toward persistent and sustainable achievements in innovative marketing. Yet, customer-company relationship has been the foundation between marketing efforts and firms’ competitive advantage (Mariadoss, Tansuhaj & Mouri, 2011). Effective marketing communications and customer engagement are, thus, factors influencing customer satisfaction (Kumar, Aksoy, Donkers, Venkatesan, Wiesel & Tillmanns, 2010; Van Doorn, Lemon, Mittal, Nab, Pick, Pirner & Verhoef, 2010).
Cambra-Fiero, Melero-Polo & Vázquez-Carrasco (2013) further suggested the importance of innovation in non-technical marketing processes to achieve customer satisfaction, and ultimate competitiveness of the firm. Similarly applied within the tourism industry, the fourth hypothesis of the study is:

**H4:** *Marketing innovation has a significant positive influence on tourist satisfaction in the Malaysian tourism industry.*

### 2.5 Tourist Satisfaction

As defined by Oliver (1999), satisfaction among customers is the sense of fulfilment that induces pleasure among experienced individuals. Satisfaction among individual customers is the favourable or unfavourable conative response to the experience offered, correlated with specific product or service, retailers, behavioural undertakings, as well as the marketplace (Tse & Wilton, 1988; Yi, 1990). While satisfaction is based upon expectation-match, the model of disconfirmation of experience further differentiates the concept upon three main degrees (Churchill & Surprenant, 1982):

1. Confirmation with fulfilled expectations;
2. Negative disconfirmation with unfulfilled expectation; and
3. Positive confirmation with exceeding expectation.

Notably, satisfaction has been an essential factor in determining long term customer behaviour, particularly in the design of services (Fornell & Wernerfelt, 1987; Zahorik & Rust, 1992).

According to Bolton & Drew (1991), as well as Cronin & Taylor (1992), satisfaction is dependent over judgment of experience. Fulfilment and exceed of expectation would entail greater satisfaction, result to greater customer retention (Jones & Farquhar, 2003; Ranaweera & Praghu, 2003). Therefore, satisfaction is highlighted for long term customer relationship toward organisational sustainability (Anderson, Fornell & Mazvancheryl 2004; Fecikova, 2004; Fornell, Johnson, Anderson, Cha & Bryant, 1996; Hackl & Westlund 2000). In-depth study by Festge & Schwaiger (2007) on factors influencing customer satisfaction (company’s flexibility, employees, corporate behaviours, etc.) further suggested that satisfaction can be highly dependent over consumers’ backgrounds. The current study has limited the targeted social group among tourists of local and international backgrounds.

Grounded upon the review of previous researches related to the current field of study, the research framework is being illustrated in *Figure 1.*
3. Research Methodology

This study is causal in nature to determine the influence of service innovation on tourist satisfaction; clarify the service innovation components for the Malaysian tourism industry. The four key components of service innovation as defined by Sundbo & Gallouj (1999): product innovation, process innovation, organisational innovation and marketing innovation, are confirmed within the area of this study. A qualitative method has been employed to identify the service innovation components through focus group interviews among 8 to 10 local and international tourists, as well as operators within the tourism industry, including the hoteliers, travel agents and tour guides to obtain an in-depth industrial understanding for questionnaire development. The instruments employed in this study are validated through qualitative pretesting in determining the suitability of language and items. The reliability and validity of the instruments are further verified through a pre-test of questionnaire, and a pilot testing among 100 tourists and industrial practitioners.

400 respondents of diverse backgrounds are selected through convenience sampling for the current study, to prevent biasness in findings. The number of respondents is deemed sufficient for producing satisfactory results, as exploratory factor analysis is employed in this study (Comrey & Lee, 1992). The data are collected through self-administrated questionnaire composed of scale variables from the research’s conceptual framework (service innovation and tourist satisfaction) and demographic enquiries at hotels and tourism hotspots across the Klang Valley. Specifically, a screening question is used to secure tourists with one night Malaysian experience as a minimum criterion to prevent respond error.

4. Results

4.1 Respondents’ Demographic Characteristics

Upon the 400 questionnaires distributed in this study, 377 of the questionnaire are valid, with 23 others being rejected due to the reason of incomplete surveys. As referred to Table 1, demographic data shows that 53.8 percent of the tourists who have visited Malaysia are females, while the remaining are males. In the context of Nationality, majority of the respondents are international tourists (66.8 percent). Moreover, most of the respondents are falling in the age group of 31 to 35 years old. As for the context of education level, the majority of the respondents in this study holds Bachelor’s Degree (34.2 percent), as shown in Table 1.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Descriptions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>46.2</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>53.8</td>
</tr>
<tr>
<td>Nationality</td>
<td>Malaysian</td>
<td>33.2</td>
</tr>
<tr>
<td></td>
<td>Non-Malaysian</td>
<td>66.8</td>
</tr>
<tr>
<td>Age</td>
<td>25 years old and below</td>
<td>7.2</td>
</tr>
<tr>
<td></td>
<td>26 – 30 years old</td>
<td>24.1</td>
</tr>
<tr>
<td></td>
<td>31 – 35 years old</td>
<td>26.8</td>
</tr>
<tr>
<td></td>
<td>36 – 40 years old</td>
<td>28.6</td>
</tr>
<tr>
<td></td>
<td>40 years old and Above</td>
<td>13.3</td>
</tr>
</tbody>
</table>
4.2 Exploratory Factor Analysis of Service Innovation factors

In order to purify the service innovation dimensions in this study, exploratory factor analysis (EFA) is used to group the items upon common characteristics. The 17 items identified for the service innovation are analysed using varimax rotation procedure to delineate the underlying dimensions associated with service innovation that drive tourist satisfaction. Table 2 indicates four factor groupings through factor analysis of the 17 items, accounted for 68 percent of the variance. The identified factor groupings of push factors extracted are named as “process innovation”, “product innovation”, “organisational innovation”, and “marketing innovation”. Based on the statistical output in Table 1, all the service innovation items have values of factor loadings above 0.60 and eigenvalues greater than one, surpassed the minimum requirement for factor analysis (Hair, Black, Babin, & Anderson, 2010). Therefore, none of the items from the dimensions within service innovation are dropped from statistical consideration. As for the context of reliability, the composite reliability test also indicates reliability coefficients for all the service innovation factors above the recommended threshold of 0.70. Referring to the above justification, this evidently shows that all the items for service innovation are valid and reliable.

Table 2. Principal Dimensions of Service Innovation Items

<table>
<thead>
<tr>
<th>Items</th>
<th>Factor Loading</th>
<th>Eigen Value</th>
<th>Variance</th>
<th>Mean</th>
<th>S.D</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Process Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff in Malaysia tourism industry are well-trained.</td>
<td>0.769</td>
<td>3.542</td>
<td>20.838</td>
<td>4.870</td>
<td>0.968</td>
<td>0.871</td>
</tr>
<tr>
<td>Travel information in Malaysia is easily accessible.</td>
<td>0.819</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism arrangements in Malaysia are easily made.</td>
<td>0.785</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism organisations in Malaysia are well-collaborated.</td>
<td>0.847</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism organisations in Malaysia offer excellent services.</td>
<td>0.782</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Product Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia offers innovative tourism products.</td>
<td>0.837</td>
<td>3.169</td>
<td>18.640</td>
<td>5.342</td>
<td>0.807</td>
<td>0.863</td>
</tr>
<tr>
<td>Malaysia offers new travel experience.</td>
<td>0.834</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia offers various tourism products at a reasonable price.</td>
<td>0.854</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia offers complete tourism products.</td>
<td>0.861</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Organisational Innovation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism organisations in</td>
<td>0.847</td>
<td>2.781</td>
<td>16.359</td>
<td>5.371</td>
<td>0.828</td>
<td>0.873</td>
</tr>
</tbody>
</table>
Tourism organisations in Malaysia are well-managed. 0.835
Tourism organisations in Malaysia are easily accessible. 0.868
Tourism organisations in Malaysia are innovative in information system. 0.815
Marketing Innovation

<table>
<thead>
<tr>
<th>Description</th>
<th>β</th>
<th>t</th>
<th>p-value</th>
<th>Total Variance Explained</th>
<th>KMO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism marketing strategies in Malaysia are innovatively implemented.</td>
<td>0.761</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism marketing strategies in Malaysia are well-planned.</td>
<td>0.766</td>
<td>1.828</td>
<td>10.752</td>
<td>5.311</td>
<td>0.689</td>
</tr>
<tr>
<td>Tourism marketing strategy activities in Malaysia are attractive.</td>
<td>0.712</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malaysia tourism information is helpful.</td>
<td>0.711</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Variance Explained 68.001
KMO 0.772

4.3 Hypotheses Testing

After purifying the dimensions for service innovation, the researchers proceed to the hypotheses testing. In this study, multiple regression analyses are run to examine hypotheses developed. According to earlier section, there are four proposed hypothesis (H1 – H4) that reflects the relationship between service innovation and tourists satisfaction. As referred to Table 3, the first regression model is conducted to test the relationship between service innovation factors and tourist satisfaction. Overall, the regression model and the statistical results presented in Table 3 reveal that all service innovation factors/dimensions identified in this study (process innovation, product innovation, organisational innovation, and marketing innovation) possess significant positive direct effects on tourist’s satisfaction. For instance, the β= 0.136 and p-value < 0.05 for the relationship in H1 has indicated that product innovation has a significant positive direct effect on tourist satisfaction. The results verify that the availability of unique and contemporary tourism products and services in Malaysia will improve the level of satisfaction among the tourists.

In addition, process innovation as a determinant in forming tourist satisfaction, the results of β= 0.184 and p-value < 0.001 have indicated that the relationship exist with respect to this assessment. This outcome shows that the satisfaction of tourists can be enhanced if their service experiences with a tourism organisation from Malaysia are favourable. Similar to above findings, the relationship between organisational innovation and tourists satisfaction (H3) is also supported by the statistical result (β= 0.114, p-value < 0.05). This scenario shows that tourists’ experiences with the operation of tourism organisation have a significant influence on their level of satisfaction with the services consumption. As for the context of the relationship between marketing innovation and tourists satisfaction (H4), the β= 0.184 and p-value < 0.05 evidently indicated that marketing innovation has a significant positive direct effect on tourists satisfaction. The findings indicate that tourists who visited Malaysia will likely to be satisfied if they found that marketing communication from the tourism organisations are attractive, well-planned, creative and helpful.
Table 3. Results of the Regression Analysis

<table>
<thead>
<tr>
<th>DV</th>
<th>IVs</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>F</th>
<th>Beta</th>
<th>t-value</th>
<th>p-value</th>
<th>H</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>TS</td>
<td>PROI</td>
<td>0.362</td>
<td>0.120</td>
<td>11.962</td>
<td>0.136</td>
<td>2.946</td>
<td>0.003*</td>
<td>H1</td>
<td>Yes</td>
</tr>
<tr>
<td>PRCI</td>
<td>0.184</td>
<td>4.741</td>
<td>0.120</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>H2</td>
<td>Yes</td>
</tr>
<tr>
<td>OI</td>
<td>0.114</td>
<td>2.592</td>
<td>0.100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>H3</td>
<td>Yes</td>
</tr>
<tr>
<td>MI</td>
<td>0.184</td>
<td>3.309</td>
<td>0.100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>H4</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Notes: DV= Dependent Variable; IV = Independent Variable; TS = Tourist Satisfaction; PROI = Product Innovation; PRCI = Process Innovation; OI= Organisational Innovation; MI = Management Innovation; H = Hypothesis * Significance at 95% confident level, **Significant at 99% confidence level.

5. Discussions

Consistent with previous studies in the areas of customer satisfaction, retention and competitiveness, findings reveal a positive relationship between service innovation and the level of tourist satisfaction (Danjuma & Rasli, 2012; Hu, Horng, & Sun, 2009). This verifies that perceptions toward service innovation among consumers possess significant impact on the level of satisfaction among tourists regarding the attended experience. Service innovation has been determined to be predictors of organisational performance, including customer satisfaction, growth, sustainability and profitability (Agarwal, Erramilli, & Dev, 2003; Griffin, 1997; Mc Dermott & Prajogo, 2012). According to Bettencourt, Brown, and Siriani (2013), Bettencourt (2010); and Heskett (1987), customer-oriented innovation within the service industry is highly essential with increased demand within the marketplace. Managing service innovation involves a match between products and customers’ expectations in order to achieve customer satisfaction. Competitive advantage is further attainable through the integration of both radical and incremental innovations (Droege, Hildebrand, & Forcada, 2009). While radical innovation is vaguely covered within this study, incremental aspects are highlighted through the dimensions of product, process, organisational and marketing innovation (Sundbo & Gallaug, 1999).

Specifically, the significant influence of innovation is determined to be the predictor of tourist satisfaction (Nagar & Rajan, 2005). Nevertheless, value creation has been identified to be the antecedent service innovation, further toward differentiation and competitive advantage (Gummesson, 1995; Heim & Sinha, 2001). Consistent findings are being obtained within the current study, that is, satisfaction among customers is achievable through service innovation, particularly in the tourism industry. Moreover, previous studies have identified the consequents of satisfaction among customers (Christensen, Horn, Caldera, & Soares, 2011; Gbadamosi & De Jager, 2008; Hang & Garnsey, 2011), involving long-term profitability (Cohen, Agrawal & Agrawal, 2006; Eggert, Hogreve, Ulagia, & Muenkhoff, 2011; Reinartz & Ulaga, 2008), customer retention (Lambe, Wittmann, & Spekman, 2001; Wallenburg & Lukassen, 2011), as well as competitiveness (Lewicka, 2011). The evidences within these studies have suggested that satisfactory customers and tourists possess higher potential in profitable long-term relationship through the process of value creation (Berry, Shankar, Parish, Cadwallader, & Dotzel, 2006). The meeting of customers’ expectations is shown to be highly essential among tourism organisations, for providing satisfactory experience. Following the identifications within the current study, knowledge obtained regarding the dimensions of service innovation would entail more effective implementation of strategies toward market attraction, customer retention and competitiveness (Kekre & Srinivasan, 1990).

Herewith, the findings verified the few dimensions identified by Simon and Yaya (2012), as well as Sundbo and Gallaug (1999) as suitable determinants for service innovation in tourism. Despite the range of factors involved in the area of service innovation, the proposal by Sundbo and Gallaug (1999) has been proven to be measurable in the context of Malaysia. However, it should not be neglected that Calantone, Cavusgil, and Zhao (2002), as well as Klomp and Van-Leeuwen (2001) have proposed differing views in term of service
innovations, dimensions and measurability. This study adopts the instruments developed by Sundbo & Gallouj (1999) as its basis; yet, vague findings have been studied with regards to instruments from other researchers. Therefore, this study identifies dimensions toward service innovation (product, process, organisational, marketing) specifically in the context of Malaysian tourism industry. Confirmation of direct relationship between service innovation and customer satisfaction; implications focus on the importance of continuous innovation among tourism organisations in Malaysia pillared upon the demand and expectations of visiting tourists and customers. This is to ensure the achievement of confirmation, if not, positive confirmation among tourists in attaining sustainability and growth (Churchill & Surprenant, 1982).

6. Limitations and Future Research

Alongside several operational findings, limitations have also been encountered within the research conduct. Biasness can occur, as with the limited demographic layout within the sample size focused merely across the Klang Valley, and context specific within the tourism industry. Focus group interviews are conducted; yet, possibility of little experience regarding the suggested variable among respondents may occur. Close-ended items are used within the questionnaire, restricts the accuracy of representing actual perceptions and thoughts among respondents. Thus, findings from this study may not fully represent the target population, while being less applicable in the actual happenings. Obtained the correspond feedbacks; diverging points-of-view may be potentially overlooked within the current study as different backgrounds of local and international tourists entail dissimilar views in this field of study.

Therefore, future research can explore respondents from different cohorts, demographic factors and geographical regions to ensure higher contextual suitability for more applicable insights, as well as better representation of the Malaysian tourism industry. Future researchers are also suggested to employ the use of open-ended questions to ensure better understanding among respondents, with more precise feedbacks to increase the validity and accuracy of findings.

7. Conclusion

This study primarily identifies factors involved within the area of service innovation to determine the direct impact of service innovation on tourist satisfaction. Service innovation has provided a positive impact toward tourist satisfaction, through the significance of its dimensions. Gauged similarity in perceptions among local and international tourists; innovativeness in the area of product, process, organisation and marketing play essential roles for enhanced service offerings and tourism satisfaction. Specifically, the highlights of service innovation act as a foundation to practitioners in the tourism industry, as of the tourism in Malaysia, further Visit Malaysia Year (VMY) initiative.

References


Right Issue: The Impact to Abnormal Return, Share Liquidity and Company’s Financial Performance (Empirical Study at Companies listed at Indonesia Stock Exchange)

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2 Faculty, Universitas Multimedia Nusantara, Scientia Garden, JI Boulevard Gading Serpong, 15811, Tangerang, Indonesia

ABSTRACT

Objective – The aim of this research is to analyse the difference of abnormal returns, shares liquidity proxies by trading volume activity and a company financial performance proxies by current ratio and price earnings ratio before and after the rights issue.

Methodology/Technique – Samples were taken by purposive sampling. Number of samples are 26 companies listed on the Indonesia Stock Exchange that take the right issue for the year 2006-2012. Testing of the hypothesis was done by using paired sample t-test for normally distributed data and Wilcoxon signed rank test for data that are not normally distributed.

Findings – The results of this study showed that there is a significant difference in share liquidity proxies by trading volume activity before and after the announcement of the rights issue. After the right issue there are decreasing the number of trading volume activity because shareholders prefer to maintain their proportion of the share capital.

Novelty – The increasing number of companies listed on the Indonesia Stock Exchange showed that there is positive growth of capital market in Indonesia. To be sustain in the market, companies need to improve their competitive advantage by optimizing resource utilization such as financial resources. One of the corporate action to raise the capital is the right issue.

Type of Paper: Empirical

Keywords: Abnormal Return, Company's Financial Performance, Right Issue, Shares Liquidity

1. Introduction

In 2012, there are 573 public companies listed on the Indonesia Stock Exchange. That number increased compared to 2006 which only have 444 public companies listed. That’s data showed positive signal that the capital market in Indonesia was in a state of growth and indicate that issuers are in a condition for growth as well and will cause more intense
business competition. Therefore, the entity needs to respond to the utilization of resources, one of which is the financial resources in the form of capital. Companies can raise capital from investors through the IPO and a rights issue. The rights issue is the activity of a limited public offering to existing shareholders in the framework of the issuance of pre-emptive rights (Rusdi dan Avianto, 2009). Rights issue has advantages for issuers who did this policy and for existing investors who exercise their rights in the rights issue.

Returns investment was expected by investors through share investment instruments in the form of capital gains and dividend. Capital gain is the difference between the sales price of the share higher with the purchase price of the shares. In the return investment in the form of capital gains, there is abnormal return. Abnormal return is the difference between the actual return with the expected return. With the difference between the share price at the time of execution of the rights issue at a price of stocks in the market, may result in abnormal return.

Share liquidity is a measurement of how shares are actively traded in the capital market. Share liquidity is an important factor considered by investors in investing in the stock market. With the rights issue, it will increase the volume of share so that the share will be traded and improve the liquidity of the stock issuers that do right issue.

The financial performance of a company is the result of the activity of the company is presented through the company's financial statements and can be measured using financial ratios such as current ratio and price-earnings ratio. The effect of the rights issue in this ratio is to increase the current ratio because proceeds from the rights issue, can improve the company's ability to pay off its current liabilities. Price-earnings ratio is the ratio that indicates the appreciation of investors to companies that seen from the company's internal performance. Appreciation of the share price indicated from the demand and supply of the company's shares in the capital market. Investors' assessment of the company can be seen through earnings per share that the company is able to be produced. The effect of the rights issue is the increasing price-to-earnings ratio due to the inflow of new funds the rights issue, can improve the performance of the company, so it will increase the investors assessment of the company which is represented by the share price demand in the capital market.

2. Body

2.1 Literature Review

The stock exchange has a significant role to improve company’s growth, as it has economic and financial functions (Komaling 2013). Stock market according to UU No. 8 year 1995 Article 1, point 13 is "the activities concerned with the public offering and trading of securities, public companies relating to securities issuance, as well as institutions and professions related to the effect.” In the stock exchange, there are several types of investment instruments (securities) such as shares, bonds, and derivative instruments. The corporate action is an activity taken by listing companies that affect the interests of the stock (Silondae, and Ilyas, 2011: 122). Corporate actions can be classified into various categories such as: the distribution of dividends, in cash or in shares, share split, reverse split, bonus shares, share repurchase, and the limited public offering (rights issue). Kieso (2011; 830) explains the limited public offering (rights issue) is an offer on the part of the issuer to the old investors to buy shares in advance where the issuer wants additional shares in the capital market.

Share investment, offer advantages in the form of capital gains and dividends. Capital gain is the difference between the purchase price of shares by the selling price of shares in which the sale price is higher in value than the price at the time of purchase. Dividends are the distribution of company profits are divided by the percentage of ownership. Share returns can be divided into two groups, namely actual return and expected return. The actual return is
occurring return calculated using historical data, while the expected return is the rate of return expected by an investor in the investment in the future. The difference between actual returns and expected return called as abnormal return. Abnormal return is a return on a security beyond that expected on the basis of its risk (Jones, 2010:308). Implementation of corporate actions such as a rights issue, resulting in the difference between the share price at the time of execution of the share price in the market. The implementation of a rights issue which uses a lower price than the market price, will result in increased investor interest in buying shares using its rights under the limited public offering resulting in abnormal return.

H\textsubscript{01}. There are differences in share returns are proxies by abnormal returns before and after the rights issue.

Share liquidity is a number of particular share transactions, measured by the volume of trading activity in the share market at a certain period, as measured by Trading Volume Activity (TVA) (Hartono, 2009). The existence of corporate actions such as rights issue resulted in increased volume of shares in the capital market so that more shares are traded and can increase the liquidity of the shares.

H\textsubscript{02}. There are differences in share liquidity proxies by trading volume activity before and after the rights issue.

With the financial statement information, the financial performance of a company can be measured. Information about a company's financial performance can be measured through various ratios were calculated through the financial statements. Ratios which can be used to measure the financial performance is the current ratio and price earnings ratio. Current ratio used in the measurement of liquidity because it can measure current liability coverage that determines the ability of the company to pay off its current liabilities with the current assets. Corporate actions such as a rights issue, affect the current ratio of the company due to the influx of new funds from the rights issue proceeds to increase the assets of a company so that it can pay off current liabilities. This is in line with research of Khajar (2010) stated that after right issue, there is an increase in the current ratio

H\textsubscript{03}. There are differences in the company's financial performance which is proxies by the current ratio before and after the rights issue

Price-earnings ratio (Kieso 2013: 702) shows the appreciation of investors to companies that consider the company's internal performance. Assessment of investors indicated that the share price is formed from the demand and supply of the company's shares in the capital market. Investors' assessment of the company can be seen through profit company that is able to be produced per share. The existence of the results of the rights issue can enhance the company's financial performance like optimize operational activities such as the addition of new assets to support the expansion of the company thereby increasing the price to earnings ratio of the company. This is in line with research of Khajar (2010) stated that after right issue, there are increase in the price earnings ratio.

H\textsubscript{04} : There are differences in the company's financial performance which is proxies by the price-earnings ratio before and after the rights issue

2.2. Research Method and Data Analysis

The object of research is public companies listed on the Indonesia Stock Exchange (BEI) in the period 2006-2012. The method in this study was comparative research. Data used in this research is secondary data. Secondary data is data obtained from the data that has been processed in advance by another party (Sekaran dan Bougie, 2013). The data used is the list of companies that conduct a rights issue, the annual financial statements, the daily closing share price, trading volume activity daily, and data daily JCI. These data can be obtained
through www.idx.co.id, www.finance.yahoo.com and IDX Statistics published by the Indonesia Stock Exchange. Abnormal Return calculation are Actual Return minus Expected Return (Dewi and Putra, 2013) : \( AR_{it} = R_{it} - RM_{it} \)

Actual Return are calculated as follows (Dewi and Putra, 2013)
\[
R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}
\]

Expected return are calculated as follows (Dewi and Putra, 2013)
\[
RM_{it} = \frac{IHSG_{it} - IHSG_{t-1}}{IHSG_{t-1}}
\]

Share liquidity can be measured using the activity of trading volume or trading volume activity (TVA). To test differences in liquidity of the stock, using observations 15 days before the event and 15 days after the event According Harianto (2009), trading volume activity can be calculated using the formula: Number of shares traded in certain period / Number of Shares outstanding in certain period.

Financial performance calculated in this study using a ratio such as current ratio and the price-earnings ratio. Current ratio can be calculated using the formula (Kieso 2013: 694): Current Assets / Current Liabilities. Price-earnings ratio (Kieso 2013: 702) is a ratio that describes how large investors' assessment of the company's internal financial performance of companies in the form of earnings from the company per share. This ratio is calculated using the formula (Kieso 2013: 702): Market Price per Share / Earnings Per Share.

The object of this research was taken using purposive sampling (predetermined criteria) on companies listed in Indonesia Stock Exchange in 2006-2012 (135 companies) not finance, banking and financial institutions (79 companies), do not perform other corporate actions in addition to the rights issue during the test period (33 companies), presents the annual financial statements during the test period with Rupiah currency (28 companies), The Company has complete data in the form of data daily stock trading, and financial statements (26 companies).

### Table 1. Kolmogorov Smirnov Test of Average Abnormal Return

<table>
<thead>
<tr>
<th></th>
<th>AR Before</th>
<th>AR After</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Asymp .Sig.(2-tailed)</td>
<td>0.776</td>
<td>0.012</td>
</tr>
</tbody>
</table>

Average abnormal return before the rights issue is not distributed normally, so the data must be made using a data outlier elimination. After eliminating outliers, the data are distributed normally, asymp sig (2 tailed) for AR before 0.794 and AR after 0.365.

### Table 2. Hypothesis Test of Average Abnormal Return-Paired Samples Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>N</th>
<th>Std Deviation</th>
<th>Std.Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1</td>
<td>AR Before</td>
<td>-.00158116</td>
<td>25</td>
<td>.007823256</td>
</tr>
<tr>
<td>AR After</td>
<td>-.00042464</td>
<td>25</td>
<td>.009637677</td>
<td>.001927535</td>
</tr>
</tbody>
</table>
Table 3. Paired Samples Correlations

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Correlation</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 AR Before &amp; AR After</td>
<td>25</td>
<td>-.100</td>
<td>.633</td>
</tr>
</tbody>
</table>

Table 4. Paired Samples Test

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std.Deviation</th>
<th>Std.Error Mean</th>
<th>95% Confidence Interval of The Difference</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 AR Before – AR After</td>
<td>-.001156520</td>
<td>.013008917</td>
<td>.002601783</td>
<td>-.06526337, -.006526337</td>
<td>-.445</td>
<td>24</td>
<td>.661</td>
</tr>
</tbody>
</table>

Paired Samples Test of the table determines the significance of paired samples t test was 0.661. Therefore, above the 0.05 level of significance, it can be decided rejected Hₐ means there is no difference between the average abnormal return before and after the rights issue. The absence of difference of abnormal return before and after the rights issue shows that the information regarding the events right issue does not change the decision of investors in their investment activities and the observation period has not been able to demonstrate differences in average abnormal return.

Table 5. One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th></th>
<th>TVA Before</th>
<th>TVA After</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.184</td>
<td>0.007</td>
</tr>
</tbody>
</table>

The average trading volume activity before the rights issue normally distributed with a value of 0.184 (> 0.05). However, the average abnormal return after the rights issue is not normally distributed indicated with a value of 0.007 or less than 0.05. Data trading volume activity should be done in the form of a data outlier. After eliminating outliers, the data are distributed normally, with Asymp.Sig (2 tailed) TVA before 0,220 and TVA after 0,210

Table 6. Paired Samples Statistics - Trading Volume Activity

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>N</th>
<th>Std Deviation</th>
<th>Std.Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 TVA Before</td>
<td>-.00635748</td>
<td>25</td>
<td>.007880859</td>
<td>.001576172</td>
</tr>
<tr>
<td>TVA After</td>
<td>-.00128144</td>
<td>25</td>
<td>.001600178</td>
<td>-.000320036</td>
</tr>
</tbody>
</table>

Table 7. Paired Samples Correlations

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Correlation</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 TVA Before &amp; TVA After</td>
<td>25</td>
<td>-.544</td>
<td>.005</td>
</tr>
</tbody>
</table>
Table 8. Paired Samples Test

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>95% Confidence Interval of The Difference</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
</table>

Paired sample test showed the significance of paired samples t test was 0.002. Due to the significance level below 0.05, it can be decided accept Ha2. This shows there is a difference between the average trading volume activity before and after the rights issue.

Table 9. One-Sample Kolmogorov-Smirnov Test Current ratio

<table>
<thead>
<tr>
<th>CR Before</th>
<th>CR After</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>26</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>2.102</td>
</tr>
<tr>
<td>Asymp .Sig.(2-tailed)</td>
<td>.000</td>
</tr>
</tbody>
</table>

Current ratio before and after the rights issue is not normally distributed as seen significant value of 0.000 and 0.012 which is smaller than 0.05 so it must be fix in the form of a data outlier treatment, but remained not normally distributed, so that the necessary transformation of data. Data current ratio before and after the rights issue has been transformed and still not normally distributed. Thus, hypothesis testing using the Wilcoxon signed rank test.

Table 10. Wilcoxon Signed Ranks Test

<table>
<thead>
<tr>
<th>CR After – CR Before</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative Ranks</td>
<td>11a</td>
<td>12.91</td>
<td>142.00</td>
</tr>
<tr>
<td>Positive Ranks</td>
<td>15b</td>
<td>13.93</td>
<td>209.00</td>
</tr>
<tr>
<td>Ties</td>
<td>0c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 11. Test Statistics

<table>
<thead>
<tr>
<th>CR After-CR Before</th>
<th>Z</th>
<th>Asymp .Sig.(2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-.851*</td>
<td>$.395</td>
</tr>
</tbody>
</table>

The significance of the Wilcoxon signed rank test was 0.395. Therefore, the probability value above 0.05 it can be decided to reject Ha3. This shows there is no difference in the current ratio before and after the rights issue. The absence of differences in current ratio before and after the rights issue, because there was increased current assets and current liabilities of companies and as result, that not generate a difference between before and after the rights issue.
Table 12. One Sample Kolmogorov Smirnov Test of Price-earnings Ratio

<table>
<thead>
<tr>
<th></th>
<th>PER Before</th>
<th>PER After</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>Asymp .Sig (2-tailed)</td>
<td>0.001</td>
<td>0.009</td>
</tr>
</tbody>
</table>

Price-earnings ratio before and after the rights issue is not normally distributed. Data price-earnings ratio needs to fix with data outlier. Data price-earnings ratio before the right issue which has been transformed still not normally distributed. So that hypothesis testing is done by non-parametric tests such as Wilcoxon signed rank test.

Table 13. Hypothesis test of Price-earnings ratio. Ranks

<table>
<thead>
<tr>
<th>PER After – PER Before</th>
<th>N</th>
<th>Mean Rank</th>
<th>Sum of Ranks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative Ranks</td>
<td>17</td>
<td>11.88</td>
<td>202.00</td>
</tr>
<tr>
<td>Positive Ranks</td>
<td>9</td>
<td>16.56</td>
<td>149.00</td>
</tr>
<tr>
<td>Ties</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 14. Test Statistics

<table>
<thead>
<tr>
<th>PER After-PER Before</th>
<th>Z</th>
<th>Asymp .Sig (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-.673</td>
<td>.501</td>
</tr>
</tbody>
</table>

Test statistics, showed a significance value of 0.501. Therefore, the probability value above 0.05 then it can be decided to reject Hₐ4. This shows there is no difference in the price-earnings ratio before and after the rights issue. The absence of differences in price earning ratio due to the change in the share price and earnings per share before and after the rights issue.

3. Conclusion

Hₐ1 was rejected, means that there is no difference in share returns are proxies by abnormal return before and after the rights issue. The absence of difference of abnormal return before and after the rights issue shows that the information regarding the events right issue does not change the decision of investors in their investment activities and the observation period has not been able to demonstrate differences in average abnormal return. These results support the hypothesis that has been presented by Rusdi and Avianto (2009), Widaryanti (2006), Mulatsih, Maskie, dan Susanto (2009). But this result was contrary to the results Agarwal, and Mohanty (2012), and Hartono (2009) of the study explained that there are different after the rights issue of the abnormal return.

Hₐ2 was accepted, means that there are differences in share liquidity proxies by the average trading volume activity before and after the rights issue. There is a difference can be seen from one example is PT Cowell Development Tbk (COWL). Before the rights issue, the average volume of shares traded is 11,596,133 and after the rights issue, the average volume...
of shares traded, became 5,223,433., revealed that there is a difference of 6,372,700. This shows corporate actions such as rights issue resulted in investor chooses to maintain the proportion of ownership resulting in a decrease in the volume of stock trading. These results support the hypothesis Hartono (2009), in his research shows the difference in average liquidity of shares before and after the rights issue. However, these results contrast with results Haryetti, and Efni (2010) which states that there is no difference before and after the shares liquidity rights issue.

Ha3 was rejected, means that there were no differences in current ratio before and after the rights issue. The absence of differences in current ratio before and after the rights issue, because there was increased current assets and current liabilities of companies and as a result, that not generate a difference between before and after the rights issue. The results are consistent with the results of research Syuhan, and Syahyunan (2013), which examines the financial performance with current ratio. However, these results contrast with research Khajar (2010) which states that there are differences in the current ratio of the company with the rights issue.

Ha4 was rejected, means that there is no difference in price-earnings ratio before and after the rights issue. The absence of differences in price earning ratio due to the change in the share price and earnings per share before and after the rights issue. These results contrast with the results Khajar (2010) which states that there are differences in price-earnings ratio of companies with the rights issue.

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Performance of State Owned Enterprises in Indonesia and Malaysia

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ABSTRACT

Objective – The purpose of this research is to measure performance of State-owned Enterprises that listed on Bursa Malaysia and Indonesian Stock Exchange.

Methodology/Technique – The economic performance will be measured by DEA. This study was employed technical efficiency and Malmquist Productivity Index. The Period of this study was conducted from 1992 to 2007, consist of three periods: a) Pre Crisis, b) Crisis, and c) Post Crisis.

Findings – For Indonesia’s SOEs, the conclusion over the periods of study that the technical efficiency of SOEs improved, especially in period of Crisis, when the government injected direct subsidies in order to enable SOEs maintain their performance. Meanwhile, the result for Malaysia’s SOEs sample demonstrates that over the periods of study, technical efficiency of SOEs was also improved. The improvement from Pre-crisis to Crisis period was not only due to some enterprises having an early recovery compared to others, but also government supported SOEs during a crisis, by getting lower investment and export financing cost and purchasing and sales preference.

Novelty – There is a lack of studies on State-owned Enterprises productivity in this region, so this study can fill this research gap and provide a useful reference to policy makers and users.

Type of Paper: Empirical paper

Keywords: State Owned Enterprises, SOEs, Ownership Concentration, Productivity, Technical Efficiency, Malmquist Productivity Index, Indonesia, Malaysia

1. Introduction

This study focuses on analysing the type of ownership adopted from Claessens (1999), namely state owned enterprises, and focuses on the impact of ownership concentration and performance of firms in emerging economies.
1.1. Ownership Concentration in Indonesia and Malaysia

Claessens et al (1999) report in the Asian region, Indonesia has the highest percentage of firms with family ownership, followed by Malaysia. Meanwhile, Malaysia has the second highest percentage of firms with state ownership, followed by Indonesia. This is consistent with Lassere and Schutte’s (1999) claim that beside the family business, in most parts of Asia (with exception of Hong Kong and Japan), state participation in the business sector has been an integral part of the industrialization process.

Table 1. Control of Publicly traded companies in East Asia within 20% cut off Ownerships

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Corporations</th>
<th>Widely Held</th>
<th>Family</th>
<th>State</th>
<th>Widely Held Financial</th>
<th>Widely Held Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>330</td>
<td>7.0</td>
<td>66.7</td>
<td>1.4</td>
<td>5.2</td>
<td>19.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>178</td>
<td>5.1</td>
<td>71.5</td>
<td>8.2</td>
<td>2.0</td>
<td>13.2</td>
</tr>
<tr>
<td>Japan</td>
<td>1,240</td>
<td>79.8</td>
<td>9.7</td>
<td>0.8</td>
<td>6.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Korea</td>
<td>345</td>
<td>43.2</td>
<td>48.4</td>
<td>1.6</td>
<td>0.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>238</td>
<td>10.3</td>
<td>67.2</td>
<td>13.4</td>
<td>2.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Philippines</td>
<td>120</td>
<td>19.2</td>
<td>44.6</td>
<td>2.1</td>
<td>7.5</td>
<td>26.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>221</td>
<td>5.4</td>
<td>55.4</td>
<td>23.5</td>
<td>4.1</td>
<td>11.5</td>
</tr>
<tr>
<td>Taiwan</td>
<td>141</td>
<td>26.2</td>
<td>48.2</td>
<td>2.8</td>
<td>5.3</td>
<td>17.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>167</td>
<td>6.6</td>
<td>61.6</td>
<td>8.0</td>
<td>8.6</td>
<td>15.3</td>
</tr>
</tbody>
</table>

Source: Claessens (1999)

Research by Claessens et al (1999) revealed that in Indonesia, from 178 samples firms that publicly listed in 1996, 71.5% categorized as a family owned enterprises and 8.2% as State owned enterprises. In the context of Malaysia, Claessens study mentioned that from 238 sample firms, which are publicly listed in 1996, 67.2% and 13.4% categorized as family and state owned enterprises respectively. Hisyam (2008) stated in his study that state ownership account for approximately RM260 billion or approximately 36% and 54% respectively of the market capitalization of Bursa Malaysia and the benchmark Kuala Lumpur Composite Index.

1.2. Ownership Concentration and Performance

Sun (2006) showed that the percentage of shareholding between stockholders has an obvious positive relation with the technical efficiency; otherwise ownership concentration and firm performance are nonlinear relatives.

1.3. Objectives of the Study

The General objective of this study is to analyze economy performances (measured by technical efficiency and Malmquist Productivity Index) of State Owned Enterprises listed on Bursa Malaysia and The Indonesian Stock Exchange (IDX) respectively.

1.4. Limitations

This study focuses only in Indonesia and Malaysia because: First, Claessens et al’s study (1999). He reports in the Asian region, Malaysia has the second highest percentage of firms with state ownership, followed by Indonesia. Second, Indonesia and Malaysia have the same characteristic, i.e: Malaysia has some ethnic groups like Malay, Chinese, India and Indonesia have it too, and the last characteristic both of them were once controlled by the regime, Suharto in Indonesia and Mahathir Muhammad in Malaysia.

1.5 Problem Statements
This study provides empirical evidence on production efficiency of state-owned enterprises in Indonesia and Malaysia.

In recent years, studies on the efficiency of state-owned enterprises seem to focus on investigate the efficiency of these firms before and after privatization (see Megginson, Nash and Van Randenborgh, 1994; Boubakri and Cosset, 1998; D’Souza and Megginson, 1999; Bortolotti, D’Souza, Fantini, Megginson, 2001; Dewenter and Malatesta, 2001; and Harper, 2002). Previous studies predominantly used the Malmquist Productivity Index to measure productivity. Indeed, the review of state-owned enterprises shows that, to date, there is no documented evidence productivity efficiencies type of enterprises utilizing frontier analysis (Data Envelopment Analysis) approaches.

Lassere et al., (1999) posited that SOEs are the major players in the Asian region. The World Bank indicates that SOEs are often associated with politicization, corruption, inefficiency, and waste of resource. They are the causes of weak fiscal discipline, lack of transparency, extra-budgetary financing, implicit subsidies, and protection from competition (World Bank, 1988). Vernon (1981) has given another reason why SOEs may have a low performance, because SOEs must respond to a set of signals from the state to which other enterprises’ managers are less alert. The signals are politically rather than economically motivated, and it conflicts with the commercial objectives of the enterprise. In contrast, Caves and Christensen (1980), Kay and Thompson (1986), Wortzel and Wortzel (1989), Martin and Parker (1995) and Kole and Mulherin (1997) suggested that government ownership is not necessarily less efficient than private ownership.

2. Review of literature

2.1 State Ownership and firm performance

Wong (2004) discussed how state ownership affect on firm performance and he claimed that unlike private enterprises, which focus exclusively on profit maximization, most SOEs pursue multiple and conflicting objectives. Multiple objectives arise either because they are mandated by legislation or because different government ministries are in a position to exert influence on SOEs. The later situation becomes especially problematic if the ministries have different aims for an SOE and do not reconcile their divergent views. Although taxpayers are the ultimate owners of SOEs, they rely on politicians and bureaucrats to be their agents – in other words, to look after their interests. Politicians and bureaucrats, however, are typically poor overseers of SOEs. Like other people, they are self-interested individuals who seek to attain, exploit, and maintain power. Politicians and bureaucrats are also poor agents because they do not benefit financially. Otherwise, if an SOE is highly profitable, they may be blamed when an SOE acts “too commercial” or other things go wrong.

In fact, SOEs often operate without sufficient external scrutiny. In many countries, there is a paucity of publicly available information about SOEs, or the information disclosed is unreliable. Further, governments often do not elaborate their objectives for public sector firms to public as well as to the SOEs- and do not explain how they plan to monitor and influence these enterprises. While this lack of transparency might suit those politicians and bureaucrats who are self interested, just fine, it does little to ensure effective accountability.

Despite of its negative performance, following are the types of advantages that state-owned businesses can have and have frequently got from privately owned businesses:

- Less or no requirement to earn profits or pay dividends for wholly state-owned enterprises, but for publicly listed firm the dividend still needs to be paid.
- Lower investment and export financing costs.
- Lower or no domestic taxes.
• Purchasing and sales preferences from state.
• International information reporting, trade, and burden of proof regulations that favour state-owned businesses.

2.2 Production Efficiency

In a business or industrial context, productivity is the ratio of output production to input effort. The productivity ratio is an indicator of the efficiency with which an enterprise converts its resources (inputs) into finished goals or services (outputs).

Industry and government officials have adopted three common types of productivity measures, Partial productivity, total factor productivity (common used in governments) and total productivity (incorporate).

3. Research methodology

3.1 Source of Data

The data will be collected both from The Indonesian Stock Exchange (IDX) and Bursa Malaysia regarding a complete financial report from each company that defined, as State Owned Enterprises.

3.2 Period of Study


3.3 Methodology

In this study, the analysis is focused into the economic performance analysis. The economic performance will be measured by DEA using production efficiency. DEA is a leading analytical technique for measuring the relative efficiency and has been widely used by both academics and practitioners in evaluating the efficiency of decision-making units (DMUs) within an organization or industry in terms of converting resources/inputs into outputs. To measure production efficiency this study uses Malmquist Index suggested by Griffel et al (1996), The Malmquist Productivity Index is suitable for SOEs because the Malmquist Productivity Index does not require the profit maximization or the cost minimization assumption. This assumption is particularly relevant for SOEs, as most of the firms under government ownership do not necessarily follow the objective of profit maximization.

3.4 Significance

This study has significance as follows:

• This study seeks to contribute further to the debate surrounding the impact of ownership concentration (State Owned Enterprises) on the firm performance in Indonesia and Malaysia. This study intends to provide evidence of both the alignment and entrenchment hypothesis in developing markets.
• The State-owned enterprises in Indonesia and Malaysia have common characteristics of SOEs around the world. But in Malaysia, state policies were introduced to protect local industry and ensure fair distribution of corporate wealth among the ethnic groups.
• To date, there are a few studies on the economic performance of firms associated with State owned enterprises in Indonesia and Malaysia. Understanding the firms’ performance will help the state and stakeholders to draft policies to overcome weaknesses and to ensure that the market and stockholders’ investments are protected. Agency problems tend to arise in
many ways that can be a cause in wealth of shareholders and/or bondholders and this affect firm performance.

4 Empirical results

4.1 Indonesian Technical Efficiency and Productivity

4.1.1 Technical Efficiency

The performance of State-owned Enterprises in order to produce maximum outputs while consuming minimum inputs will be described in this section. This study used a longitudinal analysis rather than comparing different firms or decision-making units (DMUs) at a single point of time to measure the changes in technical efficiency associated within each firm. Hence, for every firm, the study firstly examined the most efficient year(s) and used a comparative sample to define the level of efficiency of every other year. The result from each financial year of the firms is considered as a separate DMU. When the DMU is considered technically efficient, the efficiency ratings will be equal to one (1) while the ratings will be less than one (<1) if the DMU is relatively inefficient.

Table 2. DEA-based Technical Efficiency Ratings (Constant Returns to Scale for Indonesia’s State Owned Enterprises over the period 1992-2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>‘92</th>
<th>‘93</th>
<th>‘94</th>
<th>‘95</th>
<th>‘96</th>
<th>‘97</th>
<th>‘98</th>
<th>‘99</th>
<th>‘00</th>
<th>‘01</th>
<th>‘02</th>
<th>‘03</th>
<th>‘04</th>
<th>‘05</th>
<th>‘06</th>
<th>‘07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.44</td>
<td>0.26</td>
<td>0.28</td>
<td>0.40</td>
<td>0.45</td>
<td>0.59</td>
<td>0.52</td>
<td>0.69</td>
<td>0.78</td>
<td>0.79</td>
<td>0.91</td>
<td>0.91</td>
<td>0.98</td>
<td>0.98</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Std Dev</td>
<td><em>a</em></td>
<td><em>a</em></td>
<td><em>a</em></td>
<td>0.13</td>
<td>0.07</td>
<td>0.03</td>
<td>0.18</td>
<td>0.05</td>
<td>0.22</td>
<td>0.17</td>
<td>0.19</td>
<td>0.17</td>
<td>0.09</td>
<td>0.07</td>
<td>0.02</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Notes: *) Only one company existed during that period, hence the standard deviation could not be calculated.

Table 2. depict the efficiency rating lines for State Owned Enterprises, it is show a stable tendency. If we examine the early years of the crisis period, SOEs rating increased, although the amount was not significant. Based on empirical studies, during the Asian Crisis, State-owned Enterprises survived because they received direct subsidies from their respective governments. Even some banks during that era had earned financial support from the Indonesian Central Bank (Husnan, 2004). For SOEs, the lowest rating was in 1993 and the highest was in 2007 with a perfect score (Efficiency rating = 1).

4.1.2 Malmquist Productivity Index

The Study shows the average findings on the DEA-based Malmquist Productivity Index and its associated decomposition, MC, the relative efficiency change (catching up) and MF, frontier shift effect (technological efficiency). Productivity growth can be achieved either by the increase in relative efficiency change or frontier shift effect. Similarly, productivity decline can be attributed to decline in relative efficiency change or technological regress or both. The result of the Malmquist Productivity Index will be less than 1 if there is productivity decreases and above 1 if productivity increases. However, if there is no change in productivity, the Malmquist Index is equal to 1.
Table 3. Average Malmquist Productivity Index with Relative Efficiency Changes and Frontier Shift Effect for Indonesia’s State Owned Enterprises over the period 1992-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>‘93</th>
<th>‘94</th>
<th>‘95</th>
<th>‘96</th>
<th>‘97</th>
<th>‘98</th>
<th>‘99</th>
<th>‘00</th>
<th>‘01</th>
<th>‘02</th>
<th>‘03</th>
<th>‘04</th>
<th>‘05</th>
<th>‘06</th>
<th>‘07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malmquist Index</td>
<td>Mean</td>
<td>0.58</td>
<td>1.08</td>
<td>0.96</td>
<td>1.12</td>
<td>0.99</td>
<td>1.36</td>
<td>0.87</td>
<td>1.10</td>
<td>1.08</td>
<td>0.93</td>
<td>0.98</td>
<td>1.13</td>
<td>0.99</td>
<td>1.06</td>
</tr>
<tr>
<td>Std Dev</td>
<td><em>a</em></td>
<td><em>a</em></td>
<td><em>a</em></td>
<td>0.21</td>
<td>0.23</td>
<td>0.46</td>
<td>0.16</td>
<td>0.22</td>
<td>0.42</td>
<td>0.12</td>
<td>0.16</td>
<td>0.24</td>
<td>0.07</td>
<td>0.07</td>
<td>0.48</td>
</tr>
<tr>
<td>Efficiency Changes</td>
<td>Mean</td>
<td>0.51</td>
<td>0.96</td>
<td>0.82</td>
<td>1.00</td>
<td>0.89</td>
<td>1.24</td>
<td>0.76</td>
<td>0.95</td>
<td>1.08</td>
<td>0.86</td>
<td>0.91</td>
<td>1.08</td>
<td>0.96</td>
<td>1.04</td>
</tr>
<tr>
<td>Std Dev</td>
<td><em>a</em></td>
<td><em>a</em></td>
<td><em>a</em></td>
<td>0.13</td>
<td>0.21</td>
<td>0.30</td>
<td>0.24</td>
<td>0.28</td>
<td>0.40</td>
<td>0.19</td>
<td>0.12</td>
<td>0.25</td>
<td>0.05</td>
<td>0.07</td>
<td>0.00</td>
</tr>
<tr>
<td>Frontier Shift</td>
<td>Mean</td>
<td>1.15</td>
<td>1.12</td>
<td>1.17</td>
<td>1.12</td>
<td>1.11</td>
<td>1.09</td>
<td>1.15</td>
<td>1.15</td>
<td>1.00</td>
<td>1.08</td>
<td>1.07</td>
<td>1.04</td>
<td>1.03</td>
<td>1.02</td>
</tr>
<tr>
<td>Std Dev</td>
<td><em>a</em></td>
<td><em>a</em></td>
<td><em>a</em></td>
<td>0.09</td>
<td>0.09</td>
<td>0.16</td>
<td>0.21</td>
<td>0.27</td>
<td>0.17</td>
<td>0.14</td>
<td>0.12</td>
<td>0.08</td>
<td>0.03</td>
<td>0.48</td>
<td></td>
</tr>
</tbody>
</table>

Notes: *) Only one company existed during that period. Hence, the standard deviation could not be calculated.

The result presents the average total factor productivity (TFP) for all the firms in the periods studied. It shows there is no specific pattern along the periods for State-owned Enterprises. There was a year when SOEs experienced improvement in productivity, declined in others. The result shows that the average productivity growth in Pre-crisis period, was 0.9972, which means that the SOEs did not perform efficiently if compared to that during Crisis and Post-crisis periods, with their average productivity growth of 1.0616 and 1.0710, respectively. Further observation showed that the high rating was caused by technical efficiency and technological improvements. For example, according to PT. Telekomunikasi Indonesia Annual Report 1999, it was selected to be listed in Dow Jones Islamic Market Index and launched a new satellite, Telkom I.

4.1.3 Findings

The conclusion over the periods of study is that the technical efficiency of SOEs improved, especially in period of Crisis, when the government injected direct subsidies in order to enable SOEs to maintain their performance. With regard to productivity, when we analyse State-owned Enterprises, the finding reveals that State-owned Enterprises were improved from time to time within the three sub periods. State-owned Enterprises sample revealed that the increasing of the productivity index during the crisis was contributed by increasing of efficiency changes from some sample companies, by increasing their market share and their sales.

4.2 Malaysian Technical Efficiency and Productivity

4.2.1 Technical Efficiency.

Comparison is made on the average technical efficiency of all the firms within three periods, namely Pre-Crisis, Crisis and Post-crisis. The average for those three periods was calculated from 1992 to 2007 accordingly. However, the division of years is uneven between periods. The Pre-Crisis period is between 1992 and 1997, the Crisis period (also known as the Asian Crisis period) between 1997 and 2000, and the Post-crisis period between 2001 and 2007. The Post-crisis period has a much longer window in order to calculate the average technical efficiency.
Assessments of efficiency were undertaken, assuming the Constant Return to Scale (CRS) for each of State-owned Enterprises. If we focus on the Crisis period as well, State-owned Enterprises increased from 73.93 percent in 1996 to 75.10 percent in 1997. Perhaps, this was due to the fact that the government supported State-owned Enterprises during Crisis by earning lower investments and export financial costs and purchasing and sales preferences from government. Thus, their technical efficiency kept increasing regardless of the performance of other firms.

In conclusion, in sampled State-owned Enterprises, the result shows that over the periods in this study, the technical efficiency of SOEs improved. The improvement from Pre-Crisis to Crisis period was probably due to the fact that some enterprises had recovered earlier compared to others as shown in the increase of the average mean in 1998, 1999 and 2000. Thus, if we calculate the mean of Crisis period, the result will show a slight improvement. Referring to the raw data, the consumer industry had recovered in 1999-2000 and this contributed to the increase of average of technical efficiency.

4.2.2 Malmquist Productivity Index

Table 5. Average Malmquist Productivity Index with Relative Efficiency Changes and Frontier Shift Effect for Malaysia’s State Owned Enterprises over the period 1992-2007

The Productivity index of all the publicly listed State-owned Enterprises in Bursa Malaysia is evaluated in this section. The result shows (Table 5.) in the average total factor productivity (TFP) for all the firms in a long-term study and there is no special pattern for State-owned Enterprises. There was a year when SOEs improved in productivity and the others were declined. From table 5, we can see that the productivity index declined due to decreases in relative efficiency change or decrease in technological change. Productivity, however, increased in Crisis but still was inefficient, with a value of 0.9810. The productivity increase was result from capital restructuring and the expansionary fiscal initiatives implemented by the Malaysian Government for SOEs, such as Tenaga Nasional Berhad and Time Engineering Berhad. And finally in Post-crisis, productivity reached efficient level with a value of 1.0458.

The frontier Shift effect Pre-crisis was an efficient 1.0344 but dropped to 1.0254 during the crisis. This indicated technological regression for all SOEs. The decrease of frontier shift was solely due to costs to acquire new technology during the crisis. It is shown in the raw data where some high tech companies such as Proton Berhad, Time Engineering Berhad and
Tenaga Nasional Berhad suffered declining trend from Pre-crisis into Crisis. However, finally the frontier shift effect increased to 1.0413 Post-crisis.

4.2.3 Findings

The result of technical efficiency, for State-owned Enterprises sample, demonstrates that over the periods of study, technical efficiency of SOEs was improved. The improvement from Pre-crisis to Crisis period was probably due to some enterprises having an early recovery compared to others. It shows that average means in 1998, 1999 and 2000 were increased. Besides, government supported SOEs during the crisis, by getting lower investment and export financing cost and purchasing and sales preference. With regard to productivity, the finding reveals that State-owned Enterprises were improving from time to time within the three sub-periods. The productivity increase was due to capital restructuring and the expansionary fiscal initiatives implemented by the Malaysian Government for SOEs such as Tenaga Nasional Berhad and Time Engineering Berhad.

5 Conclusions

This study has conclusions as follows:

1) Technical efficiency study in Indonesia showed that SOE had better performance since SOE’s performance increased more stably during the research period. This result was supported by studies from Caves and Christensen (1980), Kay and Thompson (1986), Wortzel and Wortzel (1989), Martin and Parker (1995) and Kole and Mulherin (1997) and parallel with productivity index research result where Indonesia’s SOE exhibited higher productivity due to the SOE’s significant productivity index enhancement. Moreover, this study also revealed that the increase in SOE’s productivity index was resulted from efficiency change enhancement of several SOE samples.

2) Malaysia-based technical efficiency study demonstrated that SOEs performed a little enhancement. During the crisis period, the Government supported this enhancement by giving some privileges to SOEs such as lower investment and export financing costs, as well as their preferences to the buying and selling. This means that government interference in markets and this is related to the previous study such as La Porta, De Silanes and Shleifer (2002), Boycko, Shleifer and Vishny, 1996; and Dewenter and Malatesta, 2001. According to productivity study in Malaysia, some SOEs samples performed constant enhancement due to the Malaysian government implementations of capital restructuration and fiscal initiative expansion to several SOEs.

References


Redistribution Adjusts Efficiency In Economy; Islamic Paradigm

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ABSTRACT

Objective – Islam regulates distribution also redistribution of wealth, and how this concept break away the inefficiency of economic activity. The concept of redistribution has always been a debate in every microeconomics discussion in various areas, such as its mechanism, its implementation and also its effect on the efficiency of economies. This research is trying to examine how the concept of redistribution benefits the efficiency in economy through partial equilibrium analysis. The literature on the concept of Islamic paradigm and the positive paradigm are managed to produce a comprehensive study.

Methodology/Technique – This study was conducted using research methods of literature studies, both of textbooks and handbooks in the same fields of studies. The simulation case applied on the zakat implementation in adjusting new equilibrium of supply and demand, and also on taxation and subsidy to get the comparison view.

Findings – It is found that there is a different equilibrium adjustment between zakat implementation and taxation implementation, under the assumption of first best optimal distribution economy.

Novelty – Interestingly, zakat implementation will not lead to inefficiency in the economy, because the shifts of demand and supply curve result the larger amount of quantity of product in the same price level. Taxation and subsidy mechanism will lead to inefficiency in the economy, because the shifts of supply and demand curve result the smaller amount of quantity of product at the highest level of price.

Type of Paper: Conceptual

Keywords: Efficiency, Distribution, Islamic Economic, Redistribution.

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1. Introduction

The universe is created by Allah to be managed for the justice, welfare and sustainability of the lives of all the creatures in it (Az-Zarqa M. A., 1995). According to the Qur'an Al-Hasyr verse 7 "...so that it will not be a perpetual distribution among the rich from among you. And whatever the Messenger has given you – take; and what he has forbidden you – refrain from – And fear Allah; indeed, Allah is severe in penalty”. Distribution of wealth in Islam is very detailed in the determination of the general principles of distribution and redistribution of wealth and economic resources. The concept of equitable distribution in Islam aims at four aspects, namely: (1) Da'wa; religious proselytizing of the symbols of Islamic kindness to the people who have not been touched by Islam. (2) Education; distribution and redistribution concept in Islam Muslims to educate mental avoiding of nature miserly, greedy, envious, spiteful greedy, selfish; and encourage the emergence of morality, charity, giving priority to others. (3) The social objective; expected that the principle of human solidarity, the bond of love and affection between the rich and the poor, erodes the hatred between the strong and the weak to the contrary, the creation of economic growth without oppressing the poor are weak. (4) The economy; through the redistribution concept of zakat, infaq, shodaqoh, endowments, etc. can realize property development and wealth consecration, the reduction of unfair economic burden of the weak, through the concept of Ihya al Mawat can be realized efficiency of utilization of economic resources, the establishment of welfare measures which are not only related to the level of consumption but also the level of distribution. While in the process of realization of its objectives, the concept of Islam needs to be placed on the distribution of the three political bases of distribution. These are: ownership Management, income distribution, and redistribution of income. These are management of a greater scope of goods that are in an individual with the better mechanism that able to manage. Whether caused more capable in terms of intelligence and access to resources. As for classes of individuals who are unable or weak, Islam has a very comprehensive concept of redistribution, as what included in many Quran verses. One of it is what mention in Quran Al-Hasyr Verse 7 "And what Allah restored to His Messenger from the people of the towns – it is for Allah and for the Messenger and for (his) near relatives and orphans and the (stranded) traveler...”. The Quran verses imply that Islam regards all property, could be interpreted as a resource, and should be distributed to all economic actors, even when a person is an individual who is weak, must get their rights to access the resource. Islamic paradigm has contributed a significant doctrine about redistribution. The Islamic redistribution concept appears after the rise of Islam brought by the Messenger of Allah, Muhammad. The Islamic economics activist has been formulated the redistribution concept based on Al-Quran, Hadith, Muslim clergy agreements. The concept of justice in the distribution includes three things. They are: fair in the distribution of economic resources, the distribution of income factors of production, the distribution among community groups (rich vs. poor, the present generation versus future generations). While in the process of realization of its objectives, the concept of Islam needs to be placed on the distribution of the three political bases of distribution. These are: ownership Management, income distribution, and redistribution of income (Al-Haritsa, 2003). The concept is similar to the concept of economic efficiency that is extolled by the economists of the world (Asutay, 2007) (Heidari, 2007) (Muhammad, Majid, Usman, & Lakhan, 2013).

In this discussion the term efficiency is taken from the efficiency concept initiated by Vilfredo Pareto (1848-1923). Efficiency is that the allocation of resources of a country that can allow each individual to obtain welfare without compromising the welfare of others. John Rawls, one of the economists philosopher who have the view about justice in economics and politics, states that resource should be distributed equally to achieve optimum economic efficiency, though original position of fairness and equality among people. Nicholas Barr (2012) summarizes that increased welfare is the movement in the distribution to the optimal point whether factor supply is fixed or variable, there is a payoff between efficiency and equity in distribution. He concludes the best characteristics of optimal distribution assumptions where efficiency would come up with optimal distribution. The optimal distribution in the first-best economy characteristics are perfect competition; increasing
returns to scale; perfect information; maximization behavior of well-behaved utility and production functions; complete market; no distortionary taxation. It commonly named by an invisible hand. Under appropriate conditions, market can achieve the efficiency objective. I.e. to achieve a given distribution without interfering with market allocation other than by transferring resources to bring out the desired set of initial endowments. Furthermore, the analysis in this paper will discuss the failure of one of these assumptions is “no distortionary taxation” as a redistribution scheme that represents the government intervene optimal distribution achievement.

The concept of redistribution has been invoked extensively in discussions of distributive justice in both the domestic and global context. Indeed, the differences between popular recent approaches to distributive justice, such as libertarianism, prioritarianism, and so-called luck egalitarianism, are sometimes characterized in terms of their attitudes towards redistribution (Scheffler 2003). The classification of policies and institutional arrangements as redistributive in either of these senses, however, has been shown to depend on the moral assessment of these practices, and cannot thus be used as a basis for such assessments. Extreme poverty in developed and developing countries, for example, has led many to question whether affluent people or countries can and ought to ‘help’ or ‘aid’ the poor by redistributing resources to them, and whether they can be compelled by law to do so (for example, through the tax system) (Narveson 2002, 2003). The government intervening in many ways of redistribution resources, there are regulating, finance, other public intervene such like as taxation, monetary policies, welfare, land reform, charity, etc. (Atkinson & Stiglitz, 1980).

Various studies of government intervening has been done in many researches to show how government policies give the influence to optimal efficiency changes. The changes of efficiency could be studied through the movements of contract points in the edge worth box analysis also could be studied by using a partial equilibrium of each economic sectors; both of them are to see the optimal efficiency of resource allocation. Zakat and Taxation are two examples of the redistribution mechanism that has been done in many years by two different ideologies. So that This paper focuses on comparing how redistribution concept in Islam, zakat, and other redistribution concept, taxation, give efficiency adjustment on partial economic equilibrium, by using a simulation of supply and demand curve adjustment.

Before we begin the efficiency analysis of both, zakat and taxation, we will discuss about the Islamic redistribution concept. The discussion will placed in the second part of this paper. It will cover how the redistribution of income, the kind of redistribution and each explanation about what and how its mechanism. We will also put the investigation the characteristic of zakat, the regulation based on Islamic Law of Fiqh, so that we can get the clear view to make simulation in the future analysis.

The last part of this paper, furthermore, is the analysis about simulation how zakat mechanism adjusts the efficiency in the economy through the partial equilibrium analysis that represented by intersections of the supply curve and demand curve. Simulation of taxation mechanism will coming up as the comparison view, to give a more precise illustration. There are two simulation of taxation mechanism in this analysis, which concludes how the taxation will affect the supply curve only and how the taxation will affect both of supply and demand curves. The conclusion of this paper will be an initial hypothesis for the further study in the redistribution mechanism evaluation.

2. The concept of Islam in regulating the redistribution of wealth

Islam has the restrictions of human being in possessing economic resources. Adiwarman Karim named it as “multiple ownership”, that all of resources in whole world belong to two parties. First is God, the Creator, as the absolute and unconditional owner of the universe. The second is human as executor and manager of resource utilization, namely as Khalifah fil-ardh (Karim, 2005). There are two ownership categories of resources. First is based on the restriction system of individual ownership quantity determination. The resources that cannot be owned by individual parties should be owned, managed, and protected by Amir (authority,
hierarch, government, kingdom, etc). The second is based on principles of individual ownership, utilization guideline that fit to Alquran and Alhadits.

2.1 Income Redistribution

The purpose of Islam is to realize the concept of distribution of real justice for all human beings. Management of a greater scope of goods that are in an individual that is better able to manage. Whether caused more capable in terms of intelligence and access to resources. As for classes of individuals who are unable or weak, Islam has a very comprehensive concept of redistribution.

The Islamic distributive scheme is characterized by certainty and flexibility (Islahi, 1993). Islahi introduce in its institutional approach, that there are some compulsory measures which ensure a permanent process of redistribution in the economy, there are voluntary measures to supplement the compulsory ones, and in addition to them, there are certain provisions that check the avenues which add to inequalities and misdistribution of income and wealth, it is called as preventive measures. Following is a figure of each set of these measures.

2.2.1. Compulsory Redistribution Measures

The compulsory measures categories are ; (1) Zakat; It means to take out a part of one’s wealth at the year-end or on the completion of the year for the sake of Allah and give it to deserving and needy person and making him the owner of that part and having no claim of one on it. Zakat is the fortieth (40) part of wealth or equivalent to that. The more detail explanation will be discussed in part three. (2) Sadaqat al-fitr; every Muslim has to pay it on behalf of himself and his dependents if he has more than subsistence for himself and his dependents on the night of Eid al-fitr, with no prescribed minimum exemption limit. (3) Obligation of sacrifice; Well-to-do Muslims are required to offer animal sacrifice, a part of which should be distributed among the poor and hungry, it paid on every Dzulqa’dah 10th of Hijry Calendar. (4) Additional Demand for Finance; The purpose of such a levy will be both financing the government activities and achieving distributive justice. (5) Usur or custom duties; The resident of the Islamic states were charged two and a half percent to five percent, while foreigners were charged ten percent. The rate may be decided in reciprocal to the other country. (6) Kaffarat or financial penalties on certain offences; offences on which financial penalties are prescribed which also serve function of re-distribution. (7) System of inheritance; According to the strict Qur’anic injunction, all assets of the deceased (be it little or big) have to be distributed among his legitimate heirs after paying his debts and fulfilling his bequest (wasiyah) if he has made any, valid up to one third of his property. (8) al-nafaqat al-wajibah; it is obligatory expenditure by relatives, father to family members, parent to son and daughter, son to parent, etc. The financial support of an indigent person devolves on those who would inherit him in case he died leaving some property, and that this responsibility is to be shared in the same proportion in which that inheritance would be shared. (9) Right to demand a minimum standard of living; It is an established principle in Sharia that the basic needs of every human being must be fulfilled by individual himself, his near relatives, the neighborhood, and the society, all must recognize and fulfill their responsibilities in this regard. (10) Right to Acquire the Necessities of life; never let a person die of hunger, thirst or other necessities while others have a lot of means to satisfy these dire needs. The one who denies his such necessities, while having surplus with him, will be held responsible for his death in case he dies. (11) Ghanimah; it refers to movable possessions taken in battle from the enemy. Four fifths of it are to be divided among the troops, and one fifth of it for Allah, and to the Messenger, and to the kinsman (who has need) and orphans and the needy and the wayfarer (12) Fai’; refers to booty surrendered by the enemy at war without fighting. The benefit of fai’ extends to the entire population and even to future generations, and cannot be returned to him who pay fai’. (13) Coercive sale at the just price; basically a seller is allowed to sell at whatever price he likes, but he may be forced to sell his goods at the just price to safeguard the interests of others.
2.2.2. Voluntary (optional) Redistribution Measures

It is not obligated, but it is well to do for every Muslim when they have fairly well wealth more than they need. They volunteered to do this: (1) *al-sadaqat al-nafilah*; it is non-obligatory expenditures for the support of distant relatives or donations to welfare organizations, etc. (2)*hibah*; it is the gift made for individuals or for some public purposes (3) *al-ataya*; it is a particular grant made by the government to its citizens is a form of transfer payment which the guided caliphs of Islam established and practiced. (4) *wasiyah*; or dying exhortation, last will and testament (spoken or written), provided that it is up to one third of the inheritance, it is generally in favor of those relatives who are not getting a share in the legacy or in favor of any public purposes. Fulfillment of a will becomes obligatory on the survivors and it gets priority over the legal inheritors. (5) *al-'ariyah and al-qard*; *Al-'ariyah* is to lend something for a certain period to enjoy its benefits, meanwhile *al-qard* is lending money without any material gain. (6) *nadhr*; or to vow to Allah by spiritual services, which also includes services to humanity (7) *waqf*; taking the corpus of any property from personal ownership, transferring it permanently to the ownership of Allah and dedicating its usufruct to others. (8) *infaq al-`afwa*; *`afw* is defined as the extra amount a person has over and above his need, it is the expenditure of the surplus for the sake of Allah. (9) Benevolence and sacrifice; to sacrifice, benevolence, fellow feeling, love for all living creatures, etc., encourage a Muslim to voluntarily look after the needs of others.

2.2.3. Preventive Redistribution Measures

This is the rule that gives preventive for injustice resources distribution in the world. They are; (1) Prohibition of *Riba*; charging interest is in favour of lending class at the cost of the poor (2) Prohibition of hoarding; it is wrongdoer to exploit people's need and to create artificial shortages. (3) Prohibition of monopoly; it will cause inefficiency by limiting the freedom of others and close the doors of opportunities upon others (4) Prohibition of private *`hima*'; *Al-`hima* means preserve or enclosure through which people are kept away from a land usable by all for such benefits as herbage, water, hunting, etc. (5) Prohibition of games of chance and lotteries; cause they result in an uncertain distribution of wealth and also cause hatred, enmity and disputes. (6) Bribery and kick back; it is prohibited in Islam offering something to officials to influence the judgment unduly or corrupt the conduct (7) Prohibition of stealing property and embezzlement of funds; it is prohibited to appropriate income and wealth by immoral ways. (8) Curb on demonstration effect; it is not recommended for a Muslim to keep greed in their personality.
Figure 2.1 Islamic Concept of Redistribution Income

Compulsory Measure
- Sadaqat al-fitr
- Obligation of sacrifice
- Additional Demand for Finance
- Ushur or custom duties
- Kaffarat or financial penalties on certain offences
- System of inheritance
- al-nafaqat al-wajibah
- Right to demand minimum standard of living
- Right to Acquire the Necessities of life
- Ghanimah
- Fai'
- Coercive sale at the just price

Voluntary Measures
- al-sadaqat al-nafilah
- Hibah
- al-ataya
- wasiyah
- al-`ariyah or al-qard
- nadihr
- waqf
- infaq al`-afwa
- Benevolence and sacrifice

Preventive Measures
- Prohibition of Riba
- Prohibition of hoarding
- Prohibition of monopoly
- Prohibition of private ‘hima’
- Prohibition of games of chance and lotteries
- Bribery and kickback
- Prohibition of stealing property and embezzlement of funds
- Curb on demonstration effect
3. Examine how the concept of redistribution give the benefits of economic efficiency

Above are the concept of distribution and redistribution of economic resources in Islamic paradigm. In this opportunity, we will see how, one of Islamic redistribution concept, it is zakat, give the influence on efficiency of economic activities. Is it will give a different look from another concept, taxation and subsidies, as a control variable in this analysis?

Economic efficiency is represented by achievement of general equilibrium under perfect competition market. Efficiency idea made reference to equilibrium concept that had developed by Vilfredo Pareto (1909) and Abram Bergson (1938), and in its advance analysis made by welfare theorem of Arrow (1951) and Debreu (1951). That theorem clarifies that there is an essence an equivalence (equilibrium, economic efficiency) between Pareto efficient outcomes and competitive price equilibriums.

Various studies have been done to show how government policies give the influence of equilibrium changes. There are two ways using general equilibrium model analysis. The first, by modeling parties of economic actors in interactive simulation. Using the simplified parties, such like to see how 2 countries interact with 2 products, 2 products interact with 2 producers. The second, by using data set computational analysis to see the interaction among more complexes parties of economic actors. Government Policy used to be analyzed by partial equilibrium or general equilibrium. Basically partial equilibrium is not adequate for the policies that have effects in many sectors of economic. But in some cases, it is necessary to look deeper in partial equilibrium analysis to cope the more precise effect of policies in one sector of economic activities. This paper will use partial equilibrium model to study how zakat give the adjustment on the equilibrium of aggregate demand-supply side, compared with how taxation and subsidies do.

3.1. Characteristic of zakat

Zakat is annual redistribution schema on four types of assets, amounted tithe (ushr) on treasure trove (rikaz), on crops; and amounted half of the title (nisf al-ushr) on animals (camels, cows and sheep); while on merchandise and on two precious metals, gold and silver it is amounted fortieth part of wealth or equivalent to that to replace it. It is compulsory paid by every Muslim with certain condition and will be given to other Muslim with the certain condition. The certain conditions in implementing Zakat mechanism are;

- Muslim that has to pay zakat (muzakky) is whose: (a) Muslim (b) Free (c) possessed the treasure for more than a year. (d) possessed the treasure for more than nisab (limit), the limits are: more than 750 kg for crops, more than 5 for camels, more than 30 for cows, more than 40 for sheep or goats, more than that equal to 612,35 gr of silver for merchandise or cash, more than 612,35 gr for silver, more than 87,50 gr for gold.
- Muslim that will be given zakat (mustahiq) is whose: (a) the poor, (b) the needy, (c) those who are employed in collection and management of zakah, (d) those whose hearts are to be reconciled, (e)to free the captives, (f) the debtors, (g) the man cause of Allah, and (h) the wayfarers.

3.2. Partial equilibrium adjustment of the implementation of zakat

By the observation of its characteristic, zakat taken from productivity activities when they are well established, and it assumed that the owner of treasury is the condition of properous. Is zakat will change their productivity behavior of muzakky? Is zakat will change the consumer behavior of mustahiq? How is the implementation of zakat will change the equilibrium?
We do such a simple simulation of interaction between supply curve and demand curve in a partial equilibrium analysis. Supply curve represents aggregate supply (producer behavior) and the behavior of muzakky, and demand curve represent as whole aggregate demand (consumer behavior) and mustahiq. Under the perfectly competition market, the initial equilibrium of a certain period is coordinated in A. Zakat is taken in a certain period when muzakky reaches the certain condition as what sharia ruled, by then it would not change the production activities, production cost, or even production function. It means, producers will not obliged to pay zakat when they are not in the “muzakky” condition. So as when they have been in “muzakky” condition, they will pay the certain amount of zakat, without any changes in their behavior of production function. In the other hand, mustahiq will receive an amount of zakat, it will give an additional budget line for mustahiq. Consequently the increase in revenue will cause the consumer behavior, assuming other factors are constant, the demand curve will be shifted from D1 to D2 as much as redistribution of zakat from muzakky. While the supply curve is constant, the equilibrium will be shifted to the axis as much as supply can afford the new quantities of demand, a new equilibrium will formed by shifting from old coordinate A to new equilibrium B. It is appropriate o the law of demand, in a constant supply curve, increasing quantity of demand will increase the price. Furthermore, when redistributing of zakat still going, assuming all factors are constant, the pressure on demand will cause the price keep increasing. The increasing of price delivers new technology either new competitor to fulfill consumer demand. These will gradually increase the quantities of product, and will shift the supply curve S1 to the new supply curve S2. This change of supply curve will automatically match the new quantity of equilibrium Q2 with the same price as the price in initial equilibrium, formed by intersection of the new supply curve of S2 and new demand curve D2. It is shown in the Figure 3.1. how zakat adjust the initial equilibrium to new equilibrium, with the increase of quantity (from Q_initial to Q2) in the same price (from P_initial to P2). The adjustment emphasized the efficiency of resource allocation formed by increasing quantity of product at the constant level of price.

3.3. Characteristic of tax and subsidy

As the comparison view, the adjustment of partial equilibrium formed by taxation and subsidies will come up in the following discussion. Since the taxation that happens to every single sector of the economy is complicated, it is better to make a focused observation of taxation characteristic. The first group is a tax on the producers, consumers and suppliers of factors. Taxation that implemented for the production of commodity will effect on the profits of producer, on the incomes of those who supply factors or intermediate products, and on the consumers of the product. To the extent the price of the product rises. Second group, functional distribution (labor and capital), the effect of tax may be broken down into on the
main factors of production. *Third* group is personal distribution; the effect of taxes or government expenditure may be investigated with respect to the position of individuals at each different social background and behavior. Does it benefit the positive income or the opposite? *Fourth* group, regional incidence, the tax or government expenditure may have different effects in different regions. Does it give a negative effect on consuming regions or the opposites? *Fifth* group, intergenerational incidence, tax or government spending may have a different impact on different generations. It may impose costs on the current generation, but provide benefits to those alive after twenty-five years later.

3.4. **Partial equilibrium adjustment of the implementation of tax and subsidy**

Based on the macroeconomics principles, it is widely modeled that business taxes increase the cost of production and shift the supply curve to the left. While subsidies decrease the cost of production and shift supply curve to the right (Atkinson & Stiglitz, 1980). While *zakat* collection will cause no changing in production cost, by then, it will shift supply curve nowhere. We observe how tax and subsidy adjust the equilibrium, by using partial equilibrium analysis. We do two simulations of equilibrium adjustment in the following Figure 3.2 and Figure 3.3.

3.4.1. Equilibrium adjustment in supply and demand.

We do a simulation on how producer behavior correspond the taxation effect, and how the consumer behavior correspond to the subsidy effect under perfect market competitive equilibrium. The simulation illustrated in figure 3.2. show the initial equilibrium reached in coordinate A, with quantity amounted as $Q_{\text{initial}}$ and the level of price on $P_{\text{initial}}$. In a given period of taxation implementation by the government on production sector, as mentioned before, it would rise up the cost of production and automatically will increase the price. The supply curve will be shifted up to the left, from $S_1$ to $S_2$ as much as production sector taxation. In the constant demand curve assumption, this shifting followed by the shifting of equilibrium coordinates from A to B. Assuming that government income will be allocated for some government expenditure that give positive effect to various group, by then will give positive effect to consumer income, and so the demand curve will be shifted up from $D_1$ to $D_2$. The positive effect will lead to the increase quantity of demand; consequently will match the new supply curve $S_2$ and new demand curve $D_2$, and forming new equilibrium in the same quantity as much as quantity of initial equilibrium, with higher level of price amounted as $P_2$. It is shown that there was an inefficiency of economy in where the equilibrium adjustments deliver a new level of price in producing the same quantity of product.

3.4.2. Equilibrium adjustment on supply side.

The figure 3.3 illustrates the second simulation is held to show how taxation will give an effect on producer behavior, and then government expenditure on subsidy will give effect on productive behavior, by keeping the demand side factors are constant. Under the perfect competitive market equilibrium, the initial supply curve and demand curve will match in coordinate F. The simulation of taxation begins with how producers shift their supply curve from $S_1$ to $S_2$ as a given amount of taxation implementation by the government in a given period. The producers respond of taxation followed by changing in initial equilibrium coordinates from F to G, we see that it means there increasing of price from $P_{\text{initial}}$ to $P_{\text{tax}}$, and decreasing the equilibrium quantity from $Q_{\text{initial}}$ to $Q_{\text{tax}}$. We can call it inefficiency economy, where the resource allocation delivers higher price with smaller quantity of product. By then, government expenditure may give a positive effect on personal distribution (labor or capital) and regional incidence that will reduce production cost. With that, the supply curve may be shifted down to right, but not amounted more than what it takes from taxation increase the price. This supply curve shifting appears from $S_2$ to the new supply curve $S_3$, and the new equilibrium coordinates on H, with quantity of product amounted as $Q_2$ on the amounted price on $P_2$. There is a fewer inefficiency of economy than the previous discussion.
3.5. Conclusion

The conclusion is formed under releasing the last assumption of the optimal distribution in the first-best economic characteristics (perfect competition; increasing returns to scale; perfect information; maximization behavior of well-behaved utility and production functions; complete market; no distortionary taxation – zakat include).

3.5.1. Zakat mechanism will not lead to inefficiency in the economy, because the shifts of demand and supply curve result the larger amount of quantity of product in the same price level.

3.5.2. Taxation and subsidy mechanism will lead to inefficiency in the economy, because the shifts of supply and demand curve result the smaller amount of quantity of product in higher level of price.
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Family-Work Enrichment and Individual Outcomes Among Employees Public Sector Organization

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ABSTRACT

Objective – This purpose of this present study is to examine the relationship between family-enrichment work and individual outcomes (job satisfaction, affective commitment, and career commitment).

Methodology/Technique – Data were collected using self-administered questionnaire of 120 employees who work full time and married from the public sector organization (health service, financial, and telecommunications).

Findings – The results indicate that family-enrichment work is a significant predictor of job satisfaction, but on the other hand, family-work enrichment is not a significant predictor of affective commitment and career commitment. Job satisfaction is also a significant predictor of affective commitment and career commitment. The results also indicate that job satisfaction mediates the relationship between family-work enrichment and affective commitment and career commitment.

Novelty – Studies on individual outcomes of family-work enrichment have not been explicitly whether will improve the role in the sending domain (family/non work outcomes) or receiving domain (work outcomes). Furthermore, the number of studies that distinguish the outcomes of family-work enrichment is limited. This study examines the outcomes of family-work enrichment on receiving role domain (work outcomes).

Type of Paper: Empirical

Keywords: Family-Work Enrichment; Job Satisfaction; Affective Commitment; Career Commitment.

1. Introduction

The role of individuals at work and family is no longer viewed as a separate role, incompatible, competing, and leading to conflict. However, the role of work and family can influence each other in a positive way. Positive interdependence between these roles began to get the attention of researchers, which is known by various terms, including work-family enrichment (Greenhaus and Powell, 2006; McNall et al., 2009), positive work-family

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spillover (Grzywacs and Marks, 2000; Lourel et al., 2009), work-family enhancement (Witt and Carlson, 2006), work-family facilitation (Allis and O’Driscoll, 2008; Grzywacs and Butler, 2005; Rotondo and Kincaid, 2008; Wayne et al., 2004), and work-family integration (Grzywacs and Butler, 2005). Each of these constructs reflects positive interaction between work and family (Wayne, 2009).

According to Greenhaus and Powell (2006), enrichment is synonymous with all constructs of positive interaction between work and family. They defined work-family enrichment as the extent to which experiences in one role improves the quality of life in the other role. Based on the model of Greenhaus and Powell, resources generated in one role (e.g. family) can improve high performance and positive affect in another role (e.g. work). The positive influence between work and family roles is possible if the individual has a number of resources needed to deal with each role (Schultz, 2009). Powell and Greenhaus (2006) stated five types of resources that may be generated in one role that affect the quality of the other roles, that is skill and perspectives (cognitive, interpersonal, multitasking skills), psychological and physical resources (self esteem, optimism, physical health), social capital resources (interpersonal relationship, networking), flexibility (timing, pace, location) and material resources (money, gifts).

Work-family enrichment is bidirectional in nature (Grzywacs and Marks, 2000). It means, the benefits can be derived from work and applied to family (work-family enrichment) or benefits can be derived from family and applied to work (family-work enrichment) (McNall et al., 2009). Therefore, the outcomes of each enrichment lead to receiving domain. Outcomes of work-family enrichment lead to family domain, whereas outcomes of family-work enrichment lead to work domain. However, outcomes of work-family enrichment and family-work enrichment have not been explicitly on limited studies. (Bhargava and Baral, 2009). The results of a meta analysis (McNall et al., 2009) and previous researches (Bhargava and Baral, 2009; Schenewark and Dixon, 2012) showed each enrichment can be connected to the same outcomes, including work outcomes (job satisfaction, affective commitment, turnover intentions, organizational citizenship behavior), non work outcomes (family satisfaction, life satisfaction), and health outcomes (physical and mental health). For the purpose of this study, we focus on family-enrichment work. Based on the research conducted by Wayne et al. (2004) which examined the outcomes of facilitation on receiving domain and Wayne’s (2009) opinion that researchers need to test the individual outcomes on receiving domain, thus work-family enrichment effects on the family and indirectly give impact on work domain. While family-work enrichment impact on work domain, and organization may be more interested in the extent to which family life influence work life.

The purpose of this study is to examine the role of family-enrichment work at the individual level of the outcomes among employees public sector organization. This study contributes to the empirical literature that examine the effect of family-work enrichment to job satisfaction, affective commitment, and career commitment. In addition, limited studies that distinguish the outcomes of work-family enrichment and family-work enrichment, therefore this study contributes to the placement of the outcomes of family-work enrichment on receiving domain (work) in accordance with the direction of enrichment.

2. Literature Review

Research on how the positive interaction between work and family roles has been growing. Researchers began to realize that the relationship between work and family roles are not always detrimental to each other. Individual involvement in multiple roles (work and family roles) provides benefits in the form such as role privileges, status security, resources, personal enrichment (Sieber, 1974), and increased energy on other roles (Marks, 1977). The theory of work-family interaction from a positive perspective is developed through both approaches.

Based on Greenhaus and Powell (2006) definition, family-work enrichment occurs when experiences in family role can improve the quality of work role. The basic idea is to transfer the experiences or resources derived from family domain to work domain, thus improving individual performance (Carlson, et al., 2006). The positive experiences gained on family
roles can directly improve work experiences by transferring the feelings, values, behaviors, new skills, or knowledge gained from a positive family experience to the workplace. Previous researches showed that the consequences of family-work enrichment will be able to improve individual outcomes that related to work (Allis and O’Driscoll, 2008; McNall et al., 2009; Wayne, 2009). Most studies of positive interaction of work-family investigated the outcomes of work-family direction (Baral and Bhargava, 2010; Carlson et al., 2010; McNall et al., 2010) than family-work direction.

2.1 Relationship Between Family-Work Enrichment and Job Satisfaction

Job satisfaction represents the employee appraisal of how well their job provides something that are considered as important (Luthans, 2005). Job satisfaction involves an emotional response to a particular situation. The benefits derived by employees from involvement in family (attitudes, behaviors, values, perspectives) will increase positive emotional response in the workplace, these benefits will be able to improve employees’ job satisfaction. Therefore, job satisfaction can be derived from the result of positive emotional arising from family-work enrichment.

Some previous empirical researches supported that family-work enrichment increases job satisfaction. Reports by researchers supported the relationship of family-work enrichment with job satisfaction among employees of an organization, a human resource consultancy in New Zealand (Balmforth and Gardner, 2006), employees from four organizations of manufacturing and information technology in India (Bhargava and Baral, 2009), married employees of six organizations in Hongkong (Chu, 2010), 1,314 working father and mother from National Study of the Changing Workforce (Hill, 2005), and faculty members from 33 universities in public and private sectors in Pakistan (Sarwar et al., 2014). While Wayne et al. (2004) did not find similar research from diverse sample (variety of racial-ethnic, socio-economic and occupational) in United States.

Hypothesis 1: family-work enrichment has significant effect on job satisfaction

2.2 Relationship Between Family-Work Enrichment and Affective Commitment

Affective commitment is one type of organizational commitment. Affective commitment related to an individual’s emotional attachment, identification, and involvement in the organization (Meyer and Allen, 1991). The emotional attachment develops through positive experiences. An individual who can balance the family and work life will be easy to cultivate their commitment to the organization. Some researchers (Balmforth and Gardner, 2006; Bhargava and Baral, 2009; Chu, 2010) supported the positive effect of multiple roles between family and work and a meta-analysis research by McNall, et al. (2009) indicated that family-work enrichment has a positive relationship with affective commitment, but others (Hill, 2005; Sarwar et al., 2014; Schenewark and Dixon, 2012) did not find similar results.

Hypothesis 2: family-work enrichment has a significant effect on affective commitment

2.3 Relationship Between Family-Work Enrichment and Career Commitment

Career commitment describes employees’ attitude toward career (Chang, 1999). Their commitment to career is determined by how the pattern of relationship family and work roles. Employees will have a high career commitment if they experience benefits of family and work relationship. Some studies have examined positive relationship family-work enrichment to job satisfaction and affective commitment, but still limited to the career commitment. Schenewark and Dixon (2012) found that family-work enrichment was not significant in predicting career commitment at collegiate coaches from the United States.

Hypothesis 3: family-work enrichment has a significant effect on career commitment
2.4 Relationship Job Satisfaction and Affective Commitment and Career Commitment

Employees who have high job satisfaction will generate a positive attitude such as affective commitment and career commitment. Some studies found that job satisfaction associated with organizational commitment (Chang, 1999; Kinicki and Kreitner, 2003) and career commitment (Nazish et al., 2013). Sarwar et al. (2014) indicated that job satisfaction is a predictor of organizational commitment as well as mediation between family-work facilitation and organizational commitment.

Hypothesis 4: job satisfaction has a significant effect on affective commitment
Hypothesis 5: job satisfaction has a significant effect on career commitment

3. Method

Data were collected from full time and married employees from the public sector organizations (health service, financial, and telecommunications) in Pontianak, Indonesia. A total 120 self-administered questionnaire was completed. The sample was 46.7 percent male and 53.3 percent female. The majority (47.5 percent) of the respondents’ age ranged from 31-40 years old.

Research variables are family-work enrichment, job satisfaction, affective commitment and career commitment. Measurement of all variables used a five-point Likert-scale ranging from strongly disagree (1) to strongly agree (5). The data were analyzed using Structural Equation Modeling (SEM) with the Partial Least Squares (PLS).

Family-work enrichment shows the extent to which employees’ experience in family role improves the quality of work role. It was measured using items developed by Carlson et al. (2006) that includes three aspects, namely development, affect, and efficiency. The cronbach alpha for this scale was 0.87.

Job satisfaction refers to employees’ pleasant attitude or feelings toward their job. It was measured using job descriptive index (JDI) which consists five aspects of the job, namely the work itself, pay, promotion, supervisor, and co-workers. These aspects have long been used and meta analysis (Kinicki et al., 2002) reinforced the construct validity. The cronbach alpha for this scale was 0.84.

Affective commitment is employees’ emotional attachment, identification and involvement in the organization. It was measured using eight items scale developed by Allen and Meyer (1990). The cronbach alpha for this scale was 0.83.

Career commitment is the desire of employees to commit to the profession or their job. The five items of Carless (2005) were used to measure career commitment. The cronbach alpha for this scale was 0.73.

4. Results

The mean score of family-work enrichment, job satisfaction, affective commitment and career commitment reported 3.88, 3.42, 3.39, and 3.28, respectively. It revealed that, respondents perceived a high level of family-work enrichment and job satisfaction, while a moderate level of affective commitment and career commitment.

4.1 Measurement Model Testing

Measurement model testing is done by looking at convergent validity, discriminant validity, and composite reliability. Table 1 presents the convergent validity test results for valid indicators. Convergent validity is met if t-statistic more than 1.96 at 0.05 significant level. Invalid items were excluded from the model. Discriminant validity is met if the value of the square root of the average variance extracted (AVE) of latent variables is higher than the correlation coefficient. Table 2 shows the value of square root of AVE more than correlation coefficient of the latent variables, it means discriminant validity fulfilled. Composite
reliability is used to test the consistency research instruments. Composite reliability is met if each latent variable has a value greater than 0.7. Table 3 shows the composite reliability test results above 0.7, thus all latent variables are reliable.

Table 1. Convergent validity test results.

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Indicators</th>
<th>T-statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work-family enrichment</td>
<td>X1.1</td>
<td>20.035</td>
</tr>
<tr>
<td></td>
<td>X1.2</td>
<td>8.270</td>
</tr>
<tr>
<td></td>
<td>X1.3</td>
<td>27.322</td>
</tr>
<tr>
<td>Job satisfaction</td>
<td>Y1.1</td>
<td>20.552</td>
</tr>
<tr>
<td></td>
<td>Y1.2</td>
<td>15.598</td>
</tr>
<tr>
<td></td>
<td>Y1.3</td>
<td>18.517</td>
</tr>
<tr>
<td></td>
<td>Y1.4</td>
<td>31.472</td>
</tr>
<tr>
<td></td>
<td>Y1.5</td>
<td>5.128</td>
</tr>
<tr>
<td>Affective commitment</td>
<td>Y2.1</td>
<td>18.152</td>
</tr>
<tr>
<td></td>
<td>Y2.2</td>
<td>16.078</td>
</tr>
<tr>
<td></td>
<td>Y2.3</td>
<td>17.317</td>
</tr>
<tr>
<td></td>
<td>Y2.5</td>
<td>8.032</td>
</tr>
<tr>
<td></td>
<td>Y2.6</td>
<td>6.241</td>
</tr>
<tr>
<td></td>
<td>Y2.7</td>
<td>7.708</td>
</tr>
<tr>
<td></td>
<td>Y2.8</td>
<td>13.369</td>
</tr>
<tr>
<td>Career commitment</td>
<td>Y3.2</td>
<td>12.150</td>
</tr>
<tr>
<td></td>
<td>Y3.4</td>
<td>20.379</td>
</tr>
<tr>
<td></td>
<td>Y3.5</td>
<td>22.204</td>
</tr>
</tbody>
</table>

Table 2. AVE, root of AVE, and correlations of the latent variables.

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>AVE</th>
<th>Root of AVE</th>
<th>Family-work enrichment</th>
<th>Job satisfaction</th>
<th>Affective commitment</th>
<th>Career commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family-work enrichment</td>
<td>0.788</td>
<td>0.888</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job satisfaction</td>
<td>0.615</td>
<td>0.782</td>
<td>0.260</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affective commitment</td>
<td>0.527</td>
<td>0.726</td>
<td>0.272</td>
<td>0.572</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Career commitment</td>
<td>0.691</td>
<td>0.831</td>
<td>0.209</td>
<td>0.523</td>
<td>0.608</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Table 3. Composite reliability test results.
Latent variables | Composite reliability
--- | ---
Family-work enrichment | 0.917
Job satisfaction | 0.887
Affective commitment | 0.886
Career commitment | 0.870

### 4.2 Structural Model Testing

Structural models were evaluated through the R-square value of endogenous variables, Q-square predictive relevance, and t-test of influence between the hypothesized latent variables. The R-square is used to assess the effect of independent latent variables to dependent latent variables. R-square values of job satisfaction, affective commitment, and career commitment are 6.7 percent, 34.3 percent, and 27.9 percent, respectively. Q-square predictive relevance measure how well the observed values of the model and estimation parameters. Q-square values are 55.8 percent, it is interpreted that the model is good enough. To assess the significance of the hypothesized structural path can be seen in the value of the t-statistic, if greater than 1.96, hypothesized structural paths are declared significant.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path coefficient</th>
<th>T-statistic</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Family-work enrichment -&gt; Job satisfaction</td>
<td>0.260</td>
<td>2.683</td>
<td>Significant</td>
</tr>
<tr>
<td>H2: Family-work enrichment -&gt; Affective commitment</td>
<td>0.132</td>
<td>1.504</td>
<td>Non significant</td>
</tr>
<tr>
<td>H3: Family-work enrichment -&gt; Career commitment</td>
<td>0.078</td>
<td>0.888</td>
<td>Non significant</td>
</tr>
<tr>
<td>H4: Job satisfaction -&gt; Affective commitment</td>
<td>0.537</td>
<td>7.664</td>
<td>Significant</td>
</tr>
<tr>
<td>H5: Job satisfaction -&gt; Career commitment</td>
<td>0.503</td>
<td>5.857</td>
<td>Significant</td>
</tr>
</tbody>
</table>

### 5. Discussion and Conclusion

In this study, we focus on the improving of individual outcomes through the positive interaction between family domain and work domain. We examine the effect of family-work enrichment on individual outcomes, such as job satisfaction, affective commitment, and career commitment since the number of studies on the direction family-work enrichment on work outcomes is limited.

The findings of this study show that the effect of family-work enrichment on job satisfaction is positive and significant. It is consistent with previous studies (e.g., Balmforth and Gardner, 2006; Bhargava and Baral, 2009; Chu, 2010; Hill, 2005; Sarwar et al., 2014). This finding reinforces that positive experiences in one role (e.g., family) have implication to another role (e.g., work). The transfer of this gain enhanced individual outcomes. For that to occur, the individual must successfully apply the gains in the other domain (Wayne, 2009), thus increasing satisfaction in the workplace.

Affective commitment and career commitment is not found to be significantly predicted by family-work enrichment. Non significant effect between family-work enrichment and affective commitment is similar to some studies (Hill, 2005; Sarwar et al., 2014; Schenewark and Dixon, 2012). It is different with some researchers (Balmforth and Gardner, 2006; Bhargava and Baral, 2009; Chu, 2010; McNall et al., 2009) that supported the positive effect family-work enrichment to affective commitment. While, non-significant effect between family-work enrichment and career commitment is consistent with result of Schenewark and
Dixon (2012). Affective commitment and career commitment shows the emotional attachment of employees to the organization and career. Employees tend to be looking for a different job, if an organization and career can not meet the family needs (Hill, 2005).

Findings indicate that job satisfaction is a significant predictor of affective commitment and career commitment. Some researchers have studied the effect of job satisfaction on affective commitment (Chang, 1999; Kinicki and Kreitner, 2003) and career commitment (Nazish et al., 2013). Furthermore, satisfaction act as mediator in relationship between family-work enrichment and affective commitment and family-work enrichment and career commitment. This finding supports the study of Sarwar et al. (2014) that indicate job satisfaction as mediator between family-work facilitation and organizational commitment.

This study indicates that employees who have positive gains in family role can improve in work role if they can transfer and successfully apply the gains in family role to work role. Family-work enrichment encourages employees to be more satisfied with their job, and indirectly more committed to their organizational and career. Family-work enrichment is important to improve individual and organizational functioning. This study recommends that the organization should assist employees in managing the responsibilities of both domains that enable to improve individual outcomes in the workplace. Future studies should include family domain predictors and other work outcome variables of family-work enrichment to get a comprehensive relationship. Finally, future studies can expand on more organizations in various sectors and increase the sample size.

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Psychological determinants of online disclosure on Facebook: Differences between Indonesian and Polish users

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ABSTRACT

Objective – The present study was designed to compare online self-disclosure between Polish and Indonesian Facebook users. We expected that Need for Popularity (NfP), Collective Self-Esteem (CSE), perceived network size and diversity, as well as controlling accessibility, will influence online self-disclosure in both countries. Furthermore, we examined the differences in privacy issues.

Methodology/Technique – Pearson’s correlation and hierarchical regression analysis were performed to address the differences of online self-disclosure regarding independent variables. An Independent t-test was conducted to compare the control of accessibility of profile information between the two countries. Chi-square analysis was carried out to observe the differences in perceived privacy. The sample of this study consisted of 280 Indonesians and 284 Poles.

Findings – Indonesians and Poles showed significantly different results when it comes to online self-disclosure, with consideration to psychological determinants. Poles exhibited a higher need to control the accessibility in their profile information, except for information on instant messaging accounts, which was deemed more sensitive for Indonesians. Poles showed a higher level of perceived privacy regarding almost all personal information on their profile page.

Novelty – It was very few articles discussing the comparison of the psychological determinants of online self-disclosure and privacy issues between Polish and Indonesian.

Type of Paper: Empirical research paper

Keywords: online self-disclosure, need for popularity, collective self-esteem, perceived privacy.

1. Introduction

The enormous popularity of Facebook has changed people’s attitude towards connecting with others, online privacy, and self-disclosure in online settings. By its very nature, social networking sites (SNS)
provide an easy way for people to express themselves freely, with a certain mode to control what they reveal to others (Suler, 2004). By providing the possibility to shape self-presentation before certain audiences, whether his/her would be a stranger or a close acquaintance, SNS make people less concerned about the drawbacks of personal disclosure (Christofides, Muise, & Desmarais, 2009).

Furthermore, the use of SNS is perceived as psychologically gratifying, especially when there are needs that cannot be fulfilled in face-to-face (FtF) encounters (Papacharisi, 2009; Suler, 2004); this includes self-esteem (Forest & Wood, 2012), popularity (Christofides et al., 2009; Utz, Tanis, & Vermeulen, 2012), or connecting with others (Baker, 2008).

The number of Indonesian Internet users has been growing rapidly for the last 10 years, and there were more than 70 million users in 2012 (APJII, 2013). Almost 90% of all online activities were spent on connecting with people with the use of SNS; most of the users chose Facebook as their SNS platform (APJII, 2013). The popularity of Facebook in the country makes Indonesia the largest Facebook user in South-East Asia, and the fourth in the world (Socialbakers, 2014).

Furthermore, utilising SNS is considered to be the most popular online activity in Poland, with more than 91% of Internet users having accounts on SNS. Poles count as the most numerous Facebook users in Central and Eastern Europe (Socialbakers, 2014) – Facebook has reached an 81% penetration rate in this country (Statista, 2014). The dominant motivation for Poles to use SNS is to stay in touch and talk with friends instead of meeting new people, posting live events, and/or sharing opinions (Gun, 2013, April 25).

This paper is a continuation of a previous cross-cultural study on online self-disclosure, conducted by Ardi and Maison (2014). Previous findings showed that online SD on Facebook is more closely associated with a need for popularity (NfP) than need to belong (NtB) (Ardi & Maison, 2014). Furthermore, Indonesian users displayed less positivity in online self-disclosure (SD), as well as less self-esteem compared to the Polish users (Ardi & Maison, 2014). The results were explained by different concepts of “self” in Polish and Indonesian cultures (Ardi & Maison, 2014). In collectivist cultures, such as Indonesian, the nature of “self” is more interdependent and context-dependent on social circumstances (Markus & Kitayama, 1991; Tafarodi & Walters, 1999). In regard of those results, this study will employ the concept of collective self-esteem (CSE) to measure how an individual evaluates him/herself within the circumstances of a group he/she is a part of. The recent study took into consideration the gender balance composition of Facebook users, as well as several key factors, such as collective self-esteem (CSE), accessibility of profile information, perceived privacy, and perceived network size.

An understanding of these key factors may provide researchers with a better understanding both of patterns that exist in online disclosure behaviours, and of the motivation for media use, particularly in Indonesian and the Polish cultures. However, there are still only a few studies exploring online self-disclosure in either Indonesia or Poland. Most studies on SNS behaviour and online self-disclosure are conducted in North America, Western Europe, India, and some of the Eastern Asian countries, whereas Indonesia and Poland differ from other countries that are heavily engaged with SNS, especially when it comes to the type of culture.

Finally, this study may provide a deeper understanding of online disclosure, the concept of privacy, and motivation of people using SNS, all of which are perceived differently across cultures.

2. Literature Review

2.1. Internet behaviors of the Indonesians and Poles

Indonesia is one of the most collectivist cultures in the world (Hofstede, 2014a) emphasizing contact and togetherness (Andersen, 2007). Collectivist cultures deal with a manifold of rules in social interaction to maintain conformity and harmony within groups (Mathews, 2000). Controlling disclosure and expression is a necessary social skill in regards of
respecting social norms, maintaining good social interaction, as well as avoiding public disagreement and unpleasant relationships with other people as well as authorities (Andersen, 2007; Mathews, 2000). On the other hand, the nature of Internet communication gives a certain degree of freedom to everybody to disclose more freely and openly (Suler, 2004).

Community and contact-based values of Indonesians might be observed by their activity while using social networking sites. Indonesia has been dubbed by certain media the “social media capital of the world”, with 384 tweets being sent every second (On Device Research, 2013, December 10).

On the other hand, according to Hofstede (2014b), Poland is a country that absorbs Western ideas, and incorporating individualistic values to its culture. But the historical background of Poland – a country that had spent almost half a century under communist rule, and where the Catholic Church still plays a big role in society – helping retain the country's collectivistic values to some degree (Boski, 2006). Therefore, even though the culture of Poland is considered to be individualistic, it is effectively a combination of collectivistic and individualistic values (Boski, 2006); and people in individualistic cultures are concerned with boundaries between private and public spaces (Andersen, 2007). They emphasized their value on space, privacy emotional expression, and personal choice (Andersen, 2007).

Poles use SNS dominantly to stay in touch with friends, specifically for connecting with old friends, and only just around 5% of them employed social media for meeting new people (Gun, 2013, 25 April). In addition, updating life events contributed less than 5%, as did sharing opinions (Gun, 2013, 25 April). A survey by PMR showed similar results, with 86% of Polish respondents reporting using social media to keep in touch with friends, followed by 13% who use SNS to make new acquaintances, while the rest chose to play online games and used social media for business purposes (Strzelczyk, 2012).

2.2. Online Self-disclosure

Self-disclosure (SD) is information or messages that make others know about the individual's “self” (Wheeless and Grotz, 1976; Whitty & Joinson, 2009). The opposite of SD is secrecy and not expressing the self to others (Whitty & Joinson, 2009). Self-disclosure consists of several dimensions which are: frequency or intensity of the messages, the depth of the disclosure (or perceived intimacy of the message), and also valence – how someone would evaluate the positivity or negativity of the content of messages (Wheeless & Grotz, 1976).

A study by Joinson (2001) showed that people tend to exhibit higher frequency of disclosure in online settings instead of face-to-face (FtF) encounters due to the visual anonymity on internet communication. Tidwell and Walther (2002) also found that conversation in computer-mediated communication tend to make the individual braver in asking intimate and probing questions, while in FtF encounters conversations seem to be shallower. The higher intimacy of online conversations is believed to be caused by uncertainty-reducing behaviour (Tidwell & Walther, 2002). On the other hand, individuals who are more aware of the nature of social networking sites, especially in regard to privacy, tend to share less intimate content (Brandtzæg, Lüders, and Skjetne, 2010).

Furthermore, the physical absence in the context of internet communication makes individuals exhibit a higher degree of control of online self-presentation, thus users are able to control the valence of the information – either positive or negative. An individual who is dominantly driven by the motive to find closeness in social relations, tends to show more positive content, as well as more intention and honesty in SD (Rubin, Rubin, & Martin, 1993).

2.3. Need for Popularity

Need for popularity (NfP) is one of the most salient motives of SNS use (Utz, Tanis & Vermeulen, 2013; Christofides et al, 2009). According to a study by Zywica & Danowsky
(2008), individuals tend to use Facebook as a medium to improve their self-image and fulfil their need to be popular; this goes especially for those who feel less popular in F2F encounters. Furthermore, SNS users seem to observe others' attempts on gaining popularity on Facebook, but do not perceive their own actions as aimed at being more popular (Zywica & Danowsky, 2008).

Being popular requires certain traits that enable the individual to be positively accepted in his/her social network, and at the same time, attractive and salient (Debruyn & Van den Boom, 2005; Zywica and Danowski, 2008). Since popularity also entails the intent of social acceptance (Debruyn & Van den Boom, 2005), people are willing to disclose intimate information to gain such acceptance, as well as for the sake of upholding social relationships (Ellison, Steinfeld, and Lampe, 2007).

In addition, Zywica & Danowsky (2008) remarked that popular individuals were more likely to update their status more frequently and post new information on their walls more often. Graham et al. (2008) indicated that expressing negative emotions could have the benefit of attracting intimacy and attention of people with a bigger social ties to a given individual. Since being salient is an important trait for an individual who has the tendency for NfP, willingness to express negative emotions could be a path to fulfill that need.

These key concepts lead to the following hypothesis: **H1.** Higher need for popularity will increase the frequency (a) and intimacy (b) of online SD, but decrease its positivity (c) in both Indonesian and Polish users.

### 2.4. Control of Accessibility and Perceived Privacy

Privacy entails selective control related to accessibility toward “self” (Altman, 1975). The protection of personal information and accessibility are sensitive issues in the internet technology era because any information disclosed on the internet becomes recordable and traceable.

However, personal information has become the basic commodity of almost all online activities. The founder of Facebook, Mark Zuckerberg stated that privacy is not a social norm anymore. He claimed that people feel comforted by sharing all kinds of information with others, and are willing to do so (Johnson, 2010, 11 January).

Tufekci (2008) showed that the privacy concern in SNS could make individuals face the dilemma of withdrawal versus disclosure in online circumstances. A study by Utz and Krämer (2009) confirmed that high privacy protection leads to limited accessibility of the profile information for others. Moreover, perceived online privacy security will reduce the feeling of enjoyment of using SNS (Ernst, 2014).

Individuals with high privacy concerns tend to be controlling of their online accessibility; they are less likely to disclose intimate information (Brandtzæg, Lüders, and Skjetne, 2010), and influence the intent and the amount of personal disclosure online (Vitak, 2012). On the other hand, people exhibiting high narcissism, with a strong need for impression management, seemed not as controlling of their privacy settings (Utz & Krämer, 2009).

However, openness and visibility of communication in SNS led to online tensions (Binder, Howes, & Sutcliffe (2009). A study by Bronstein (2014) indicated that people controlled their disclosure of personal information to create a positive and socially acceptable impression of themselves on others. People tend to avoid disclosing highly personal and embarrassing information in order to protect their “self” (Bronstein, 2014); they only disclose sensitive information in a controlled manner (Bronstein, 2014). Following this idea, people who are concerned with privacy protection issues online tend to be looked upon in a rather positive manner.

Additionally, some differences in attitude towards privacy issues are observed between Indonesians and Poles. Indonesians who share collectivistic values (Hofstede, 2014a) emphasize contact in their relationship and have less appreciation towards privacy (Andersen,
2007). On the other hand, in individualistic societies, like that of the Polish (Boski, 2006), privacy is highly valued (Andersen, 2007).

These notions lead to the following hypothesis: H2. Higher control of accessibility of profile information will decrease the amount (a) and intimacy (b) of online SD, but will increase its positivity (c) for Indonesian and Polish users.

Additionally, a research question is put under consideration: RQ1. Since Indonesian users value togetherness and contact, to what extent does their control of accessibility and perceived privacy differ from that of the Polish users?

2.5. Collective Self-Esteem

People with low self-esteem tend to be less expressive due to their self-protectiveness (Baumeister, Tice, and Hutton, 1989). Gaucher et al. (2012) indicated that self-expression of people exhibiting low self-esteem could be heightened through specific interventions that would reduce anxiety related to social acceptance. Indeed, SNS provides a chance for individuals with low self-esteem to engage in self-promotional online activities (Mehdizadeh, 2010) in order to enrich their relationships, and that includes sharing various information (Forest & Wood, 2012). People with lower self-esteem are more likely to assume SNS are safe spaces for self-expression (Forest & Wood, 2012). In addition, people with lower self-esteem tend to show low positivity of disclosure compared to people with higher self-esteem (Forest & Wood, 2012).

Measurement of self-esteem has been often problematic when applied in a collective society, as self-esteem scales mostly measure individual aspects of the self-concept; therefore, people who come from collectivistic societies frequently get lower results than people from individualistic societies (Tafarodi & Walters, 1999). In individualistic society, Individuals tend to be braver to judge or assess themselves positively (Diener & Diener, 1995) because the nature of the independent-self (Tafarodi & Walters, 1999; Markus & Kitayama, 1991). On the other hand, in collectivistic societies self-concept is more contextual and depends on social circumstances (Tafarodi & Walters, 1999; Markus & Kitayama, 1991).

In a cross-cultural study by Ardi and Maison (2014), it was found that Indonesians tend to have a lower degree of self-esteem than the Polish. This in turn leads to the aspect of positivity of SD. Indonesians employ less positive disclosure than the Polish (Ardi & Maison, 2014). Such results could be predicted because of the different concepts of “self” between cultures. In collectivist cultures, confessing and disclosing positive aspect of “self” excessively could make others judge the person as maladaptive (Diener & Diener, 1995). In conclusion, for collectivist cultures, and especially so Eastern cultures, the self-esteem is considered to be interdependent and not self-construal (Tafarodi & Walters, 1999; Markus & Kitayama, 1991).

Therefore, using by collective self-esteem measurements, this current study expect to achieve more precise results that would take into consideration the characteristics of the interdependent self-concept of the Indonesian culture, and the hierarchical individualistic culture found in the Polish society. However, self-concept of any individual is not solely based on selfhood separated from the group or social circumstances, but it is also based on how individual evaluate him/herself in the context of the group he/she belong (Luhtanen & Crocker, 1992).

These explanations lead the hypotheses as follows: H3: People with lower collective self-esteem will show a higher frequency (a), higher intimacy, (b) and lesser positivity of SD (c) in both for Polish and Indonesian samples.

2.6. Perceived network size and diversity

As people are more likely to be socially acceptable and favourable to others while disclosing information in the network (Bronstein, 2014), users needed to employ more caution while
using Facebook; this concerns avoiding undesired surveillance from particular friends or networks (Brandtzæg, Lüders, and Skjetne’s, 2010). Therefore, multiple independent groups of friends on Facebook could be problematic, because users need to increase self-awareness and conformity to reduce harmful social surveillance and protect their social privacy (Brandtzæg, Lüders, and Skjetne’s, 2010). A study by Karahasanovic et al. (2009) concluded that users needed features with which they could select networks and friends within the community who could see the information disclosed on SNS. Moreover, the bigger and more diverse the networks, the more likely was the individuals would disclose “preferred” or more desirable content to protect themselves from the judgement of unwanted observers.

Furthermore, large and diverse networks in SNS could discourage individuals from disclosing the intimate content, due to privacy-related concerns (Brandtzæg, Lüders, and Skjetne’s, 2010). A similar study conducted by Binder, Howes, & Sutcliffe (2009) showed that diversity of networks within SNS predicts online tensions; diversity heightens the visibility of online disclosure, which may lead to more complicated problems concerning privacy.

Although online tensions often arise due to network size and diversity (Binder, Howes, & Sutcliffe, 2009), but Facebook nowadays provides and develops features that enable the users to limit information disclosure to specific audiences more easily (Fung, 2014, April 8). Previously, Facebook management received numerous requests from users, asking to increase privacy settings, and to provide the option of controlling the visibility of information to particular users (Fung, 2014, April 8). Therefore, although users possess very diverse networks, they may optimize and manage their online visibility and disclosure to their only the desired and specific audiences.

However, Ellison, Steinfield, and Lampe (2007) implied that networks within Facebook are also a source social capital, with which users might form, maintain, and intensify their relationships. Simultaneously, the establishment and maintenance of relationships require voluntary SD both intimately and intensively (Derlega, Winstead, and Greene, 2008). In addition, Vitak (2012) indicated that higher network size and diversity may increase the amount of disclosure, as it provides opportunities to share and interact with others within the network.

These concepts lead to the hypothesis below: H4. Users with more diverse and larger networks on SNS will show a higher amount (a), higher depth/intimacy (b) and higher positivity of online SD (c) for both Indonesians and Poles.

Furthermore, this study also explored significant predictors of online SD (amount, positivity, and intimacy) between Indonesian and Polish users. Thus, based on these variables, the following research question was constructed: RQ2. Taking into consideration NfP, CSE, perceived network size and diversity, and control of accessibility, how will the frequency (a), intimacy (b), and the positivity of content (c) in SD be affected for Indonesians and Poles?

3. Method

3.1. Respondents and data collection

An online survey was conducted with the use of surveymonkey.com from June until September 2014. Invitations were sent to Facebook users, and using the snowball sampling procedure, distributed throughout the University of Airlangga Facebook groups in the Indonesian sample, and University of Warsaw Facebook groups in the Polish sample. Respondents were asked to forward the invitations to other friends who use Facebook.

The samples originally consisted of 338 Poles and 300 Indonesians; however, only 284 Poles and 280 Indonesians were confirmed as valid questionnaires for data analysis. The Polish sample consisted of 140 males and 144 females, while Indonesian respondents counted 140 males and 140 females. The mean age was 21.49 (σ=2.26) for Indonesians, and 25.82 (σ=5.73) for Poles.
All scales were translated from English to Indonesian and Polish using forward translation method. Respondents gave self-reports about their online frequency of use (1 = more than once per day, 6 = once per month), and how long they have been using Facebook (1 = less than 3 months, 2 = 4-6 months, 3 = 7-12 months, 4 = 1-2 years, 5 = 2-4 years, 6 = more than 4 years). Indonesians were more likely to engage in Facebook activities more than twice per week (μ= 2.65, σ=1.70), and would on average have used Facebook for more than 4 years (μ= 5.64, σ=0.65); the Polish tended to go online once per day (μ= 1.54, σ=1.18), and reported having used Facebook for 2-4 years (μ= 4.95, σ=1.02).

The survey consisted of two sections: the first section provided a question concerning the participant’s mother tongue, as well as demographic questions; the second section consisted of behavioural and psychological scales. The demographic questions were also used to select the respondents who fulfil the criteria for the study. Respondents aged below 18 and above 40 were automatically discarded from the study. Respondents between 18-40 years old are considered to be early adult and around digital native generation age group (Prensky, 2001, September/October).

3.2. Measurement

The revised SD scale created by Wheeless and Grotz (1976) was used to measure 4 dimensions of online SD i.e.: amount (3 items, α = .83), positivity (3 items, α = .86), and intimacy (5 items, α= .86). Other scales used in this study included: 1) NfP scale (12 items, α = .93), created by Santor, Messervey and Kusumakar (2000) that assesses the tendency and desire to be popular among others; 2) Collective self-esteem scale (16 items, α = .79), created by Luftanen and Crocker (1992), which measures how individuals evaluate themselves in the context of groups/social networks to which they belong. All scales were measured with a 4-point scale (1 = strongly disagree, 4 = strongly agree).

Perceived network size and diversity measurement (15 items, α = .85), created by McCarty et al (2001) and validated by Binder, Howes, Sutcliffe (2009), was also employed in this study. This measurement comprised of 15 categories of network i.e. immediate, family, other birth family, family of spouse or significant other, best friends/confidantes, neighbours, people providing a service, etc. Respondents needed to assess with 5-point scale (1= nobody, 5 = many) in each category of the network.

Respondents were asked to provide their own estimation of the amount of control of accessibility to profile information, and perceived privacy. Both measurements have similar statements (14 items), and include name, address, relationship status, work profile, education profile, email, instant messaging account, relationship status, religion, political view, etc. To assess control of accessibility of profile information (α = .85), respondents were requested to choose one of these options [1] public, [2] limited, [3] private, or [4] not written for each item. Perceived privacy (α = .87) included the same items as control of accessibility of profile information, though the participants were only asked to choose between [1] private, and [2] non-private.

4. Results

Table 1 shows the descriptive statistics and all interrelations between variables. Pearson's correlation (Table 1) served to answer the hypotheses one to four (H1, H2, H3, H4). The first research question (RQ1) was assessed using: 1) independent t-test comparing the dimension of accessibility control of profile information for each nation (Table 2); and 2) chi-square analysis comparing each dimension of perceived privacy between Indonesians and Poles (Table 3). Hierarchical regression analysis (Table 4) was performed to answer the second research question (RQ2).
As for H1, NfP was significantly and positively correlated to frequency (rind = .268, p < .01; rpol = .384, p < .01), and intimacy (rind = .300, p < .01; rpol = .343, p < .01) of online SD, but negatively correlated to positivity (rind = -.211, p < .01; rpol = -.321, p < .01) of online SD for both Indonesian and Polish users. Therefore, H1 was fully confirmed.

H2 was also fully supported, for both Indonesian and Polish users. The result showed that the more users control the accessibility of profile information, the more likely they are to disclose positive content (rind = .125, p < .05; rpol = .292, p < .01), but are less likely to disclose frequently (rind = -.228, p < .01; rpol = -.310, p < .01), and intimately (rind = -.201, p < .01; rpol = -.303, p < .01) on Facebook.

Regarding H3, this study found that Polish and Indonesian users who have lesser CSE disclosed less positive content (rind = .290, p < .01; rpol = .361, p < .01). Furthermore, the significant negative correlation between CSE and frequency of online SD was only found in Polish users, and not in Indonesian users (rind = -.067, p > .05; rpol = -.344, p < .01). As opposed to Indonesians, Polish users also indicated negative significant correlation in CSE and intimacy of online SD (rind = -.092, p > .05; rpol = -.254, p < .01). Thus, H3 was only partially supported.

Indonesians have on average 1285 friends (σ=962.86) in their Facebook networks, while the Polish – 305 friends (σ=343.07). Both of Indonesian and Polish users showed that the more diverse and larger the perceived network, the more likely the users are to disclose frequently (rind = .226, p < .01; rpol = .290, p < .01) and intimately on Facebook (rind = .198, p < .01; rpol = .214, p < .01). In addition, the correlation between the perceived diversity and the size of network and positivity of online SD, was negatively significant only for the Polish users (rind = -.044, p < .05; rpol = -.185, p < .01). Interestingly, for Polish users the correlations between perceived network and positive content in online SD showed a different direction than indicated in the hypothesis. Therefore, H4 was only partially supported.

As for RQ1a, the Polish and Indonesian users showed significant differences when controlling the accessibility of information of their workplace (t (562) = -4.94; p < .001, d = -.41), educational history (t (562) = -6.41; p < .001, d = -.54), birthday (t (562) = -3.75; p < .001, d = -.31), email address (t (562) = -3.14; p < .01, d = -.26), instant messaging accounts (t (562) = 3.03; p < .01, d = .25), hobby (t (562) = -2.67; p < .01, d = -.22), profession (t (562) = -7.18; p < .001, d = -.61), interest in specific gender (t (562) = 7.99; p < .001, d = -.67), religion, and family members (t (562) = -4.43; p < .001, d = -.37). On the other hand, Poles and Indonesians showed no significant differences in controlling their accessibility of information on their living location (t (562) = .253; p > .05, d = .02), telephone number (t (562) = 1.77; p > .05, d = .16), relationship status (t (562) = -.712; p > .05, d = -.06), and political views (t (562) = -.66; p < .001, d = -.06).
<table>
<thead>
<tr>
<th>Mean (SD)</th>
<th>Indo</th>
<th>Pol</th>
<th>all</th>
<th>Indo</th>
<th>Pol</th>
<th>all</th>
<th>Indo</th>
<th>Pol</th>
<th>all</th>
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<th>all</th>
<th>Indo</th>
<th>Pol</th>
<th>all</th>
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<td>NfP</td>
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<td>1.61</td>
<td>1.79</td>
<td>(.44)</td>
<td>(.57)</td>
<td>(.54)</td>
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<td></td>
<td>(.44)</td>
<td>(.57)</td>
<td>(.54)</td>
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<td>Control of</td>
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<td>2.55</td>
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<td>- .096</td>
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<td>-.247**</td>
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<td>(.66)</td>
<td>(.65)</td>
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<td>CSE</td>
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<td>2.79</td>
<td>2.82</td>
<td>-.089</td>
<td>-.177</td>
<td>-.091*</td>
<td>.065</td>
<td>.101</td>
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<td>(.27)</td>
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<tr>
<td>Perceived Network</td>
<td>3.09</td>
<td>2.48</td>
<td>2.78</td>
<td>.063</td>
<td>.129*</td>
<td>.247**</td>
<td>-.114</td>
<td>-.185**</td>
<td>-.254**</td>
<td>.113</td>
<td>.145*</td>
<td>.179**</td>
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<td>(.51)</td>
<td>(.54)</td>
<td>(.61)</td>
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<tr>
<td>Frequency of SD</td>
<td>2.08</td>
<td>1.61</td>
<td>1.84</td>
<td>.268**</td>
<td>.384**</td>
<td>.424**</td>
<td>-.228**</td>
<td>-.310**</td>
<td>-.343**</td>
<td>-.067</td>
<td>.344**</td>
<td>-.172**</td>
<td>.226**</td>
<td>.209**</td>
<td>.362**</td>
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<tr>
<td>Positivity of SD</td>
<td>2.96</td>
<td>3.34</td>
<td>3.15</td>
<td>-.211**</td>
<td>-.321**</td>
<td>-.358**</td>
<td>-.125**</td>
<td>.292**</td>
<td>.285**</td>
<td>.290**</td>
<td>.361**</td>
<td>.270**</td>
<td>-.044</td>
<td>-.185**</td>
<td>-.264**</td>
</tr>
<tr>
<td>(.49)</td>
<td>(.62)</td>
<td>(.59)</td>
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<tr>
<td>Intimacy of SD</td>
<td>2.03</td>
<td>1.69</td>
<td>1.86</td>
<td>.300**</td>
<td>.343**</td>
<td>.389**</td>
<td>-.201**</td>
<td>-.303**</td>
<td>-.312**</td>
<td>-.092</td>
<td>-.254**</td>
<td>-.141**</td>
<td>.198**</td>
<td>.214**</td>
<td>.314**</td>
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<tr>
<td>(.53)</td>
<td>(.60)</td>
<td>(.59)</td>
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</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Indo = Indonesian
Pol = Polish
All = Overall
Table 2. Summary of independent t-test for control accessibility

<table>
<thead>
<tr>
<th>Dimension of control of accessibility</th>
<th>Df</th>
<th>Mean (SD) Indonesian</th>
<th>Mean (SD) Polish</th>
<th>t</th>
<th>P</th>
<th>d</th>
<th>effect size r</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workplace</td>
<td>562</td>
<td>1.98 (1.22)</td>
<td>2.46 (1.12)</td>
<td>-4.94</td>
<td>.0001</td>
<td>-.41</td>
<td>-.20</td>
</tr>
<tr>
<td>Educational history</td>
<td>562</td>
<td>1.50 (.83)</td>
<td>1.98 (.93)</td>
<td>-6.41</td>
<td>.0001</td>
<td>-.54</td>
<td>-.26</td>
</tr>
<tr>
<td>Birthday</td>
<td>562</td>
<td>1.8 (.94)</td>
<td>2.07 (.81)</td>
<td>-3.75</td>
<td>.0001</td>
<td>-.31</td>
<td>-.15</td>
</tr>
<tr>
<td>Place (live location)</td>
<td>562</td>
<td>2.10 (1.17)</td>
<td>2.08 (.93)</td>
<td>.253</td>
<td>.8</td>
<td>.02</td>
<td>.01</td>
</tr>
<tr>
<td>Telephone number</td>
<td>562</td>
<td>3.12 (1.02)</td>
<td>2.97 (.88)</td>
<td>1.77</td>
<td>.07</td>
<td>.16</td>
<td>.08</td>
</tr>
<tr>
<td>Email</td>
<td>562</td>
<td>2.39 (1.11)</td>
<td>2.65 (.85)</td>
<td>-3.14</td>
<td>.002</td>
<td>-.26</td>
<td>-.13</td>
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<td>Instant messaging account</td>
<td>562</td>
<td>2.84 (1.15)</td>
<td>2.58 (.89)</td>
<td>3.03</td>
<td>.003</td>
<td>.25</td>
<td>.13</td>
</tr>
<tr>
<td>Relationship status</td>
<td>562</td>
<td>2.45 (1.26)</td>
<td>2.52 (1.11)</td>
<td>-7.12</td>
<td>.48</td>
<td>-.06</td>
<td>-.03</td>
</tr>
<tr>
<td>Hobby</td>
<td>562</td>
<td>2.09 (1.24)</td>
<td>2.35 (1.07)</td>
<td>-2.67</td>
<td>.008</td>
<td>-.22</td>
<td>-.11</td>
</tr>
<tr>
<td>Profession</td>
<td>562</td>
<td>1.95 (1.22)</td>
<td>2.67 (1.14)</td>
<td>-7.18</td>
<td>.0001</td>
<td>-.61</td>
<td>-.29</td>
</tr>
<tr>
<td>Interested in specific gender</td>
<td>562</td>
<td>2.05 (1.25)</td>
<td>2.86 (1.16)</td>
<td>-7.99</td>
<td>.0001</td>
<td>-.67</td>
<td>-.32</td>
</tr>
<tr>
<td>Religion</td>
<td>562</td>
<td>1.73 (1.11)</td>
<td>2.98 (1.15)</td>
<td>-13.22</td>
<td>.0001</td>
<td>-1.11</td>
<td>-.48</td>
</tr>
<tr>
<td>political view</td>
<td>562</td>
<td>3 (1.29)</td>
<td>3.07 (1.11)</td>
<td>-6.6</td>
<td>.509</td>
<td>-.06</td>
<td>-.03</td>
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<tr>
<td>family member</td>
<td>562</td>
<td>2.09 (1.17)</td>
<td>2.5 (1.03)</td>
<td>-4.43</td>
<td>.0001</td>
<td>-.37</td>
<td>-.18</td>
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Table 3. Summary of chi square analyses for perceived privacy

<table>
<thead>
<tr>
<th>Dimension of perceived privacy</th>
<th>Nationality</th>
<th>n</th>
<th>private</th>
<th>Nonprivate</th>
<th>X²</th>
<th>Φ</th>
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<tbody>
<tr>
<td>Workplace</td>
<td>Indonesian</td>
<td>280</td>
<td>69 (24.6%)</td>
<td>211 (75.4%)</td>
<td>57.51***</td>
<td>-.319</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>159</td>
<td>56%</td>
<td>125 (44%)</td>
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<td></td>
</tr>
<tr>
<td>Educational history</td>
<td>Indonesian</td>
<td>280</td>
<td>52 (18.6%)</td>
<td>228 (81.4%)</td>
<td>43.43***</td>
<td>-.278</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>126</td>
<td>44.4%</td>
<td>158 (55.6%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birthday</td>
<td>Indonesian</td>
<td>280</td>
<td>136 (48.6%)</td>
<td>144 (51.4%)</td>
<td>20.99***</td>
<td>-.193</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>192</td>
<td>67.6%</td>
<td>92 (32.4%)</td>
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</tr>
<tr>
<td>Place (Live location)</td>
<td>Indonesian</td>
<td>280</td>
<td>176 (62.9%)</td>
<td>104 (37.1%)</td>
<td>2.38</td>
<td>-.065</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>196</td>
<td>69%</td>
<td>88 (31%)</td>
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</tr>
<tr>
<td>Telephone number</td>
<td>Indonesian</td>
<td>280</td>
<td>253 (90.4%)</td>
<td>27 (9.6%)</td>
<td>6.43*</td>
<td>-.107</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>272</td>
<td>95.8%</td>
<td>12 (4.2%)</td>
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<td></td>
</tr>
<tr>
<td>Email</td>
<td>Indonesian</td>
<td>280</td>
<td>182 (65%)</td>
<td>98 (35%)</td>
<td>27.33***</td>
<td>-.220</td>
</tr>
<tr>
<td>Polish</td>
<td>284</td>
<td>186</td>
<td>66%</td>
<td>94 (34%)</td>
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<td></td>
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<tr>
<td>Independent variables</td>
<td>SD</td>
<td>Frequency $\beta$</td>
<td>Positivity $\beta$</td>
<td>Intimacy $\beta$</td>
<td></td>
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<tr>
<td>Block 1</td>
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</tr>
<tr>
<td>NfP</td>
<td>0.253***</td>
<td>-0.197***</td>
<td>0.257***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control of Accessibility</td>
<td>-0.174***</td>
<td>0.137***</td>
<td>-0.170***</td>
<td></td>
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<tr>
<td>CSE</td>
<td>-0.201***</td>
<td>0.296***</td>
<td>-0.156***</td>
<td></td>
<td></td>
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<tr>
<td>Perceived network</td>
<td>0.201***</td>
<td>-0.135**</td>
<td>0.194***</td>
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<tr>
<td>$\Delta R^2$</td>
<td>0.321</td>
<td>0.263</td>
<td>0.255</td>
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<tr>
<td>Block 2</td>
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<tr>
<td>Indonesian</td>
<td>0.182***</td>
<td>-0.199***</td>
<td>0.084*</td>
<td></td>
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<td>delta r square</td>
<td>0.023</td>
<td>0.027</td>
<td>0.005</td>
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<tr>
<td>$\Delta R^2$</td>
<td>0.344</td>
<td>0.291</td>
<td>0.26</td>
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<tr>
<td>adjusted $R^2$</td>
<td>0.338</td>
<td>0.284</td>
<td>0.253</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>F for change in $R^2$</td>
<td>19.460***</td>
<td>21.627***</td>
<td>3.705*</td>
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*p < 0.05, **p < 0.01, ***p < 0.001.
As shown in Table 2, the Polish appeared to control the access to their email address, profession, interest in specific gender, religion, and family members on private mode; meanwhile, the same set of information was just limited to friends for Indonesians. Furthermore, although workplace, educational history, birthday, and hobby were more likely to have limited access to friends for both the Polish and Indonesians, Poles in general seemed to exhibit higher control compared to Indonesians. Indonesian users in turn regarded the information about instant messaging accounts as more private, as compared to the Polish. As for information on telephone numbers and political views, both Indonesians and Poles were more likely to set it on private mode. But for the living location and relationship status, both nations were more likely to limit access to just friends.

The results of analysis following RQ1b indicate that Indonesians (N=280) and Poles (N=284) indicated no significant differences of perceived privacy in the dimensions of living location (df=1, $\chi^2 = 2.38$, $p > .05$ $\varphi = -.065$), and instant messaging accounts (df=1, $\chi^2 = 1.61$, $p > .05$ $\varphi = -.053$). There were significant differences of perceived privacy between Indonesians and Poles in regard to the information on the workplace (df=1, $\chi^2 = 57.51$, $p < .001$ $\varphi = -.319$), educational history (df=1, $\chi^2 = 43.43$, $p < .001$ $\varphi = -.278$), birthday (df=1, $\chi^2 = 20.99$, $p < .001$ $\varphi = -.193$), telephone number (df=1, $\chi^2 = 6.43$, $p < .05$ $\varphi = -.107$), email address (df=1, $\chi^2 = 27.33$, $p < .001$ $\varphi = -.220$), relationship status (df=1, $\chi^2 = 10.81$, $p < .01$ $\varphi = -.138$), hobby (df=1, $\chi^2 = 48.03$, $p < .001$ $\varphi = -.292$), profession (df=1, $\chi^2 = 71.51$, $p < .001$ $\varphi = -.356$), interest in specific gender (df=1, $\chi^2 = 110.89$, $p < .001$ $\varphi = -.443$), political views (df=1, $\chi^2 = 53.97$, $p < .001$ $\varphi = -.309$), and family members (df=1, $\chi^2 = 30.03$, $p < .001$ $\varphi = -.231$).

As shown in Table 3, Indonesians were less likely than Poles to consider as private information: workplace (Indonesia = 24.6%, Polish = 56%), educational history (Indonesia = 18.6%, Polish = 44.4%), birthday (Indonesia = 48.6%, Polish = 67.6%), telephone number (Indonesia = 90.4%, Polish = 95.8%), email address (Indonesia = 65%, Polish = 84.2%), relationship status (Indonesia = 57.5%, Polish = 70.8%), hobby (Indonesia = 18.2%, Polish = 45.4%), profession (Indonesia = 16.4%, Polish = 50%), interest in specific gender (Indonesia = 31.8%, Polish = 77.1%), religion (Indonesia = 30%, Polish = 74.3%), political views (Indonesia = 44.3%, Polish = 74.6%), and family members (Indonesia = 49.3%, Polish = 71.8%).

Indonesians considered their workplace (75.4%) and educational history (81.4%), birthday (51.4%), hobby (81.8%), profession (83.6%), interest in specific gender (68.2%), religion (70%), political views (55.7%), and family members (50.7%), as non-private information; Poles regarded those as private information. Furthermore, Indonesians and Poles showed a similar level of perceived privacy of information concerning their living location (Indonesia = 62.9%, Polish = 69%), and instant messaging accounts (Indonesia = 62.1%, Polish = 67.3%).

In regard to RQ2, adding nationality (with Indonesian as the dummy variable) in the model increased $R^2$ for all dependent variables. Being Indonesian had positive effects on frequency ($\beta = .182$, $p < .001$), and a marginal influence on intimacy ($\beta = .084$, $p < .08$), but had a negative effect on the positivity of content ($\beta = -.199$, $p < .001$).

Regardless to nationality, Table 4 showed that NfP strongly predicted frequency ($\beta = .253$, $p < .001$), positivity of content ($\beta = -.197$, $p < .001$), and intimacy ($\beta = .257$, $p < .001$) of online SD. The control of accessibility also was negatively related to frequency ($\beta = -.174$, $p < .001$), and intimacy ($\beta = -.170$, $p < .001$), but was also positively related to positivity of content ($\beta = .137$, $p < .001$) of online SD for all users. CSE negatively predicted frequency ($\beta = -.201$, $p < .001$), intimacy ($\beta = -.156$, $p < .001$), but positively influenced positivity of content ($\beta = .296$, $p < .001$). In addition, perceived network size and diversity significantly predicted frequency ($\beta = .201$, $p < .001$), and intimacy ($\beta = .194$, $p < .001$), but negatively predicted positivity ($\beta = -.135$, $p < .01$) of online SD.
5. Discussion and Conclusion

NfP is the strongest predictor for frequency, positivity, or intimacy in online SD for both Indonesian and Polish users. This result confirms the findings of the previous studies that popularity tendency was strongly related to the disclosure feeling (Utz, Tanis & Vermeulen, 2012) and frequency of expression on Facebook (Zywica & Danowsky, 2008; Ardi & Maison, 2014). Furthermore, it was found that people with higher NfP tend to disclose less positive content. A possible explanation is that expressing negativity to a certain degree might draw attention, especially within larger networks (Graham et al., 2008), and could make individuals appear as more salient compared to others.

Furthermore, controlling the accessibility of profile information was strongly related to the pattern of individual disclosure in terms of frequency, positivity, and intimacy, for both Indonesian and Polish users. This result also seems to be in line with that of the previous studies, indicating that individuals who show the need for higher privacy control tend to disclose less frequently (Vitak, 2012), and less intimately (Brandtzæg, Luders, and Skjetne, 2010). Bronstein (2014) also suggested that people were more likely to present themselves in a positive light on their networks by controlling their manner of expression. As for Bronstein’s (2014) claim, we assume that an individual who tends to control his/her personal profile also seems to display positivity of online SD to create a good and positive impression and avoid embarrassment.

Interestingly, CSE influences the frequency and intimacy of online SD only for Polish users. The strong correlations on those factors could be caused by how Poles perceive Facebook as a place to satisfy their needs for self-esteem and social interaction. People with lower CSE may see Facebook as the right place to express themselves either frequently or intimately in order to strengthen their relationships with others. Additionally, the absence of nonverbal cues on SNS could encourage braver expression (Joinson, 2001). On the other hand, people with higher CSE presumably fulfill their need of expression during FtF encounters or otherwise deem Facebook not the right medium to express themselves intimately and frequently.

Insignificant correlations between CSE and online SD (in the dimension of frequency and intimacy) for Indonesian users might be related to how Indonesians with lower self-esteem perceives Facebook only as a safe space for connecting with others, and not a place where they could express themselves frequently or intimately. Similarly, Forest and Wood (2012) suggested that people with lower self-esteem do not seem to be using Facebook more frequently than people with higher self-esteem. Individuals with lower self-esteem appeared to use Facebook to receive attention and support without disturbing others with overwhelming disclosure of feelings and thoughts (Forest & Wood, 2012).

However, the association between the CSE with frequency and intimacy of online SD needs further investigation, particularly regarding how people with high CSE perceive social media, like Facebook, as places they could use to gratify their social psychological needs.

Nevertheless, there is a similar pattern between Indonesian and Polish users where CSE is strongly and positively linked to sharing positive content in online SD. This also confirms the results of previous studies indicating that individuals with low self-esteem tend to disclose less positive content compared to individuals with higher self-esteem (Forest & Wood, 2012). Forest and Wood (2012) found that individuals with low self-esteem were more likely to disclose sadness, anger, frustration, anxiety, fear, irritability, and less happiness, less excitement, and less gratitude than people with higher self-esteem.

Furthermore, this study found that perceived network size and diversity predicts the frequency and intimacy of online SD for both Indonesian and Polish users. Vitak's study (2012) also indicated that the existence of an audience positively predicted the amount of disclosure. Although wider networks could be a problem for privacy, SNS provide people with easy and quick ways to broadcast information, interact with others, and maintain relationships with a wider array of people.
On the other hand, the current study indicated that larger diversity and size of the network led to a significant increase of intimacy of online SD. This result is in contrast to the previous study conducted by Binder, Howes, & Sutcliffe (2009) which showed that network size has a negative effect on intimacy of SD. There seems to be a certain amount of tension during disclosure in larger and more diverse networks (Binder, Howes & Sutcliffe, 2009), but Ellison, Steinfeld and Lampe (2007) suggested that it may be caused the fact that Facebook use is strongly concerned with the maintenance and creation of social capital. Moreover, Facebook has lately enhanced its privacy settings, with which the users are able to choose specific audiences that can see any information revealed. Therefore, even with larger and more diverse the networks, users have the possibility to choose their appropriate audience among their friends by controlling the information accessibility of each disclosure. In contrast, less diverse and sizeable networks presumably limit the users to disclose intimately and frequently to just the appropriate audiences.

Disclosure in controlled, carefully selected network could also explain how positivity of online SD was negatively correlated to the perceived network size and diversity for Polish users. A more diverse and larger networks should provide the users with the possibility of negative expression toward the appropriately selected audience only. On the other hand, the less diverse and less sizeable the network, the more probable it is that the users will express themselves in a favourable and desirable way, mostly due to limited network options for reception of a given expression. However, expressing negativity to inappropriate people can be problematic for users, as Binder, Howes and Sutcliffe (2009) suggested, as having family as part of the network could possibly be the cause of online tensions.

It is not easy to explain the non-significant relationship of disclosing the positive content and perceived network size and diversity for Indonesian users. However, this could be related to the value of intimacy-seeking and interdependent self-construal of Indonesians. The community-based society of Indonesia puts emphasis on the closeness of relationships, social acceptance, and intimacy. The “self” concept of collectivistic societies is interdependent and relies on social context (Gudykunst et al, 1996; Tafarodi & Walters, 1999; Markus & Kitayama, 1991). The motive for intimacy seeking, as well as theirs and interdependent self-construal, may prompt Indonesians to acknowledge the characteristics of certain networks more than their sizes before disclosing any positive or negative content. In particular networks, people could express negativity to attract the attention of others and enhance the intimacy (Graham et al, 2008). On the other hand, less positivity of disclosure on certain networks could also be problematic, as individuals will grow to be disliked by the members of the network. Individuals tend to avoid sharing negative content which could be seen as maladaptive by others (Sommers, 1984).

The patterns of disclosing the positive content on SNS for Indonesians require further exploration, especially in regard to the characteristics of particular networks in which Indonesians will express positive or negative content. Any further studies should take into consideration the self-presentation and impression management as important factors to in negative or positive expression within certain networks.

Poles seemed to generally execute higher control of accessibility in almost every aspect of profile information. Consistently, Poles also perceived almost all aspects of information as private. This finding is probably due to Western influences, which emphasise privacy as a value (Andersen, 2007).

Interestingly, Indonesians indicated more control over disclosing information on instant messaging accounts. The overall results of perceived privacy showed there was no significant difference between Polish and Indonesian users in considering information on instant messaging accounts to be private. Thus, this result for Indonesian may be related to their collectivist culture and its interdependent self-construals, which puts high emphasis on the social context of communication (Gudykunst et al, 1996). Instant messaging is a synchronous dyadic communication which is often used by users to gain clarity through verbal communication. People in individualistic cultures, with a lower need for context in communication, are usually more inclined to talk directly and to be more concerned with clarity of expression in conversations (Gudykunst et al, 1996). The immediate nature of
dyadic communication could lead to discomfort for the Indonesians if it is initiated by inappropriate parties and/or unexpected. Considering how broad the networks of Indonesian users on Facebook are, it seems that Indonesians perceived putting information on instant messaging accounts publicly as a risky behaviour. However, people with interdependent self-construal living in collectivistic cultures are more likely to prefer indirect messages in communication (Gudykunst et al., 1996), which would only have the intended meaning in the context of environmental or situational cues of a given culture (Andersen, 2007).

It is interesting to see how the disclosure differs between Indonesians and Poles by looking at the patterns of relationships between NfP, control of accessibility, CSE, and perceived network size and diversity in hierarchical regression. Considering those factors, Indonesians indicated significantly higher frequency of disclosure on Facebook and slightly more intimacy compared to Poles. The higher frequency and intimacy of SD for Indonesians could indicate the excessive activity of Indonesian users while using social media to connect with others. Results of several surveys indicated that Indonesians are extensive users of all manners of social media (On Device Research, 2013, December 10).

Furthermore, Indonesians also belong to a collectivistic culture, which is more likely to foster emotional display in order to maintain relationships and harmony (Andersen, 2007); privacy is less valued than in individualistic societies, like the Polish. Although people in collectivistic cultures have numerous rules pertaining to social interaction, the visual anonymity could prompt disinhibition to a degree (Suler, 2004) and at the same time grant individuals more control over self-presentation (Walther, 2007), all the while facilitating the desired relationships by disclosing relevant information frequently and intimately.

On the other hand, Poles demonstrated less positivity in online SD compared to Poles. According to Graham et al. (2008), expressing negative emotion is associated with greater network and greater intimacy. Expressing negative emotions in appropriate situations, contexts, and within certain networks, could promote the development and maintenance of communal relationships (Graham et al., 2008). This study found that Indonesians had on average a greater number of friends and more diverse networks. Therefore the community-based culture of Indonesia, which values intimacy and contact with others, is presumed to actually encourage users from this country to disclose less positive content in order to attract and establish relationships.

On the other hand, Polish values belong to the realm of Western, individualistic cultures. Western people mostly possess an independent self-construal, as opposed to Eastern cultures. Western values promote feeling good and positive about self, and possession of such qualities indicates the mental adjustment (Diener & Diener, 1995). However, expressing negative emotions is often considered to be less popular and less likeable (Sommers, 1984). Therefore, this might explain why Poles showed a higher degree of positivity in online SD as compared to Indonesia.

There are several limitations to this study that could be addressed in future research. Firstly, the current study only assesses the perceived size of networks within SNS by averaging the response from the whole network categories. The study lacks the in-depth analysis of network characteristics, which would indicate whether the ties within networks are strong or weak.

Secondly, how the users maintain and manage the relationship online in each network was also not included in the study. Analysing those factors could help understand why people disclose more intimately, frequently, and positively in some networks but not others.

Third, this study only included NfP as an indicator for people’s motivation for disclosing on Facebook. There could in fact be other needs that motivate people to disclose information online. According to Uses and Gratification theory, people are motivated for using SNS to fulfill mediated needs and interpersonal needs (Papacharisi, 2009). Further studies would thus have to consider: 1) mediated needs such as social surveillance, information seeking, and/or entertainment, 2) interpersonal needs such as social support and social interaction, or even 3) experimenting with identity, to get a more complete picture of how people disclose in SNS. Taking into account mediated needs could also provide information on how people with high CSE utilise SNS.
Finally, the last issue concerns how people with needs for either low- and high-context communication interact in SNS. Analysis of this issue in further studies could provide a clearer explanation of different patterns and strategies in disclosing information in SNS.

To summarise, this study contributes to the field by providing an in-depth analysis of privacy patterns and online disclosure in SNS, especially considering the different values and the patterns in social media usage for Polish and Indonesian users; as the use of those two countries in research is quite rare, the results of the current study may serve as a model for comparison to other countries and cultures.

References


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The Analysis of Intellectual Capital Performance of Islamic Bank in Indonesia

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ABSTRACT

Objective – The purpose of this paper was to assess the influence of Value Added Intellectual Capital (VAIC) towards company performances such as: profitability and productivity of Islamic banks of Indonesia measured by ROA, ROE, ROI and ATO.

Methodology/Technique – This research conducted purposive sampling method. Correlation analysis was applied to measure the influence of ICE on company Performance. SPSS 18 was applied for correlation test. VAIC was calculated for measuring intellectual capital efficiency.

Findings – VAIC had a positive relationship to company performance such as financial performance and productivity. The highest value of correlation was the relationship between VAIC and ATO. The lowest value of correlation was the relationship between VAIC to ROE.

Novelty – This research assessed the influence of VAIC towards 11 Islamic Banks in Indonesia.

Type of Paper: Empirical

Keywords: Intellectual Capital, VAIC, Corporate Performance, Financial Performance, Productivity, Indonesia, Islamic Banks.

1. Introduction

The business world has now turned into a more complex and have stiff competition (Paul, 2012). This change as a part of the impact of globalization is forcing companies to innovate, increase technology and also increase the intensity of competition. This of course changed the way companies run the company. The change is the transfer of production era into the era of knowledge and also the change of production workers into knowledge workers (Madina Latif, 2012). Business is based on science which emphasizes the importance of knowledge assets (Sholikhah et. Al 2010). One approach used to assess and measure knowledge assets
are the intellectual capital that became the focus of attention in several areas including the field of accounting (Petty Andu Gutrie 2000, in Sholikhah et al., 2010).

Based on Certified International Management Accounting – CIMA (2001), it is stated that intellectual capital is the possession of knowledge and experience, professional knowledge and skill, good relationship, and technological capacities, so that when it is applied, it will give an organization competitive advantage. Judging from the model of intellectual capital that is initiated by Leif Edvisson (1996), intellectual capital has an important role which is illustrated as the root which will give effect to the strategic and financial result illustrated as trees and for fruit. It can be concluded that intellectual capital is the root of a company that will provide nutrients to the development and success of the company's business. If intellectual capital in the company is well-managed, it will contribute to better performance for the company. The intellectual capital of intangible physically, but it can influence the development of a company's business.

Development study of intellectual capital is not accompanied by the development of appropriate methods for measuring intellectual capital. So far there has been no method of measuring intellectual capital that is really accurate (Soedaryono et.al 2012). But in 1998 and 2000, Pulic proposed methods for measuring intellectual capital companies, known as Value Added Intellectual Capital (VAIC). In empirical studies Pulic (2000) revealed that the contribution of intellectual capital is different for each industry. Research conducted by Tan et.al (2007) strengthens Pulic’s opinion, that the contribution of intellectual capital to the performance of different companies for each industry.

Research conducted by Malina Hanum Mohd Kamal et.al (2012) found that Value Added Intellectual Capital (VAIC) consisting of Human Capital, Structural Capital and Employed Capital has a significant impact on the performance of 18 commercial banks in Malaysia. In the health sector, according to research conducted by Yurniwati (2014) it is stated that intellectual capital contribute to the performance of the dr. Rasyidin Hospital in West Sumatera, so the performance of the dr. Rasyidin Hospital in West Sumatra by the Regulation of the Minister of Health no. 1171 / Menkes / Per / VII / 2011, stated pretty good.

Based on previous research that has been done, the researches produce different results on the effect of intellectual capital on the performance of the company. The differences results of that research make this topic was interesting to learn. Therefore, this study tries to assess the effect of intellectual capital on the performance efficiency of the Islamic Bank in Indonesia from 2011 to 2013. The reason to select the Islamic banking sector for this study, because in June 2008 Indonesian parliament (DPR) authorizes two important laws about Islamic banks. With these two laws, Indonesia is expected to take a role in economic development and Islamic finance in Asia. It is also supported by Firer’s and Williams’s statement about the bank sector (2003) that states the bank is one of the most intensive sectors conducting intellectual capital. As an addition, according to Ahangar (2011), the banking company relies heavily on intellectual capital to earn an income. This paper aims to investigate the correlation between intellectual capital (VAIC) with Islamic bank performance in financial and productivity (ROA, ROE, ROI and ATO).

2. Literature Review

2.1 Intellectual Capital

Sangkala (2006) states that intellectual capital as the intellectual material, which includes knowledge, information, intellectual property and experience that can be used together to create wealth. Bontis et al. (2000) states IC as being the pursuit of effective use of knowledge (the finished product) as opposed to information (the raw material). According to Marr and Chatzkel (2004), intellectual capital refers to the non-financial fixed assets that do not have physical substances, but are identified and controlled by the company through custody and legal rights as defined by the Accounting Standards Board.
From various expert definitions above, it can be concluded that intellectual capital is a concept that can provide new knowledge-based resources and describe intangible assets which enable the company to execute its strategy effectively and efficiently when it is used optimally. Thus, intellectual capital is the knowledge that provides information about the intangible value of companies that can increase firms’ value from the view of stakeholder and affect the durability and competitive advantage. Until now, the classification of intellectual capital has not applied universally. Bontis et al. (2001) in Ulum (2008) stated that in general researchers divided the intellectual capital into three components: physical capital (VACA), human capital (VAHU) and structural capital (STVA).

2.1.1 Value Added Intellectual Coefficient (VAIC)

Pulic (1998, 2000) developed the “Value Added Intellectual Coefficient” (VAIC) to measure the IC of companies to provide information about the value creation efficiency of tangible and intangible assets owned by the company. This model is relatively easy and very possible to do so because it is constructed from accounts in the financial statements (balance sheet, income statement).

The value creation process is influenced by the efficiency of three main components of VAIC: physical capital (VACA - Value Added Capital Employed), human capital (VAHU - Value Added Human Capital) and structural capital (STVA - Structural Capital Value Added).

- Value added of Capital Employed (VACA)
  Value Added of Capital Employed (VACA) describes how much the value added is generated from the use of physical capital. The company will look better in utilizing its Capital Employed if 1 unit of CE produces greater returns than other companies (Pulic, 1998). The company's ability to properly manage the CE is part of the company's intellectual capital.

- Value Added Human Capital (VAHU)
  Value Added Human Capital indicates the ability of labor to produce value for the company from funds spent for that labor. The more value added generated from each rupiah spent by the company the more optimally the company has managed human resources which results a qualified manpower that will ultimately improve the company's financial performance.

- Structural Capital Value Added (STVA)
  Structural Capital Value Added (STVA) shows contribution structural capital (SC) in value creation. STVA measures the amount of SC required to produce 1 rupiah from VA and an indication of how successful the SC in value creation. Calculation of SC is VA less HC.

2.2 Financial Performance

Performance is an important thing to be achieved by every company. Performance can be benchmarked to a company's ability in managing and allocating all its resources. The company should continue to make improvements to the quality and performance of the company to achieve corporate objectives. The annual report is information that provides an overview of the performance of the company given by the management to the stakeholders.

Financial performance used in this study is by financial ratio analysis that is Return on Assets (ROA), Return on Equity (ROE) and Return on Investment (ROI).

- Return on Asset (ROA)
  Return on assets is a profitability ratio that measures the amount of profit earned every monetary amount of assets owned by the company. ROA shows a company's ability to perform efficient use of total assets for the company's operations. ROA gives investors an idea of how to convert the company's money which has been invested in net income. Thus, ROA is an indicator of the profitability of the company in using its assets to generate earnings. ROA is calculated by dividing net income to total assets of the company. The
higher the ROA, the more efficient the company is at using its assets. This means that the company can make money (earnings) more with little investment.

- **Return on Equity (ROE)**

  Return on equity is the amount of net income returned as a percentage of shareholders’ equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. ROEs between 15% and 20% are generally considered good. ROE is expressed as a percentage and calculated as: Return on Equity = Net Income/Shareholder's Equity.

- **Return on Investment (ROI)**

  A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio. ROE is expressed as a percentage and calculated as: Return on Equity = Net Income/Investment x 100%.

2.3 **Productivity**

Productivity is commonly defined as a ratio between the output volume and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. Productivity is projected by using Asset Turn Over (ATO) is also called total asset turnover ratio is a ratio that measures the efficiency and effectiveness of the turnover and the utilization of its total assets in generating sales.

\[
ATO = \frac{Sales\ Revenue}{Total\ Asset}
\]

![Figure 1. Conceptual Framework](image)

3. **Research Method**

3.1 **Variables**

- Independent Variable (X) : **Intellectual Capital**
- Dependent Variable (Y1) : **Financial Performance**
- Dependent Variable (Y2) : **Productivity**
Intellectual Capital (X)
The independent variables are the intellectual capital performance. The method used to measure the performance of intellectual capital is VAIC method. VAIC measurement consists of three components: Human Capital Efficiency (VAHU), Capital Employed Efficiency (VACA) and Structural Capital Efficiency (STVA).

VAIC calculation formulation consists of several stages:

- **Value Added (VA)**
  
  Value Added calculated using data from the accounts of the company, such as:
  \[
  \text{VA} = \text{OUT} - \text{IN}
  \]

  which:

  OUT = operating revenues;

  IN = all about cost except the employee cost, depreciation, interest tax, rent cost and dividend;

- **Calculate CE (Capital Employed), HU (Human Capital), and SC (Structural Capital)**

  \[
  \text{CE} = \text{Physical Capital} + \text{Financial Asset} \\
  = \text{Total Asset} - \text{Intangible Asset}
  \]

  \[
  \text{HU} = \text{Total Expenditure on Employees}
  \]

  \[
  \text{SC} = \text{Value Added} - \text{Human Capital}
  \]

To calculate three components of VAIC:

1. **Value Added Efficiency of Capital Employed (VACA)**
   
   \[
   \text{VACA} = \frac{\text{VA}}{\text{CE}}
   \]

2. **Value Added Efficiency of Human Capital (VAHU)**
   
   \[
   \text{VAHU} = \frac{\text{VA}}{\text{HU}}
   \]

3. **Value Added Efficiency by Structural Capital (STVA)**
   
   \[
   \text{STVA} = \frac{\text{SC}}{\text{VA}}
   \]

   After getting the value of each component, then the performance of intellectual capital was able to be measured by using the method of Intellectual Capital Value added Coefficient (VAIC), which can be determined by the formula:

   \[
   \text{VAIC} = \text{VACA} + \text{VAHU} + \text{STVA}
   \]

Financial Performance (Y)
Financial performance can measure by return on assets (ROA), return on investment (ROI) and return on equity (ROE).

- **Return on Equity (ROE)** = Net Income/Shareholder’s Equity
- **Return on Assets (ROA)** = Net Income/Total Assets
- **Return on Assets (ROI)** = Net Income/Investment x 100%

Productivity (Y)
Productivity is projected by using Asset Turn Over (ATO) is also called total asset turnover ratio is a ratio that measures the efficiency and effectiveness of the turnover and the utilization of its total assets in generating sales.

\[
\text{ATO} = \frac{\text{Sales Revenue}}{\text{Total Asset}}
\]

3.2 Sample and Populations

This study will use data from Islamic Banking in Indonesia. In Indonesia there are 11 Islamic Banks:
Table 1. The list of Islamic Banks in Indonesia

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank Name</th>
<th>No.</th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PT Bank Jabar dan Banten Syariah</td>
<td>7.</td>
<td>PT Bank Victoria Syariah</td>
</tr>
<tr>
<td>2.</td>
<td>PT Bank Panin Syariah</td>
<td>8.</td>
<td>PT BCA Syariah</td>
</tr>
<tr>
<td>3.</td>
<td>PT Bank BRI Syariah</td>
<td>9.</td>
<td>PT Maybank Indonesia Syariah</td>
</tr>
<tr>
<td>4.</td>
<td>PT Bank BNI Syariah</td>
<td>10.</td>
<td>PT Bank Mega Indonesia Syariah</td>
</tr>
<tr>
<td>5.</td>
<td>PT Bank Bukopin Syariah</td>
<td>11.</td>
<td>PT Bank Muamalat Indonesia</td>
</tr>
<tr>
<td>6.</td>
<td>PT Bank Mandiri Syariah</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Analysis and Discussion Result

This section shows the results of how intellectual capital affects Islamic Bank performance in Indonesia. There are 11 Islamic Banks that would be an object of this research. In this research, only 8 Islamic banks meet with the requirements (4 years observation). The Islamic Banks that eliminated are PT Bank Victoria Syariah, PT Maybank Indonesia Syariah and PT Bank Muamalat Indonesia. Those banks have no complete financial statement for 4 years’ observation. This research also eliminates variability of market value because most of those banks do not apart of listed company. The Value Added Intellectual Coefficient (VAIC) used in this study as a basic methodology to measure the intellectual capital was introduced by Pulic (1998). Correlation method is applied to empirically investigate the impact of intellectual capital performance on overall corporate performance.

Table 2 describes the result of correlation analysis. The numbers of populations are 32 with a total of 8 Islamic Banks multiply by 4 years observation. By using at least 5% level of significance, only two relationships have 1% level of significance and six relationships have 5% level of significance. As indicated before, intellectual capital efficiency is significantly correlated with all the variables of corporate performance, including financial performance and productivity.

- There is sufficient positive relationship between VAIC and ROA with correlation 0.426
- There is sufficient positive relationship between VAIC and ROE with correlation 0.284
- There is sufficient positive relationship between VAIC and ROI with correlation 0.442
- There is moderate positive relationship between VAIC and ATO with correlation 0.649
- There is very low positive relationship between ROA and ROE with correlation 0.116
- There is very low positive relationship between ROA and ROE with correlation 0.043
- There is very low positive relationship between ROA and ATO with correlation 0.127
- There is no relationship between ROE and ROI with correlation 0.000
- There is very low positive relationship between ROE and ATO with correlation 0.026
- There is very low positive relationship between ROI and ATO with correlation 0.020

In general, it is observed that most of variables correlate significantly among themselves. The highest value of correlation is relationship between VAIC and ATO. On the other hand, the lowest value of correlation is relationship between VAIC and ROE. The indication of highest value between VAIC and ATO shows that how efficiently Islamic bank’s employees are being used to produce a given level of output (income). It means the employee of Islamic bank has the capability or master the science of Islamic banking. The indication of lowest value between VAIC and ROE can be caused of those Islamic banks are quite new and it also don’t a part of listed companies. This research also enhances the research by Malina Hanum Mohd Kamal et.al (2012) and Madina Latif (2012) about the relationship between intellectual capital and the performance of banks in developing countries. It is as well as supported the research by Yurniwati (2014) about intellectual capital and performance of the organization even in different types of business.
Table 2. The result of correlation analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>VAIC</th>
<th>ROA</th>
<th>ROE</th>
<th>ROI</th>
<th>ATO</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAIC Pearson Correlation</td>
<td>1</td>
<td>.146</td>
<td>.195</td>
<td>.141</td>
<td>-.084</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.426</td>
<td>.284</td>
<td>.442</td>
<td>.649</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>ROA Pearson Correlation</td>
<td>.146</td>
<td>1</td>
<td>.283</td>
<td>.359</td>
<td>.276</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.426</td>
<td>.116</td>
<td>.043</td>
<td>.127</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>ROE Pearson Correlation</td>
<td>.195</td>
<td>.283</td>
<td>1</td>
<td>.832***</td>
<td>.393*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.284</td>
<td>.116</td>
<td>.000</td>
<td>.026</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>ROI Pearson Correlation</td>
<td>.141</td>
<td>.359</td>
<td>.832**</td>
<td>1</td>
<td>.410*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.442</td>
<td>.043</td>
<td>.000</td>
<td>.020</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>ATO Pearson Correlation</td>
<td>-.084</td>
<td>.276</td>
<td>.393*</td>
<td>.410*</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.649</td>
<td>.127</td>
<td>.026</td>
<td>.020</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
<td>32</td>
</tr>
</tbody>
</table>

*, Correlation is significant at the 0.05 level (2-tailed).
**, Correlation is significant at the 0.01 level (2-tailed).

5. Conclusion and Implication for future research

Based on the correlation analysis, it shows that there is a relationship between intellectual capital and Islamic Banks performance in Indonesia. These findings also enhance the findings of Malina Hanum Mohd Kamal et.al (2012) and Madina Latif (2012). It is also supported by the research of Yurniwati (2014) even in different types of business. Now, Business world becomes more complex and have stiff competition in forcing companies to innovate, increase technology and also increase the intensity of competition. Then intellectual capital appeals and has an important role for corporate competitive advantages.

For future research it will better if the study can assess the components of intellectual capital to each variable of bank performance separately. It can assess which factor has a more significant affect to the Islamic bank performance. It can help increasing the awareness of Islamic Bank in Indonesia, and able to use it as their evaluation to increase their performance. The importance of intellectual capital should be applied to other Islamic product in the financial industry in Indonesia. Because Indonesia is expected to take a role in economic development and Islamic finance is the center of international economics and Islamic finance is important in Asia.

References


Environment Uncertainty Implication on Supply Chain Integration (SCI) and Supplier’s Performance Relation in the Construction Sector

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ABSTRACT

Objective – The objective of this study is to examine the impact of the environment uncertainty, predominantly from two factors which are supply uncertainty and design change in the relation between SCI and the supplier’s performance in the construction sector.

Methodology/Technique – The methodology used, was based on a case study of an Indonesian construction company, with its connection to its suppliers. Data collected in this study included questioners and regression analyses to test the hypotheses.

Findings – The empirical results show that SCI has a positive effect on the supplier’s performance. The positive SCI-performance relation will be weakened by supply uncertainty, but will be strengthened by the change or modification in the construction design.

Novelty – This findings will provide better understanding, of environmental uncertainty in term of supply uncertainty and design change in the SCI-performance relationship, therefore this study will provide a valuable contribution to the SCI theory.

Type of Paper: Conceptual

Keywords: Supply Uncertainty, Construction Design Change, Construction Company, Supply Chain Integration, Performance.

1. Introduction

Supply Chain Integration (SCI) has a significant role in the supply chain management in the construction industry. The rapid growth of the construction industry in Indonesia had increased progressively since the economic crisis hit the country in 1998. Indonesia's economic growth over the past 10 years, has fluctuated from 5% in 2004, 4.6% in 2009 and 5.02% in 2014 (BPS, 2015). The construction industry enjoys even more progressive development ranging from 7.49% in 2004 to 13.00% in 2014 (BPS, 2015).

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Since the economic crisis in 2008, the construction sector in Indonesia is slowly starting to increase and the current construction growth is progressing rapidly in Indonesia, this has led to the emergence of new suppliers.

The construction sector involved numerous suppliers, to meet the supply necessities of materials and services in a certain timeline. Due the high construction growth, emerge various competitive suppliers with increasingly diverse products and service in the supply chain network. Therefore the construction industry needs to have collaborative and mutually beneficial relation with their suppliers.

To initiate a cooperative relationship between the suppliers, requires an established supply chain mechanism, where the suppliers can successfully deliver both excellence and customer satisfaction. Therefore, it is necessary to examine the relation between SCI and performance in the construction sector.

There has been several arguments regard to the relation between SCI and performance. The previous study stressed that the relation between SCI and performance is inconsistent (Huang et al, 2014), while some empirical studies (e.g. Chen et al., 2007; Cousins and Menguc, 2006; Flynn et al., 2010; Sezen, 2008) suggested that the relationship between SCI and performance has no significant connection. Another study (e.g. Boon-itt and Paul, 2006; Lee et al., 2007; Lummus et al., 2008; Mason at al., 2007) argued that there is a positive and linear correlation between SCI and performance. In contrarily, another study stated that there is a negative correlation between performance and SCI (Rosenzwig, Vickery et al., 2003).

Whereas the purpose of the creation of SCM is to remove barriers of communication by optimizing coordination, monitoring and controlling the process (Power, 2005). Information distribution and interdependence are two important characteristics of SCI that are accountable for the smooth material supply, the establishment of common standards and other factors (Simatupang, et al. 2008). Therefore, SCI is described as the level of information sharing and the interdependence, that occur between the organizations during a certain period.

Several studies described that SCI has a significant relation to performance. This study conducted research to several organizations, from small to medium scale of projects, with an aim to have in-depth on how SCI can significantly influence the supplier’s performance in terms of the quality of the construction.

This study provides a comprehensive understanding on how SCI can affect the supplier’s performance significantly, whether supply uncertainty in term of time schedule will weaken the relation between SCI and a supplier’s performance and whether the design change will strengthen the relationship between SCI and a supplier’s performance.

Successful SCI can be achieved when organizations establish collaborative connection and develop partnerships with its suppliers to compete and provide better revenue than their competitors. Better supplier’s performance will generate better quality of work, by demonstrating an adequate of construction strength, shape, proportions, and spatial.

However, the relation between SCI and its supplier’s performance, may be influenced by the uncertainty of the environment in term of time schedule and changes in the design construction that will have an impact on the overall work quality.

The study questioned whether or not the uncertainty of construction schedule may weaken the SCI relation with a supplier’s performance and whether the design change (alteration) may strengthen the SCI relation with the supplier's performance, how is the relation between suppliers, buyers and sellers.

The finding reveals certain theory implications of transaction cost theory. Uncertainty is a critical factor in the arguments for “make” or “buy” explanations, which justify the choice of an appropriate governance model that is aligned with the attributes of a firm’s transaction (Williamson, 1979).
2. Theoretical Background

Supply Chain is a network of organizations involved, through upstream to downstream linkages, in the different processes and different activities that produce value in the form of products and services in the hands of ultimate customer (Christopher, 1998, Chapter 1), from the definition suggests, the supply chain is a type of network, which has wide dimension but there are two dimensions that are considered important, the dimension are as follows:

1) The network consists of more than two organizations.
2) The network was formed in order to create a partnership, in the procurement system. It can be concluded that the SCI establishes relationship between the suppliers in an organization that provide and distribute the products and services to the customer. This relationship incorporates of various organizations that are interconnected and share the same objectives, which provide the products (procurement) or channel (distribution) in an efficient and effective way therefore may emerge additional value (value added) for the product.
Supply chain may establish a network that incorporates suppliers, manufacturer, distributors, retailer, and customers to cooperate in carrying out activities such as procurement to provide material flow, information flow, the flow of transactions and the cash flow.

According to (Movahedi et al., 2009) the advantages of implementing supply chain are as follows:

- Reducing the inventory of goods. Inventory is the greatest part of the company’s assets which ranged between 30 - 40%. Therefore, an effort must be developed to minimize the accumulation of goods in the warehouse to reduce the cost.
- To ensure the distribution of goods, through upstream and downstream linkages, in the different process and activities from manufacturers, suppliers, wholesaler, retailers of products and services to the end users (customers).
- Quality assurance, the product quality should be improved from the process of manufacture, distribution, warehousing to the end users (customers).

The purpose of the creation of SCM is to eliminate communication barriers by optimizing coordination, monitoring and controlling the process (Power, 2005). Information distribution and interdependence are two important characteristics of SCI that are responsible for the distribution of material, the establishment of common standards and other factors (Simatupang et al., 2008). Therefore SCI is described as the level of information sharing and the interdependence that occur between the organizations during a certain period.

A supplier in the supply chain network, may fail to adapt because buyers or suppliers involved in the supply chain have specific investments may react to signals in different ways (Williamson, 1991) This study examines the relation between SCI and supplier’s performance in term of environment uncertainty such as construction time schedule and design changes of small to medium-size construction projects in Indonesia.

The research reveals SCI has a positive relationship with the supplier’s performance, the positive relationships will be weakened due to the uncertainty of the construction time schedule, however, it will strengthen due to the design change.

In order to develop a network-wide flexibility strategy and reduce uncertainty, it is important to build collaborative relationship across the entire supply chain (Dwyer et al., 1987; Dyer and Ouchi, 1993; Kalwani and Narayandas, 1995; Lorenzoni and Lipparini, 1999; Lambert and Knehmeyer, 2004; fynes et al., 2005). The benefits of these relationships, such as reducing costs, share risks, and reduce uncertainty that might emerge from the development of inter-organizational trust and commitment (Handfield and Bechtel, 2002; Gao et al., 2005).

The strategy to flexibly improve the supply chain is to face uncertainty, which emerge from customer’s information which drives the distribution of product supply, therefore SCM may answer the environmental uncertainty responsively.

3. Hypothesis Development
SCI enhances advantages and cooperative performances by establishing coordinative efficiency and reliable manufacturing improvement in several ways. First, from the resources-based and relational views of a firm, alliances can pool resources and capabilities to achieve relational rents through relation-specific investments, inter-firm knowledge sharing routines, and effective governance mechanisms (Cao and Zhang, 2011; Das and Tang, 2000; Dyer and Singh, 1998).

Intensive coordination and frequent information exchange will result in improving the efficiency of physical material and product distribution, which increases the performance (Huang et al., 2014), the participants in a highly integrated supply chain can decrease their net costs, which is highly beneficial, due cost efficiency are the basic requirement of price competition (Quesada, et al., 2008).

Transaction cost theory indicates that the organization attempt to establish efficiency by reducing the sum of vertical integration and market transaction costs (Huang et al., 2014), Opportunistic behavior is a critical factor that detracts from efficiency, SCI enhances the structure of the supply chain to guide behaviors, and this higher level of structure can improve the reliability, speed, and overall efficiency of supply chain participants (Eisenhardt et al., 2010).

SCI promotes information sharing by reducing the levels of information asymmetries between partners, this reduced information asymmetry should decrease the likelihood of opportunism, diminish transaction costs, and improve coordinative efficiency (Huang et al., 2014). Thus, suppliers with highly integrated supply chains have potential to lower their net costs of conducting business and thereby reduce the total costs that are passed on to customers (Rosenzweig et al., 2003).

Because the development of an integrated supply chain relies on the particular infrastructure, history and collective experience of a specific organization, an integrated supply chain is particularly difficult for competitors to imitate (Rosenzweig et al., 2003), SCI may improve the advantages of organization manufacture reliability and efficiency and therefore allow them to obtain a collaborative advantage (Huang et al., 2014).

H1: SCI has a positive influence on a supplier’s performance

3.1 Time Schedule Uncertainty

The construction schedule (timeline) is defined by the owner, prior to the construction tender, therefore it estimate the duration (time), materials selection, services and volume. The time schedule is made through predicting activities designed by the project manager. However, in reality, the condition of the construction site is unpredictable and may rise uncertain conditions. Environment uncertainty incorporates too many factors such as soil profile, weather, community and culture. However, any issues regarding to environment uncertainty which is unable to be delivered by the organization within the deadline will impact to the completion of construction time schedule and emerge the demand uncertainty, therefore it may significantly influence the supplier’s performance.

Risen uncertainty produces difficulties in predicting future demand. Therefore, an organization often carries higher inventories to buffer against demand uncertainty, although this phenomenon can expose the organization for the high opportunity cost resulting from maladaptation (Kim et al., 2011; van Dong and van der Vaart, 2005). Although certain researchers have claimed that SCI can enhance production and delivery flexibility (Wong et al., 2011) and improve responsiveness to demand via the sharing of market information (Frohlich and Westbrook, 2002; Lao et al., 2010), the effect of unstable demand on performance depends on an organization’s adaptive capability (Gulati et al., 2005).

SCI may help organization obtain more accurate data because it typically involves intensive supply and demand information sharing to reduce inventory levels and enhance delivery efficiency and competitive advantages over time (Quesada et al., 2008; Simatupang et al., 2002; Zailani and Rajagopal, 2005).
When market demand is turbulent, supplier’s performance of a supply chain may suffer. Thus, reciprocal interdependence is another important source of adaptation pressure (Gulati et al., 2012). However supplier may lose their strategic flexibility under condition of increasing demand uncertainty, therefore construction progress becomes uncertain. The supplier can hardly seek balance between efficiency and flexibility through SCI, if demand is turbulent. Instead, supply chain performance will be higher if an efficient supply chain strategy is accompanied by low demand uncertainty (Sun et al., 2009), then the contraction schedule may not impact significantly.

Therefore, we propose a hypothesis as follows:

H2a : Construction time schedule uncertainty weakened the relationship between SCI and supplier’s performance in term of customer satisfaction.

3.2 Design uncertainty

Design is a critical issue that affects the outcome of a construction project. Design development requires collaborative relationships among various disciplines such as architecture, civil engineering, mechanical engineering, electrical engineering, and environmental engineering to accomplish owner expectation to establish a project construction as well as functional and acceptable in the market.

In contrast to manufacturing repetitive “products”, the construction industry’s outputs vary greatly in kind and scale. Each product has a certain design and distinct process of production, unlike manufacturing, the construction process is not continuous and repetitious, and the step involved are not always identifiable (Jason et al., 2010). The contribution of supply chain to the total construction process can account for as much as 90 per cent of the total value of the construction project (Nobbs, 1993). However the general principles of flow design and improvement apply for construction flows and in spite of these characteristics, construction flows can be improved to reduce waste and increase value in construction (Jason et al., 2010).

Design is not only a value adding activity (Porter, 1985) yet a potential sources of differentiation from competitors (Walsh et al., 1998). However the impact of product design on supply chain has largely been ignored (Khan et al., 2008; Khan Grazza, 2009), as well the impact of design change in supply chain risk has also been ignored. Especially in fast-changing markets in which customer requirements change very quickly, which is influenced by the frequent changing of customer demand. Empirical researches of the impact of design changes in supply chain risk are still scarce (Yong and Li, 2011).

The owner urgently change the design due to adjustment of customers expectancy which frequently or urgently require changes to their product design even after their orders have been put into production stage (Yong and Li., 2011).

Changes in demand will lead to design changes that would affect the level of difficulty of the work, the harder the work is, will have a major impact on the organization’s profit (Closs et al., 2008). The production part will experience a variety of problems ranging from material supply difficulties, unstable production, shipping delays and will affect or disrupt the whole flow of the supply chain (Yong and Li, 2011).

Customer’s demand in the construction sector often experience changes that will result on changing the design. This in particular will challenge the operational team to deliver a product which meets the consumer’s expectation and effect on the delivery time, but will effect on the supplier’s performance which is measured based on the customer’s satisfaction.

H2b: The lack of time inaccuracy and changes in the design will strengthen the effect of SCI on the supplier’s performance as measured from the level of customer’s satisfaction.
4. Case Study

4.1 Methodology

The study reviewed several construction projects in Indonesia, ranging from roads to buildings, from small to medium scale. The companies are distinct by size, small size are categorized to projects under IDR 2,000,000,000,- and medium scale company with a project value of IDR 2,000,000,000,- IDR 10,000,000,000,-. The company is supplying concrete and iron that become the primary material in the construction work.

This study examined the construction work by local government with 10 construction projects, includes bridges and government buildings.

The data was obtained from the local government, which contains contract, costs, technical specifications, volume of work, the implementation and monitoring drawing, timing of construction work until the work is completed and accepted by the assignor.

Questionnaires to assess supplier’s performance is based on the quality of the construction that was distributed to managers involved in the construction work. The response to the questionnaire was sent back via email.

This study requested the managers to perform evaluations on the construction work in term of adequate of construction strength, shape, proportions, and spatial. Other issues that have occurred during the execution phase. How the uncertainties in term of construction time schedule and design changes have affected the work that will measure the supplier’s performance.

The analyze use regression analysis, to determine the direction of the relation of Supply Chain Integration, from companies that supplied iron and concrete, with small to medium-sized projects. The study analysis the supplier’s performance based on the quality of the work that was delivered. The uncertainty of time will weaken the performance of suppliers, in contrarily the design uncertainty will improve the supplier’s performance as measured for the quality of the work.

3.2 Results

Based on the analysis was obtained, the R figure = 0.988. This shows that there is a very strong relation between SCI on the quality of work, which will describe the performance of suppliers.

Determination analyses in the regression is useful to know the percentage of the influence of the independent variables simultaneously to variable dependent. If R is equal to 0, then there is no effect between the independent variables with the dependent variable, Vice versa, if R is equal to 1, then there will be a significant effect.

Based on the table, was obtained R² figures = 0.976, this shows that the percentage contribution of the influence of the concrete volume, time, size of project and design changes very significant influence on the dependent variable is the performance of suppliers are measured on the quality of the work.

“The standard error of the estimate” is a measurement of the number of errors in the regression model to predict the value of Y at 0.70865 which means that the error in the prediction of the level of supplier performance is equal to 0.976.

<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>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.988</td>
<td>0.976</td>
<td>0.956</td>
<td>0.070865</td>
</tr>
</tbody>
</table>
Based on the analysis was obtained, the $F$ figures = 49.977 (greater than $F$ table = 5.19), it indicates that concrete volume, time schedule, organization size and design change have greatly influence to the supplier’s performance in term of quality of the construction work.

Table 2. 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>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>100.389</td>
<td>4</td>
<td>25.097</td>
<td>49.977</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>2.511</td>
<td>5</td>
<td>.502</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>102.900</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the analysis was obtained, the $T$ figures = 4.509 (greater than $T$ table = 2.57), it indicates that partially the design change doesn’t impact to the supplier’s performance.

The regression equation is as follows:

$$Y' = a + b_1.X_1 + b_2.X_2 + b_3.X_3 + b_4.X_4$$

$$Y' = 22.077 - 0.50X_1-0.22X_2+1.054X_3+0.000044X_4$$

Note:

- $Y'$ = Supplier’s Performance
- $X_1$ = Organization scale
- $X_2$ = Time schedule
- $X_3$ = Design change
- $X_4$ = Material Volume

The regression equation indicates as follows:

1) If the value of variable $X_1$, $X_2$, $X_3$ and $X_4$ = 0 that supplier’s performance ($Y'$) is 22.077.
2) If the value of variable $X_2$, $X_3$ and $X_4$ are fixed and $X_1$ is increase by 1% that supplier’s performance ($Y'$) will decrease by 0.5.
3) If the value of variable $X_1$, $X_3$, $X_4$ are fixed and $X_2$ is increase by 1% that supplier’s performance ($Y'$) will decrease by 0.22
4) If the value of variable $X_1$, $X_2$, $X_4$ are fixed and $X_3$ is increase by 1% that supplier’s performance ($Y'$) will increase by 1.054
5) Meanwhile variable $X_4$ is slightly affecting supplier’s performance ($Y'$)

Table 3. Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized 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>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>22.077</td>
<td>1.875</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project_Scale</td>
<td>-.500</td>
<td>.613</td>
<td>-.078</td>
<td>-.816</td>
</tr>
<tr>
<td>Time_Period</td>
<td>-.022</td>
<td>.266</td>
<td>-.017</td>
<td>-.081</td>
</tr>
<tr>
<td>Design_Change</td>
<td>1.054</td>
<td>.234</td>
<td>1.018</td>
<td>4.509</td>
</tr>
<tr>
<td>Concrete_Volume</td>
<td>4.409E-5</td>
<td>.001</td>
<td>.004</td>
<td>.045</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality

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Table 4. Coefficients Correlations

<table>
<thead>
<tr>
<th>Model</th>
<th>Concrete_Volume</th>
<th>Time_Period</th>
<th>Project_Scale</th>
<th>Design_Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlations Concrete_Volume</td>
<td>1.000</td>
<td>-.421</td>
<td>-.197</td>
<td>-.541</td>
</tr>
<tr>
<td></td>
<td>-.421</td>
<td>1.000</td>
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<td>.896</td>
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<td></td>
<td>-.197</td>
<td>.277</td>
<td>1.000</td>
<td>.013</td>
</tr>
<tr>
<td></td>
<td>-.541</td>
<td>.896</td>
<td>.013</td>
<td>1.000</td>
</tr>
<tr>
<td>Covariances Concrete_Volume</td>
<td>9.501E-7</td>
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<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>.000</td>
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<td>.002</td>
</tr>
<tr>
<td></td>
<td>.000</td>
<td>.056</td>
<td>.002</td>
<td>.055</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Quality

5. Limitations

This study does not analyze large-sized construction projects with value over IDR. 10,000,000,000,-. Large-sized projects will have a higher level of complexity and involve greater supply chain network. This limitation can be studied further, to obtain comprehensive in-depth, of the relation of time management and design changes on the performance of suppliers in the construction sector.

6. Conclusion

In an established supply chain network, the suppliers support each other to create an optimum relation, an integrated flow of the production phase, will create an effective and efficient supply chain.

The results indicated that SCI has a positive and significant effect on the supplier’s performance, and will be weakened by uncertainty in the construction time schedule and will be strengthened by uncertainty in the design change.

These findings enhance our understanding of the impact of contextual variables on the relation between SCI and performance. These findings support the previous research that explained the inconsistent relationship between SCI and performance in an uncertain environment.

This study also contribute and have a contingency of SCM research that supports the theory of organization, and indicates that the existence of Supply Chain Integration (SCI) is very beneficial, due it coincided with the uncertainty in delivery time, demand and design.

References


Audit Firm Tenure, Audit Firm Size and Audit Quality

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ABSTRACT

Objective – The objective of this paper is to examine the effect of audit firm tenure and audit firm size on audit quality. This study applies explanatory research in which questionnaire and interviews serve as the primary data. The population of this study is public accounting firms which are registered in the Indonesian capital market.

Methodology/Technique – The study presents a survey using professional auditors. The multiple regression method is used to conduct an hypothesis test of the effect of audit firm tenure and audit firm size on audit quality.

Findings – The result of study depicted that audit firm tenure has no significant influence on the audit quality, while the audit firm size has significant influence on the audit quality. Audit quality deteriorate, when the length of the audit firm client engagement is longer. No particular concern to audit firm size since the big audit firm size has extensive training for their staffs and sufficient system in place.

Novelty – The study contributes to auditing literature in the areas of audit quality. The length of the audit firm client relationship and audit firm size always rise the contradiction to the audit quality. The audit firm tenure and audit firm size support previous study, additional insight are gained toward in the elections of the audit firm that serves professional services in capital markets.

Type of Paper: Empirical

Keywords: Audit Firm Tenure; Audit Firm Size; Audit Quality; Auditor

1. Introduction

Corporate scandals at Enron, WorldCom, Tyco and the collapse of Arthur Andersen (the Big 5 CPA firm) reminds all parties to maintain a high audit quality and give considerable attention to the various factors that can affect the audit quality. High audit quality refers to
financial information without misstatements, omissions or bias (Chadegani, 2011). Similarly, in Indonesia, the corporate scandals of PT Kimia Farma Tbk, Lippo Bank, and PT Kereta Api Indonesia have an impact on the company reputations, and the risk of loss of public confidence. The underlying issue is to maintain high audit quality. The audit process is designed to determine whether the figures reported in the financial statements are presented fairly.

The length of the audit firm and client engagement was found to adversely affect the audit quality, and audit firm size does not enhance the effect of the audit-firm relationship length on the audit quality. The length of the audit firm and client relationship has the potential to create a close relationship between auditor and client, so it may interfere with the independence of the auditors and ultimately reduce the audit quality (Al-Thuneibat, 2011).

Audit quality is often associated with the scale of auditors (Firth and Liau Tan, 1998), which is seen to have advantages in four ways, namely: (i) the large number and variety of clients handled by an audit firm; (ii) variety of services offered; (iii) geographical coverage, including international affiliations; (iv) large number of audit staff in an audit firm. Based on these advantages, DeAngelo (1981), as well as Watts and Zimmerman (1986) argues that the size of the auditor will have a positive effect on audit quality. Thus, it is estimated that compared to small audit firms, large audit firms have better capability in conducting audits, so as to produce a higher audit quality.

The accounting scandals are mainly due to enhanced performance or earnings, so that the company shares look attractive and profitable when purchased by investors in the capital market. For this reason, the stakeholders, including investors question the quality of the audits that has been conducted by an audit firm, particularly large audit firms which have a good reputation. So, there is currently skeptical assessment of stakeholders that large audit firms do not guarantee that the audited financial statements are free from material misstatement and fraud.

2. Literature Review

2.1 Audit Firm Tenure

Sinason et. al (2001) states that the audit tenure is “the duration of the auditor relationship with a client”. Johnson et. al.(2002) defines audit tenure as follows: “this is the number of consecutive years that the audit firm (auditor) has audited the client”. Meanwhile, Amir and Farooq (2011) define audit tenure as “the audit firm’s (auditor’s) total duration to hold their certain client or number of consecutive years that the audit firm (auditor) has audited its certain client”. Furthermore, Carey and Simnett (2006) defines audit tenure as “period of engagement between the auditor with the client, namely the length of the auditor on the company’s audit clients. The auditor indicates the length of their work for clients in a matter of years”. Griffin et. al. (2009), defines audit tenure as “the duration of an auditor’s work and relate to clients which means the length of time an auditor to work within the contract”.

Ghosh and Moon (2005) found that the increase of audit quality is in line with the length of audit tenure. This statement indicates that the length of auditor-client relationship can improve audit quality. An effort to reduce the threat of undermining the objectivity of the auditor would be to ask the audit firm for rotation within a certain time frame.

The other argument supporting the positive side of the length of audit states that an understanding of the business client and the industry is obtained after continuously repeated audits, thus improving audit quality. Furthermore, Johnson et. al. (2002), and Myers et. al. (2003) reported that the level of discretionary accruals decreases with the length of assignment. Bamber and Iyer (2002) found that the length of engagement of the auditor with client correlated to the increasingly high quality of the audit. A similar statement was expressed by Chi and Huang (2005) who conducted research in Taiwan and found evidence that the lower earnings quality of the client occurs in the initial period of the audit assignment by public accountant or public accounting firm.
2.2 Audit Firm Size

Arens et. al (2014:46-47) define the audit firm size as, “CPA firms’ size is a distinction of audit firm’s size based on: total revenues, number of partners, number of staff professionals, and a number of offices. The four classifications based on such categories, are follows: Big 4 international firms, national firms, regional and large local firms, and small local firms”. Colbert et. al. (1999) state that the audit firm size is, “a distinction of firm size based on number of CPA’s, number of partners, the total number of professional staff, and the total number of clients served by the firm”.

CPA firms provide audit services, as well as other attestation and assurance services. Additional services provided by CPA firms include accounting and bookkeeping services, tax services, and management consulting services (Arens, et.al., 2012). Furthermore, Arens et.al. (2012) categorizes the size used to describe a public accountant’s office in the United States, namely:

1. The Big Four International firms in which these firms have branches throughout the United States and around the world. The Big four conducts audit services and other assurance services to most big companies in the United States and around the world.
2. National firms where the firm is large, but much smaller than the big four. This firm has an affiliation with another firm in another country and has international capability.
3. Regional and large local firms where the firms have more than 100 professional staff. Some have only one office and serve clients primarily within commuting distances.
4. Small local firms have fewer than 25 professionals in a single-office firm. They perform audits and related services primarily for smaller businesses and not for profit entities.

DeAngelo (1981) argues that the size of the audit firm is a proxy for audit quality. It so happens that no individual client has been audited by large a CPA firm, and hence a large CPA firm more likely to avoid situations that can interfere with their independence compared to the small audits firm. Dopuch and Simunic (1980) revealed that large CPA firms provide high quality services because they have to maintain their reputation.

Furthermore, Lawrence et. al.(2011) says that the Big 4 provides higher audit quality as large CPA firms support training programs, standardize audit methodology and provide more opportunity for peer review by another partner. Riyanto (2007) states that many researchers use the size of audit firm as a proxy to measure audit quality. The research proves empirically that there is a big difference in audit quality between large audit firms (Big 4 audit firms) and small audit firms (Non Big 4 audit firms).

According to Sundgren and Svanstrom (2011) there is a lot of research that supports the belief that Big 4 audit firms perform a higher audit quality than Non–Big 4 with research conducted in companies listed on the stock market (Kim et. al. 2003; Choi and Doogar 2005; Choi et. al. 2010). Preliminary studies found that the Big 4 audit firms are relatively less frequently sued, and they are rarely penalized by the SEC (St. Pierre and Anderson 1984; Palmrose 1988; Feroz et. al. 1991). Other evidence relating to public companies shows that the Big 4 audit firms have historically lower rates in issuing a modified audit report (Francis and Krishnan, 1999), they report more accurately or conservatively on companies that go bankrupt (Lennox 1999; DeFond et. al. 1999; Choi et. al., 2010).

2.3 Audit Quality

DeAngelo (1981) defines audit quality as the probability that an auditor will both discover material misstatements in the client’s financial statements and truthfully report such material errors, misrepresentation, or omission in the client’s financial statements into their auditor’s report for the users. Audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result (Turley and Willekens, 2008). According
to Arens et. al., (2011:105), audit quality is how well an audit process detects and reports material misstatement in the financial statements.

Various stakeholders such as governments, investors and users of financial statements and the rendering of financial statements have given serious attention to the audit quality. Public accounting professionals have also expressed a commitment to the audit quality (Grant, Bricker, and Shiptsova, 1996). Thus, it cannot be ignored that the audit quality provides credibility to the audit firm.

Warming-Rasmussen and Jensen (1998), identify 6 (six) dimensions of audit quality, namely: personal credibility, auditor independence, disclosure reporting to creditors and shareholders, understanding of the client’s industry, loyalty to the minority shareholders, and the skepticism of the auditor to the auditee. Duff (2004) states that there are 4 (four) dimensions of audit quality, namely: technical quality, service quality, auditor-auditee relationship, and independence.

In this research, audit quality is viewed by various dimensions (DeAngelo, 1981; Deis and Giroux, 1992; Dye, 1993; Gerrald and Keith, 1994; Ramy and Failk, 1996; Herrbach, 2001; Hay and Davis, 2002; Duff, 2004; Fleming and Romanus, 2007): (1) Input Orientation includes: (a) the assignment of personnel to implement the agreement; (b) consulting; (c) supervision; (d) appointment; (e) professional development; (f) promotion; (g) inspection. (2) Process Orientation includes: (a) independence; (b) compliance with auditing standards; (c) audit control; (d) auditor competency. (3) Output Orientation includes: (a) the performance of auditors; (b) acceptance and continuance of cooperation with the client; and (c) due professional care.

3. The hypotheses and model

The hypotheses and theoretical model framework in this study are:

3.1 Hypotheses

Hypothesis- 1: Audit firm tenure has an influence on the audit quality.
Hypothesis- 2: Audit firm size has an influence on the audit quality.

3.2 Theoretical model framework
3.3 Equations

Based on the model, and with reference to the hypothesis, the equation model can be designed, as follows:

Audit firm Tenure \((AFT)\) and Audit Firm Size \((AFS)\) have influence on Audit Quality \((AQ)\).

\[
AQ = \rho_1 AFT + \rho_2 AFS + \varepsilon_1
\]

4. Research Methodology

The conceptual model structure is presented in Figure 1. This model is developed based on extensive literature review referring to the studies conducted on audit quality and relevant research results.

4.1 Variable Operationalizations

Operationalizing a research variable is a process of translating or defining concepts to make them measurable. The concept of audit firm tenure is the duration, the number of consecutive years, and the length of the auditor relationship with a client (Sinason et al., 2001; Johnson et al., 2002; Carey and Sinnet, 2006; Bamber and Iyer, 2002; Myers et al., 2003; Chi and Huang, 2005). The criteria used to measure these variables are the length, or period of assignment, the length of auditor work, and continuity of assignment. Furthermore, audit firm tenure is represented by the variable \(X_1\).

The concept of audit firm size is a distinction of audit firm’s size based on total revenue, number of partners, number of professional staff, and number of offices. The audit firm size is divided into Big 4 audit firm and Non Big 4 audit firm (Arens, 2014; Colbert et al., 1999, DeAngelo, 1981; Francis & Yu, 2009; Choi, 2010; Lawrence, 2011). The criteria used to measure these variables are, number of partners, number of clients, and total revenue. Audit firm size is represented by variable \(X_2\).

The concept of audit quality is related to the ability of the auditor to identify material misstatements in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result. Auditors conduct the audit activity based on GAAS, and ensure that the audited financial statements have been presented fairly in accordance with GAAP (Tyrley and Willkeens, 2008; DeAngelo, 1981; Arens et al., 2011; Francis, 2004; Knechel, 2013; Deis and Giroux, 1992; Hay and Davis, 2002; Duff, 2004). Measuring of audit quality in this study was conducted with several dimensions and indicators according to previous research as stated above. Audit quality is represented by the variable \(Z\).

4.2 The sample of the study

The analysis unit of this study is on public accounting firms which are registered in the Indonesian capital market. The observation unit is the public accountant itself.

The sampling technique applied is probability sampling, specifically random sampling technique. The size of the sample is 63 public accounting firms representing 37% of the total population of 170 public accounting firms registered in the Indonesian Capital Market. Sekaran (2000:250) remarks that the response rate is almost always low. However, a 30% rate is quite acceptable. The respondents in this study are the audit partners.
The measurement scale implemented is multiple choice-single response and Likert’s scale summated rating, with a five point scale ranging from never (1) to always (5). The data is processed by using SPSS v. 22.

5. Data Analysis and hypotheses testing

The analysis of the data was conducted using multiple regression analysis. Based on this calculation, using SPSS ver. 22, the test shows a significance of α=0.05; p=0.000 at F=27.083. Due to the significance level being less than 0.05, it can be concluded that audit firm tenure and audit firm size can explain the audit quality as a dependent variable with the probability (sig) = 0.000. The sig value is less than the probability value of 0.05 (ie: 0.000 <0.05). This means that the independent variables are able to explain the dependent variable and the model tested is fit and worthy to be continued with. This is described in Table 1:

Audit firm tenure and audit firm size on the audit quality.

Table 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2975,641</td>
<td>2</td>
<td>1487,820</td>
<td>27,083</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>9174,293</td>
<td>167</td>
<td>54,936</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12149,934</td>
<td>169</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Audit Firm Size, Audit Firm Tenure
b. Dependent Variable: Audit Quality

<table>
<thead>
<tr>
<th>Table 2. Determinant Coefficient (R² test)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Audit Firm Size, Audit Firm Tenure
b. Dependent Variable: Audit Quality

This means that the two independent variables (audit firm tenure and audit firm size) are able to influence and explain the audit quality by 24.5% (R² value). This value indicates that there are other factors that affect the audit quality outside the audit firm tenure (AFT) and audit firm size (AFS), which is indicated by the error variance of 0.755 or 76%. The remaining 75.5% is determined by other factors not included in the testing. Other factors are alleged to be commitment to the profession, ethical orientation, auditor satisfaction, and audit fees.

5.1 Hypothesis- 1: Audit firm tenure has significance influence on the audit quality.

The test is conducted to measure the significance of influence of audit firm tenure (X₁) on audit quality (Y).

Table 3: Coefficient

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>1</td>
<td>.</td>
<td>24,084</td>
<td>3,139</td>
</tr>
</tbody>
</table>
Audit Firm Tenure | .117 | .127 | .067 | .923 | .357 | .855 | 1.169  
Size Firm | .996 | .156 | .465 | 6.401 | .000 | .855 | 1.169

a. Dependent Variable: Audit Quality

The test shows a significance level of more than $\alpha=0.05; p=0.357$. Thus it can be said that the audit firm tenure has no significance influence on the audit quality, a significant ($\alpha=0.05; p=0.357$) at $t=0.923$.

Based on the above table, the mathematical model is as follows:

$$AQ = 24.084 + 0.117AFT + 0.996AFS$$

This means that: (1) any changes to the positive direction of the audit quality resulted from audit firm is 0.117 (11.7%) and can be predicted and determined by the frequency of audit firm tenure which is equal to 100%, where the audit firm size is assessed constantly and without errors; (2) any change to the positive direction of the audit quality resulted from audit firm is 0.996 (99.6%) and can be predicted and determined by the increasing of audit firm size which is equal to 100% where the audit firm tenure is considered constant and without errors.

5.2 Hypothesis-2: Audit firm size has significance influence on the audit quality.

The test is conducted to measure the significance of influence of audit firm size ($X_2$) on audit quality ($Y$).

Based on table 3, the test shows a significance level lower than $\alpha=0.05; p=0.000$. Thus it can be said that the audit firm size affects the audit quality, a significant ($\alpha=0.05; p=0.000$) at $t=6.401$

6. Conclusions

Audit firm tenure and audit firm size are able to influence and explain the audit quality and the model tested is fit and worthy to be continued with. Audit firm tenure is measured by the length of auditor-client relationships, the length of the auditor’s work, and the continuity of the assignment. Audit firm size is measured by the number of partners, number of clients, and total revenue. Audit quality is measured by the input orientation, process orientation, and the output orientation. The result of this study indicates that audit firm tenure has no significant influence on the audit quality while the audit firm size has significant influence on the audit quality. It is advisable for the audit firm tenure to improve, but is of no particular concern since the large audit firm size has extensive training for their staff and sufficient systems in place. Enhanced prudential closeness between audit firms and clients is recommended in order to provide reasonable assurance that audit activities comply with auditing standards. It’s important to recognise that a high level of audit quality requires effort from both the professional bodies to provide proper auditing standards and the audit firm to provide highly competent staff with an unbiased attitude.
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**A book**


Principals’ Developmental Leadership Behaviors: Validating a Scale with Structural Equation Modelling

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ABSTRACT

Objective – The main objective of this empirical study was to validate a substantiated Principals’ Developmental Leadership Behaviors Model (PDLBM) and an instrument to identify critical components of Principals’ Developmental Leadership Behaviors (PDLB) in Malaysian secondary school context.

Methodology/Technique – Structural Equation Modelling was employed to test the model. Exploratory Factor Analysis was applied to identify the underlying factors, whereas Confirmatory Factor Analysis was employed to test the measurement models.

Findings – The analysis yielded a three-factor PDLBM: (1) focused, (2) supportive and (3) developer which supported evidence for convergent validity, construct reliability and discriminant validity.

Novelty – The PDLBM is a coherent premier tested model derived in a local Malaysian cultural educational setting which provides direction for practitioners in planning and designing specific training programs for developing leadership competency among teacher leaders, with the enhancement of PDLB in Malaysian secondary schools.

Type of Paper: Empirical

Keywords: principals’ developmental leadership behaviors; structural equation modelling; focused; supportive; developer; teacher leaders.

1. Introduction

In light of globalization, educational reform has become a top priority for many countries. The school, as the core cogwheel of education, is subject to inescapable internal and external change pressures (Harris, 2006; Holm & Lundstrom, 2011). In order to cope with the rate of complex change, principals need to relocate authority to lead to other school members, particularly teachers, as they are the front-line implementers in the change process, the real source of and the vehicle for, school change. Numerous international research revealed that where teachers are placed in leadership positions, they are more likely to contribute directly
to school change initiatives (Alexandrou & Swafffield, 2014; Katzenmeyer & Moller, 2011; Ovando, 1996; Gehrke, 1991). In other words, teacher is the single most important factor in the change process (Fullan 2007; Hall & Hord, 2010). There is also another evidence to suggest that student outcomes are more likely to improve where leadership sources are distributed throughout the school and where teachers are empowered in decision related to instructional practices and assessment (Silins & Mulford, 2002). Hence, principals are expected to play an important role in developing teachers’ capabilities to assume leadership responsibilities for effective school improvement and change.

All too often, the main challenge is to find ways of encouraging more teachers to become leaders and to provide them with the support and resources necessary to change current individualistic pedagogical and instructional practices. Elmore (2000), believed that to engage teachers productively in leadership there must be a whole-school focus on change. Principals, therefore, must have a clear focus in developing teachers as leaders based on their professional expertise, i.e. developmental leadership behaviors (DLB) (Elmore, 2002). These will provide very practical insights into how best to influence teachers to assume new responsibilities in the school change process. Obviously, a new paradigm of the teaching profession is needed, one that recognizes both the capacity of the profession to provide desperately needed school revitalization and the striking potential of teachers to provide new forms of leadership in schools and communities (Crowther et al., 2002a) which, on the other hand, requires a powerful ‘leadership competencies’ development for teachers (Duignan & Marks, 2003).

Hence, principals need to develop this kind of professional development for teachers once they feel comfortable in engaging fully with teachers in a shared leadership framework. In other words, principals hold a key position in the school hierarchy and teacher leadership capacity in order to create conditions which are conducive towards an egalitarian model of leadership (Lambert, 1998). Nonetheless, for effective PDLB to occur, we need relevant data and knowledge. Specifically, a reliable and valid model as well as a comprehensive diagnostic instrument to effectively identify and assess critical developmental leadership behavior that can assist principals to develop and influence teachers’ commitment to change over time. Sensing the predicament, the main aim of the study was to validate a substantiated Principals’ Developmental Leadership Behaviors Model (PDLBM) and an instrument to identify critical components of PDLB in local context. It serves as a first step on the road to understanding the mechanisms antecedent to the phenomenon of resisting leadership responsibilities among teachers.

2. The Validation of Principals’ Developmental Leadership Behaviors Instrument

Principals’ Developmental Leadership Behaviors (PDLB) in the current study was constructed by adapting effective developmental leadership behaviors instrument (EDLBI) developed by Wilson (2004) which encompassed five main components: i) Focused; ii) Supportive; iii) Developer; iv) Competitive; and v) Charismatic. These components were included in either practitioner publications or scholarly journals over the past 14 years (2000 - 2014). EDLBI (Wilson, 2004) has been adapted due to its validity evidence. Wilson (2004) reported that coefficient alphas of .90, .89, .88 and .92, respectively, were achieved on four separate organizational studies for EDLBI.

- **Focused** (four items) behavior refers to the perception that enable the leader to engage in actions that primarily focused on the growth and development of the people and organizations. This *Focused* element helps the leader to focus on worthwhile visions and the ethical aspects of the developmental activities (Zaidatol Akmaliah, 2012) or their motive to motivate subordinates to work beyond their self-interest in order to achieve desired goals (Dionne, Yammarino, Atwater & Spangler, 2004). Hence, leaders need to behave in admirable ways that would influence subordinates’ commitment to sacrifice (Judge & Piccolo, 2004). *Supportive* (five items) behavior reflects the leader’s effort in assisting subordinates to develop newly learned skills and promote *social support* within them (Lyons & Schneider, 2009). Hence, they would feel more confident to hold new challenging roles.
when they believe their leaders always support them and shared the organization’s vision with them.

- **Developer** (four items) behavior refers to the leader’s effort in developing his or her subordinates in several ways, particularly to become junior leaders (Roberts, 2014). This concept is included in Burns’ (1978) transformational leadership theory whereby individual leaders will inspire their subordinates to accomplish more beyond their expectations by aligning their values with the values of the organization. **Competitive** (four items) behavior reflects leader's effort to keep a *competitive* edge and willing to take risks to accomplish shared goals, in *competitive* contexts (Wilson, 2004). Research shows that subordinates who serve in a progressive organization where competition is tough, will always expect their *competitive* leaders to inspire and empower them to work towards the achievement of the organization’s vision and mission (Bartram & Casimir, 2007). **Charismatic** (five items) behavior refers to the leader’s capability in convincing, inspiring, and motivating subordinates in learning more advanced skills, and make them realize the benefits of it. The more the subordinates satisfied with the acquisition of new knowledge, the more they will perform beyond their expectations (Orvis, Fisher, & Wasserman, 2009).

The five key developmental leadership behaviors discussed above underpinned subordinates support of professional development initiatives. In general, the greater the initiatives leaders’ take to influence subordinates effort to assume greater responsibilities, the higher the likelihood of subordinates’ to accept the challenge. The researcher adapted the instrument items based on the suitability of the item itself and the context of the study. Given that the original item would apply to leadership development in the school settings, some items in the original instrument were rewritten to better fit the contextual richness of the developmental leadership behavior of the principals involved in the leadership development effort.

### 2.1 Pilot Test Approaches

- In order to minimize any error or bias and overcome the shortcoming of using one method, six distinct approaches were applied to ensure the validity and reliability of the instrument in the study. First, PDLBS was reviewed by Niche-Research Grant Scheme (NRGS) research team members and supervisors as recommended by Netemeyer, Bearden, and Sharma (2003). This was to ensure no irrelevant questions were included in the survey, that precision and clarity was obtained, and that the item arrangement was appropriate for the respondents. Second, the survey was distributed to three external (oversea) panels for verification and comments. The purpose of this step was to improve the content validity of the instrument. They were professors or senior lecturers in the area of educational management and leadership from three different western universities. They were given the description of the concerned dimensions of the instrument and asked to base their designations on the definitions provided. The content adequacy was measured based on the percentage of inter-rater agreement (Chen, Gullly, and Eden, 2004). Besides, the expert panel was also requested to provide comments and suggestions concerning the content validity and the appropriateness of the terminology used. Two to three face-to-face discussions were carried out by the three experts, respectively. As all the items surpassed the threshold of 75% and most probably due to PDLBS being adapted from previous researchers, the panel was satisfied with all the items. As a result, no changes were made upon the item content, terminology used, or additional items suggested by the panels. The number of items remained 22 after the content adequacy test held by the panel.

- Third, the origin instrument which was prepared in English were then translated into Malay Language since most of the sample consisted of mostly non-English speakers. The instrument was then undergoing back-translation to English Language again. This procedure was significantly important (Frazer & Lawley, 2000) in order to enable the respondents to give their genuine responses, and to avoid cultural differences which may confound the results (Salcuviene, Auraskeviciene, & Lydeka, 2005). Fourth, three personal interviews were conducted with teachers who were similar to those approached in the actual survey (Churchill, 1995). There were teachers from three distinct types of targeted high-performing
secondary school (HPSS) in this study; daily secondary school (DSS), fully residential secondary school (FRSS) and religious secondary school (RSS). Each school was represented by one teacher who has served at least 10 years in the concerned school. The purpose of the interview was to ask respondents to identify any problems with regard to the questionnaire format, syntax, design, questionnaire completion time and to address any comments or suggestions they had. They were interviewed upon completion of the questionnaire. The items had been rearranged based on the suggestions given; instead of being presented based on each construct respectively, all items were jumbled up to minimize position bias.

- Fifth, the questionnaire has been distributed to six teachers to evaluate the clarity of each item (Flowers, 2006) based on the scale of 1 to 10. This step aims to determine the validity coefficient for each item. It also aims to identify whether the questionnaire was actually interpreted in the way it was designed specifically for the target population. Item with average score equivalent to 70% or above was considered to have high content validity (Tuckman & Waheed, 1981). Meanwhile, items with average score lower than 70% will be deleted. Obviously, all items in each domain yielded a high average score for clarity with at least 9.10 and the average score for the whole instrument was 9.38. Simply state, all items were considered as high in content validity. Therefore, none of the items were dropped after the pilot test. Sixth, a pilot field-test was conducted in order to assess the internal consistency reliability (Cronbach’s alpha), and the consistency of the instrument across all the items under each construct (Neuman, 2006). Consequently, three items were deleted due to negative item-scale values. There were two from supportive and one from the developer (Table 1). These items did not share a common core with the other items of their respective constructs and were therefore dropped. In addition, although some of the items-scale value of PDLBS were less than .60, and due to the Cronbach’s alpha of PDLS being very high, i.e. .90, no deletion was taken upon the concerned items. Overall, PDLB was compressed into 19-item with Cronbach’s alpha for five constructs, ranging from .820 to .938.

Table 1. The number of item retained and the Cronbach’s alpha for each construct after assessment of internal consistency reliability of PDLBS

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of original items</th>
<th>No. of item retained</th>
<th>Cronbach’s alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused</td>
<td>4</td>
<td>4</td>
<td>.938</td>
</tr>
<tr>
<td>Supportive</td>
<td>6</td>
<td>4</td>
<td>.930</td>
</tr>
<tr>
<td>Developer</td>
<td>4</td>
<td>3</td>
<td>.866</td>
</tr>
<tr>
<td>Competitive</td>
<td>4</td>
<td>4</td>
<td>.921</td>
</tr>
<tr>
<td>Charismatic</td>
<td>4</td>
<td>4</td>
<td>.820</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

2.2 Assessment of Construct Validity through Exploratory Factor Analysis

A second pilot field-test was carried out to perform exploratory factor analysis (EFA) to verify the conceptualization on the constructs and its dimension of PDLBS. EFA was conducted based on the second pre-test responses with 300 teachers from four different states in West Malaysia chosen randomly as a sample. It falls within the basic requirement as five times of the total number of items identified (51 items x 5) as a minimal requirement of sample size for factor analysis (Chua, 2009).

- The suitability of the data was assessed prior to performing EFA. The correlation matrix of the 51 items revealed the presence of many coefficients of .6 and above. The communalities with all values exceeding .5 indicated that the sample size was adequate (Hair et al., 2009). The Kaiser-Meyer-Olkin value was .928, exceeding the recommended value of .5.
.6 as the minimum value for a good factor analysis (Kaiser, 1970, 1974). The Bartlett’s test of sphericity was below the significance level, i.e. p < .05, which indicated that sufficient correlation exist among the item (Hair et al., 2009). Simply stated, the overall inter correlations among items were met. Principal component analysis (PCA) affirmed the occurrence of three factors with eigenvalues exceeding 1, explaining 24.06 per cent for Focused behaviors, 22.18 percent for Supportive, and 18.81 per cent for Developer. All in all a total of 65.06 percent of the variance, which were above the threshold of 50 percent (Streiner, 1994), was extracted for the three factors.

- Following this, the rotated solution, affirmed that the three factors explained a total of 70.64% of the variance, which were above the threshold of 50%, suggested by Streiner (1994). Factor 1 contributing 24.07%, Factor 2 contributing 22.18% and Factor 3 contributing 18.81%. All the three factors showed a number of strong loadings from .518 to .860, which also showed a high variance among the variables. Indeed, all the 15 items of the three factors were loaded more than .5. Further, the rotated component matrix affirmed that Factor 1, contained 4 items; Factor 2 consisted six items, and Factor 3, contained five items. Obviously, two factors, the Competitive and Charismatic, from the original five-factor adapted instrument of EDLBI (Wilson, 2004) were excluded in the data set due to the unique local context after applying EFA. Overall, out of 22 items, three factors with 19 items were retained for PDLBS.

2.3 Assessment of Measurement Model through Confirmatory Factor Analysis

- The measurement model of PDLB was constructed as shown in Figure 1. This model consisted of three latent variables, focussed (FOC), supportive (SUP) and developer (DEV). FOC was measured by four observed variables, whereas SUP was measured by six observed variables and five variables were utilized to observe DEV. Confirmatory factor analysis (CFA) was employed to test the adequacy of the PDLB measurement model. As portrayed in Figure 1, the GFI (.939), AGFI (.907), Comparative Fix Index (CFI) (.968), IFI (.968), NFI (.963) and Tucker-Lewis Fix Index (TLI) (.959) fit indicators exceeded the threshold of .90, indicating a good fit. However, the Relative Chi-Square was 7.011, exceeded the .50 suggested cut off value. The Root Mean Square Error of Approximation (RMSEA) (.081) was slightly surpassed the acceptance level of .08. To further identify the cause of the misfit, the modification indices (MI) were scrutinised. Among the pair items with high MI values were DEV3 and SUP5 (42.055 and 33.092). DEV3 (My principal positions individuals for success) and SUP5 (My principal cares about others’ welfare). Nonetheless, the researcher decided to delete item SUP5 first because the statement was comparatively more direct and has the highest degree of redundancy as compared to item DEV3. Next, item DEV2 (My principal empowers others) was problematic because it appeared two times with other items for having moderate MIs: SUP5 (29.337) and SUP2 (19.868).

- This model was revised and the modified model was presented in Figure 2. Obviously, after the elimination of the above mentioned item (SUP5), better model fit to the sample data was established. The Relative Chi-Square with a value of 4.765, successfully met the required threshold of <5. The GFI (.963), AGFI (.941), CFI (.982), IFI (.982), NFI (.978) and TLI (.976), which surpassed the minimum required level of >.9 respectively, indicating a very good fit. The RMSEA (.064) was also below the suggested threshold (<.08) and thus indicated an acceptable model fit.
Figure 1.  
Measuremen Model 1  
PDLB

Relative Chi-Sq (<5.0)=7.011
GFI (>=.9) = .939
AGFI (>=.9) = .907
CFI (>=.9) = .968
IFI (>=.9) = .968
NFI (>=.9) = .963
TLI (>=.9) = .959
RMSEA (<.08) = .081

Relative Chi-Sq (<5.0)=4.765
GFI (>=.9) = .963
AGFI (>=.9) = .941
CFI (>=.9) = .982
IFI (>=.9) = .982
NFI (>=.9) = .978
TLI (>=.9) = .976
RMSEA (<.08) = .064
2.4 Convergent Validity

To assess the convergent validity, the researchers examined the standardized factor loading (SFL) estimates of the model. The analysis indicates that all the items satisfied the cut-off value of .70, which also means that all the critical ratios of the estimates were outside the +1.96 z-value range and p-value was below .05; thus, factor loading was statistically significant (Holmes-Smith, 2001). Moreover, the Squared Multiple Correlations (SMC) was also being evaluated in order to assess convergent validity. Similarly, all items surpassed estimation rule with threshold of more than .50. Finally, the researcher evaluated the construct reliability of PDLBS. High CR indicates that internal consistency exists, which means all the measures consistently represent the same latent construct (Hair et al., 2006).

2.5 Discriminant Validity

Discriminant validity of PDLB scale was measured through the correlation procedure. According to Hair et al. (2010), high discriminant validity provides evidence that the concerned construct is empirically unique and represents phenomena of interest that other measures in a structural equation model do not capture. As shown in Figure 3, it is clear that, all the correlations value are lower than 0.85 (Zainudin, 2012). Thus, it can be concluded that the measures bear low correlations and demonstrate discriminant validity.

3. Discussion

- In testing PDLBM, after identifying the underlying structure based on local context, instead of five factors: Focused, Supportive, Developer, Competitive and Charismatic, only three factors were retained namely, Focused (.90), Supportive (.94), and Developer (.83)
The findings which revealed that focused is one of the important factors of PDLB is in line with Wilson (2004) definition on an “Effective Developmental Leader” as a leader whose main focused was the growth and further advancement of the subordinates in order to strengthen their performance in a proactive manner. Supportive behavior was found as another important factor of PDLB in the current study. This finding is parallel to the work of Robinson et al. (2007) that effective leaders would support the development and implementation of new instructional relationships and interactions in the classroom of sustainable school reform. Developer behavior was also found as another significant factor of PDLB in the current study. This finding is consistent with the observation of Maxwell (1993) that leaders’ main responsibility is developing subordinates to accomplish their tasks.

Next, Competitive, the proposed behaviour, was found to be non significant as an important factor for PDLB. Therefore, the school principal is encouraged to work with teachers, empower them (Blasé & Blasé, 1994), and utilizing their expertise and initiative in a way which benefits the school as a whole (Hammersley-Fletcher & Brundrett, 2005) through teacher leadership (Lieberman, Saxi & Miles, 2000; Silva, Gambert, & Nolan, 2000; Harris & Day, 2003). Besides, Charismatic behaviour which enable principal to convince and challenge teachers to assume leadership roles, as middle managers and classroom teachers who engage in school reform, was also found to be non significant factor for PDLB. One possible reason why this behavior did not underlie principals’ capability to develop school-based teacher leadership is that basically as administrator, principals have to convince teachers to take part in the school reform initiated through multiple direction instead of top down approach.

4. Limitations and Directions for Future Research

First to obtain a better understanding of PDLB, it would be good to collect the data based on various types of schools. However, due to financial and resource constraints, this was not the case. Any future study to obtain such data would greatly advance our understanding of the phenomena under study and to address the limitation. Second, HPSS and the concerned teachers were the sites and study population chosen for the study. The standard used in choosing sites and respondents was based on the reason that they are ‘information rich’. By focusing only on HPSS, the researcher can easily and more accurately identify which were the most critical components of PDLB. Similar research could be pursued on a more diverse sample; for instance, teachers in the mediocre or low-performing secondary school as well as teachers in primary schools so as to test the validity of the study’s model across different samples and the extent to which these can be generalised.

5. Conclusion

The development of the PDLB was based on the need to identify critical components of PDLB in developing teacher leaders. By validating a model and an instrument to identify and analyze PDLB, the current study has contributed to a better scholarly understanding of PDLB. Additionally, the PDLBM is an empirically tested model derived in a local Malaysian cultural and educational setting. It provides direction for practitioners in planning and designing training programs for teacher leaders in the enhancement of PDLB among principals in schools. Importantly, the study may alter the traditional approach in developing teachers as classroom instructional leaders to school based teacher leaders.

Acknowledgements

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References


Evaluating Employees’ Commitment in Islamic Work Ethics Perspective

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ABSTRACT

Objective –The study purposes three objectives, which is to recognize the level of employees’ commitment (EC) among employees, to identify the level of IWE application among employees, and to investigate the relationship between EC and IWE.

Methodology/Technique – The data was collected through a structured questionnaire from employees working at selected financial firms in Kuala Lumpur and has been statistically analysed using SPSS.

Findings – The results showed that the levels of employees’ commitment and IWE among employees are high, however the Pearson correlation test shows there is no significant relationship between EC and IWE. Hence, it is recommended for future research to explore a different angle of the management dimension to be tested with IWE and expand the context into a multidisciplinary field.

Novelty – This research helps to broaden the employees’ knowledge about the work ethics in Islamic perspectives and apply it in their organization.

Type of Paper: Empirical

Keywords: Organizational Commitment; Employees Commitment; Affective Commitment; Normative Commitment; Continuance Commitment; Islamic; Work Ethics.

1. Introduction

There are many different kinds of religion around the world. Each of it brings distinguished culture, norms and ethics. Islam in specific has offered unique perspectives on work and has formulated detailed conceptualization of work ethic. In all probability, their articulation of work ethic and desired behavior has reinforced their faith and accelerated social and economic changes that were seldom known in East Asia particularly, the cradle of Islam. From the beginning, Islam has viewed commercial activities not only as a divine calling, but also a necessary aspect of human life, a source of social gratification and psychological pressure (Abbas & Abdullah, 2008).

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There are several advantages that the organization will be able to achieve when they apply Islamic perspectives towards their work ethics. However, most of the Muslims do not really understand about the value of IWE, some maybe know the meaning of IWE but difficult to implement it as they fear it will ruin the chances to be on the top of organizational position. In contrary, Syukuriah, Fauziah, Yusrina, Nadia, & Azmahani (2011) believed it was more likely that those who have faith in Islam and practice it tends to be committed to their organization and presumably more satisfied with their jobs. Besides, Oliver (1990) in his study found out work ethics have a significant relationship with organizational commitment. Employees who showed strong participatory values exhibited relatively high commitment, while those with strong instrumental values showed relatively low commitment. When they believe that they need to maintain their work ethics, it will lead them to become more committed to work and they will able to achieve the organization’s goal and objectives. Even though IWE were established in the organization, some of the employees are not ready to show their commitment upon this concept. The employees thought that by following IWE perspectives, it is rather complicated and challenging. According to Abbas & Abdullah (2008), unlike work ethic in Judaism and Christianity, IWE has been misunderstood or ignored in management and organization studies. Further, some organization more preferred to apply Western work ethics rather than applying IWE due to the fact that research regarding IWE and its implications in the workplace are limited (Ahmad, 2011; Kumar & Rose, 2010 and Rokhman, 2010). Other than that, there are very little exploration has been devoted to an in-depth study of the IWE and its effects on about job-related, for example employee’s dedication, employee’s achievement, and including employee’s commitment (Majid, Asif, Fakhr, Atif& Syed, 2013). Hence, this research proposed to investigate the role of IWE towards organizational commitment among employees.

2. Literature Review

2.1 Organizational Commitment

Organizational commitment is the strength of an individual’s identification with an organization (Nelson and Quick, 2012). It shows that organization’s commitment remained one of the most widely studied concerns in the organizational behavior literature (Copper-Hakim and Vineswaran, 2005). At a general level, most researchers agree that organizational commitment describes a psychological state that characterizes the relationship of an employee with the organization for which they work that has implications for their decision to remain with the organization (Allen & Grisaffe, 2001). Besides, Mahdavi (2001) describes organizational commitment as the attachment that is formed between employees and their employing organization. Colquitt (2001) believed that everyone should possess some emotional attachment to some extent for the organization which is working at. Committed employees have been found to be less likely to leave an organization than those workers uncommitted (Angle & Perry, 1981). It is also because the employees wish to maintain their association in order to facilitate organizational goals (Suliman & Iles, 2000).

Therefore, organizational commitment is an important constituent in the hearts of employees because it will bind employees to continue functioning in the organization and contribute to the operation of the organization (Rahmani, 2014). According to Watson-Wyatt Worldwide (2004) the attitude of employees throughout Asia, the survey involved a sample of more than 115,000 employees from 515 companies in 11 countries. They found that 80% of employees believed in the company’s long-term success (this figure exceeds the Asia Pacific region only 72%), but only 35% of employees in Indonesia want to stay in the company, the rest have the intention to leave the company for another company with almost equal in terms for the Asia-Pacific region where 57% of employees chose to survive despite similar available positions at other companies, then Indonesia employees are considered to have the lowest commitment compared to the 10 Asian countries survived (Rahmani, 2014). For that reason, according to Allen et. al., (2001), the organizational commitment of the worker is affected by three separate
elements and is comprised of affective commitment, continuance commitment and normative commitment.

2.1.1 Affective Commitment

According to Allen and Meyer (1990), affective commitment refers to the employee’s emotional attachment to, identify with, and involvement in the organization. Where it determines the employees who are strong in affective commitment continue employment in the system because they desire to do then. Steers (1977) and Mottaz (1988) identified factors which aid in creating intrinsically rewarding situations for employees. These factors are job characteristics, job performance, perceived organizational support or dependence (the feeling that the organization considers the best interest of employees when making decisions that affect the employment conditions and work environment) and the degree that employees are involved in the goal setting on the decision-making process.

Subsequently, affective commitment can exist when the harmonization appears between norms and values in the organization and its goals. It involves identification with the organization, and employee participation in its organizational processes (Yeliz, Pervin & Tamer, 2013). It has also can be related as the worker’s desire to stay in the business by their affective preferences (Allen & Meyer, 1997). In addition, according to Mir (2002), affective commitment is attitudinal, it is about aspects of the personality and job related factors, it depends on an employee’s willingness to support organizational goals.

2.1.2 Normative Commitment

Jaros (1993) describes normative commitment as the degree to which an individual is psychologically attached to an employing organization through internalization of its goals, values and missions. This dimension differs from affective commitment because it is not necessarily an emotional attachment, but reflects a sense of moral duty (Meyer & Herscovitch, 2001). It also shows the feeling of obligation to continue employment (Allen & Meyer, 1990).

Furthermore, Allen and Meyer (1996) put forward a new development of the concept of existing commitments, by presenting the concept of normative commitment. According to them, normative commitment is defined as a belief in oneself a responsibility to keep working in the organization. This concept refers to the definition proposed by Baack, Luthan & Jerry (1991) on organizational commitment, which reported an internalized normative pressure in a person to act in accordance with the goals and interests of the organization. The reason for the action was merely that the action was believed to be the right thing to do normally. Employees with high normative commitment have a need to remain committed to the organization, regardless of their feelings to the organization. Unlike the concept of affective commitment and continuance commitment, the concept of normative commitment received less attention from researchers (Rahmani, 2014).

2.1.3 Continuance Commitment

Several definitions exist for the concept of organizational commitment. One definition by Becker (1960), he viewed organizational commitment as a reflection of recognized, accumulated interests (e.g pensions and seniority) that bind one to a particular organization, popularly known as side bet theory (Bar-Hayim & Berman, 1992; Hackett, Bycio, & Hausdorf, 1994; Hrebiniak & Alutto, 1972). Another definition viewed continuance commitment as an internal feeling, belief, or set of intentions that enhances employee’s feelings of obligation to stay with the organization. Such feelings can result from the internalization of normative pressure exerted on an individual prior to entry or following entry (Allen et. al., 1990).
2.2 Islamic Work Ethics

For the past few years, researchers are focusing on Islamic Work Ethics (IWE) and its relationship with multiple work related outcomes and behaviours; for example, job satisfaction, organizational commitment and job turnover intention in specific situations (Oliver, 1990; Aldag & Brief, 1975; Blood, 1969; Haroon, Fakhar, & Rehman, 2012). When Muslims practice Islamic ethics in their daily lives, they become a good example to emulate and enlighten the other societies. As Islam is a comprehensive religion, it has depth to absorb all other societies (Hafiz, Yousuf, Arshad, & Muhammad, 2012). Furthermore, Yousuf, Hafiz and Muhammad (2013) also added, Islam emphasizes the ethics in every aspect of life. “You are the best nation that has been raised up for mankind; you enjoin right conduct, forbid evil and believe in Allah” (Qur'an 3:110). It is not only involved a person’s life, but also involves organization’s operations and business. Hence, IWE should be encouraged among employees to enhance their understanding in order to ensure that they are able to apply these Islamic perspectives towards achieving organizational commitment.

In addition to that, every culture has a unique history and set of conditions that influence the meanings given to work in people’s life. Culture along with religious background has an impact on the people’s ethical thought and behaviors (Porter, 2010). And above, in Islam there are factors that affect ethical behavior, which is legal interpretations, organizational factors, individual factors, social factors, the environment and the manager (Beekun, 2004). Therefore, ethic in business from Islamic point of view implies honesty, trust and a relationship between employers and employees that reflects the fact that they are part of the same brotherhood or sisterhood and spiritually equal before Allah, even if not materially equal on Earth (Bassiouni, 1993). By applying IWE, it shows that employees are able to know how to add their deeds and avoid sins based on Islamic perspectives at work.

2.3 The relationship between IWE and OC

According to Allen et. al. (1990), organizational commitment is a psychological state that attaches an employee of an organization, thereby reducing the incidence of turnover. Plus, Putri, Aryee and Ling (1989) had analyzed the relationship between work values and organizational commitment. They found that intrinsic work values are closer to organizational commitment than extrinsic work values. The result was supported by Rokhman (2010). Based on the findings, it shows that employees in the organizations scored high on the IWE scale, which is indicated that they support Islamic ethics. Rokhman (2010) also proved that organizational commitment shows that employees in the institutions have high commitment to their current organization.

Figure 1 shows the variables that are involved in this study. The independent variable consists of Islamic work ethics, while the variable involves organizational commitment. In organizational commitment, it includes affective commitment, normative commitment and continuance commitment. The model as shown in Figure 1, is designed to investigate the relationship between IWE and organizational commitment as presented in literature review part.

Therefore, it leads to the following hypothesis:

H1: There is a significant relationship between IWE and OC
3. Methodology

Nowadays, employees in the organization realize about the advantages of Islamic work ethics, but they have a lack of information on how to apply those ethics towards to gain organizational commitment. This study has come out with a few objectives on analyzing the role of Islamic work ethics among employees. It comes with three expected outcomes to achieve; to identify the level of Islamic work ethics among employees, to identify the level of organizational commitment among employees, and to analyze the relationship between Islamic work ethics and organizational commitment.

Therefore, quantitative data become essential in this study. A set of structured questionnaires adapted from Allen & Meyer (1990) and Yousef et. al. (2001) was used to gather and to analyze the perspective of Islamic work ethics towards organizational commitment. The population of the study is employees from selected private financial firms in Kuala Lumpur. The reason for choosing the population because the selected private financial firms applying sharia compliance principles in daily business activities. The selected private financial forms are JSA Advisory and Services Sdn Bhd, My Commerze Sdn Bhd, Bank Rakyat Taman Melawati Branch, Malaysian Building Society Berhad (MBSB) Taman Melawati Branch and CIMB Principal Asset Management Berhad Sri Rampai. The total number of samples is 90 employees from an administrative department only and the survey was distributed to all to gain the ultimate representation of the entire population. The reason for choosing the population is because most employees from another department are not easy to get in touch to. In this research, the researcher used descriptive-correlation study in order to investigate if there is a relationship between Islamic work ethics and organizational commitment. Correlation analysis was used to describe the strength and direction of the linear relationship between two variables (Julie, 2001). The researcher used Pearson product-moment coefficient because it has continuous variations in internal level.

4. Results

4.1 Identifying the level of Islamic work ethics application among employees

Table 1 below shows the level of Islamic work ethics (IWE) among employees. Based on the study, there were 17 items representing the variable and to measure the level IWE among respondents the Likert scale were used. According to Sekaran et. al., (2013), Likert scale is used to measure the strength of respondent’s agree and disagree with the statements on five-point scale with the following anchors: 1= strongly disagree, 2=disagree, 3= neither agree or disagree, 4= agree, 5= strongly agree. From the table, the results show total mean of IWE 3.8095 and standard variation .42247. According to Sekaran (2010) the mean showed high level of IWE among employees.
Table 1: Mean and standard deviation of IWE among employees (n=90)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic work ethics</td>
<td>3.8095</td>
<td>.42247</td>
</tr>
</tbody>
</table>

4.2 Identifying the level of organization commitment among employees

Table 2 below shows the level of organizational commitment among employees. Based on the study, there were 24 items in a questionnaire. The same five-point Likert scales were used to measure the respondents’ perception. The total mean for organizational commitment is 3.6379 and for standard deviation is .51820. Based on the total mean, it shows that employees have a high level of organizational commitment. It indicates that employees have a good understanding of organizational commitment within the organization.

Table 2: Mean and standard deviation of OC among employees (n=90)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational commitment</td>
<td>3.6379</td>
<td>.51820</td>
</tr>
</tbody>
</table>

4.3 Analyzing the reliability and relationship between Islamic work ethics and organizational commitment

Before analysing the data, the researcher has conducted a validity and reliability test by using the Statistical Package for Social Sciences (SPSS) Version 17. According to Julie (2001), if the value of Cronbach’s alpha is 0.7 and above, the scale are considered reliable with samples. It shows a good internal consistency with Cronbach’s alpha coefficient reported for Islamic work ethics 0.871 which indicates the consistency of the measure, meanwhile the alpha value for organizational commitment is also reliable with the value of Cronbach’s alpha 0.940.

In addition, Table 3 also shows the summary of analysis for the relationships of IWE and OC. Based on the Pearson correlation test it shows that organizational commitment does not have a significant relationship with the Islamic work ethics (0.129) at a significant level of 0.01. The result indicates that Islamic work ethics applications in the organization were not affected by employees’ commitment towards organization.

Table 3: The result of correlation and reliability analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
</tr>
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<tbody>
<tr>
<td>IWE</td>
<td>3.8095</td>
<td>.42247</td>
<td>(0.871)</td>
<td></td>
</tr>
<tr>
<td>OC</td>
<td>3.6379</td>
<td>.51820</td>
<td>.129</td>
<td>(0.940)</td>
</tr>
</tbody>
</table>

** Correlation is significant at 0.01 level (2-tailed)

5. Discussion and recommendation

In order to determine the level of IWE and OC descriptive analysis were conducted to measure the mean and standard deviation value. The total mean of IWE 3.8095 and standard variation .42247 and total mean for organizational commitment is 3.6379 and for standard deviation is
Both results showed that employees have a high level of IWE and OC. However, the correlative analysis for both independent and dependent variables showed that there is no significant relationship between OC and IWE. Rokhman (2010) found out that IWE may significant to other independent variables such as job satisfaction and turnover intentions. Conferring the results Hayati & Caniago, (2012) also claimed that IWE also has a relationship with intrinsic motivation and job performance. Above and beyond, the reason why there is no significant relationship between IWE and OC maybe due to the lack of respondents that involved in this study. According to Julie (2001), if there were small samples in the study, the researcher may not reach statistical significance level (p<.05).

There are several recommendations that should be taken by those private firms in Kuala Lumpur in order to enhance employees’ Islamic Work Ethics towards organizational commitment. First, organizations need to maintain collective values in tolerance, respect and courtesy when dealing with co-workers and others (Rahmani, 2014). Besides, another recommendation that should be taken from managers is to give motivation and support to employees in order to enhance Islamic work ethics in the organization. The managers need to support the IWE by ensuring that every employee should participate in the training and educational program that enable them to apply what they have learned into the organization by Islamic morality and values in the workplace (Rokhman, 2010). Next, employees need to be more diligent, persistent and meeting deadline. Employees need to establish a timetable and clarification of goals and responsibilities in order to carry out a successful intervention in the workplace (Abbas et. al., 2008). This is important for employees to ensure that they are able to give a full commitment and apply in their Islamic Work Ethics in their job performance. Plus, they are also able to become more discipline when performing their jobs. Finally, for the future research, it is suggested to other researchers to enlarge the number of respondents to know the perception and level of organizational commitment towards Islamic Work Ethics among the employees. Then, it is also important for the researchers to involve organizations from government sector to get the information about IWE towards organizational commitment in the government sector.

6. Conclusion

As for conclusion, the significance of study can be seen in three perspectives. Firstly, the research will able to improve work ethics in the organization based on Malaysia’s Integrity Plan. According to Malaysia’s Integrity Plan, when employees are able to improve their organizational commitment, it can ensure to develop superior work culture and excellent basis to increase quality and productivity of an organization. The formation quality work culture can only be achieved if members of the organization and the nature of the work ethic to practice integrity and positive environment overall. It is hoped that this research helps to broaden the employees’ knowledge about the work ethics in Islamic perspectives and apply it in their organization. At the same time, they can enhance the competitiveness and resilience of Malaysia in an effort to address the challenges of the 21st century, particularly the challenges of globalization more effectively.

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The Impacts of IFRS Adoption on Financial Statement Quality for Firms Listed in Indonesia Stock Exchange*

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ABSTRACT

Objective – the objective of this research is to explain whether the adoption of IFRS in Indonesia has improved accounting information quality.

Methodology/Technique – Earnings volatility and discretionary accruals are used to test the scope of earnings management on a set of accounting standard used. The regression of share price and book value per share and net profit per share, along with the explanatory power of the model were used to test the value relevance of the accounting standards applied.

Findings – This research finds that no significant difference of earnings management’s scope after the mandatory adoption of the IFRS. Moreover, this research also finds that IFRS does not result in higher value relevance.

Novelty – This research presents evidence of IFRS convergence from an emerging market point of view, particularly in Indonesia. The focus of this research is to examine the impact of IFRS adoption of financial statement quality using multiple measurements.

Type of Paper: Empirical

Keywords: Financial statement quality; International Financial Reporting Standard (IFRS); Earnings management; Earnings volatility; Value relevance.

1. Introduction

The adoption of IFRS was expected to bring higher quality of accounting information (Palea, 2013). There are some researches that have conducted researches to prove the impacts of IFRS adoption on financial statement quality. According to Ashbaugh and Pincus (2001), the implementation of IFRS reduced information asymmetry due to higher disclosure. In line with the previous results, Iatridis (2010) found that IFRS adoption reduces scope of earnings management and produces greater value relevance. Therefore, IFRS adoption leads to higher financial statement quality. These findings are consistent with the results from others

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researches conducted by Rudra and Bhattacharjee (2012) in India, Chiha et al (2013) in France, Lee at al. (2013) in China and Ismail et al. (2013) in Malaysia. However, other studies found on the contrary. Grossman et al. (2013) and Joia and Nakao (2014) found no significant difference in the quality of financial statement after adopting IFRS. The mixed results might be affected by the legal system in which the IFRS has been implemented (Guenther and Young, 2000). Countries which adopt a common-law system are more supportive of the implementation of IFRS because they have strong investor protection (Iatridis, 2010). As a result, the adoption of IFRS in common-law countries would lead to higher accounting quality (Karampiris and Hevas, 2009; Iatridis and Rouvolis, 2010). While in countries with code-law system, the market is less active and the accounting information is produced to fulfill the need of various stakeholders, not only for investor (Ball et al., 2000). In this environment, IFRS adoption would not bring significant difference in financial statement quality (Joia and Nakao, 2014). Moreover, Lin et al. (2012) found accounting numbers under IFRS implemented in code-law country lead to higher volume of earnings management and less value relevance, which indicating the lower quality of financial information. However, it is not entirely true that adoption of IFRS in code-law countries results in lower quality of accounting information (Chiha et al., 2013; Cormier and Magnan, 2014). This research focuses on firms listed in Indonesia Stock Exchange (IDX). The purpose of this research is to determine whether the mandatory adoption of IFRS in Indonesia – which adopts code-law system – leads to higher quality of financial statement.

The remainder of this research will be arranged as follows. The second section will review the literature that constructs the hypothesis development, the third section will describe research methodology, the fourth section will discuss the results of research and the last section will present the conclusion.

2. Literature Review and Hypotheses Development

IFRS is a global reporting standard, with the objective to provide higher quality of information by reducing regulatory gaps and enhance competitiveness across countries (Ikpefan and Akande, 2012). As a matter of fact, Indonesia has committed to harmonizing Indonesian accounting standard which is known as Pernyataan Standard Akuntansi Keuangan (PSAK) since 1994. Through many processes, finally on 2012, PSAK has been substantially the same with IFRS version of 2009 (Wahono, 2012).

There is some strength possessed by IFRS that might support a high quality of accounting information. First, IFRS restricts some accounting method and asks for greater disclosure that would likely to reduce managerial discretion and enhance transparency (FIPECAFI, 2013). Second, accounting recognition and measurement under IFRS were designed to better reflect the real economic condition (Florou and Pope, 2012). Earnings management and value relevance have been used as the measurement of financial reporting quality (Kim et al., 2003; Tendeloo and Vanstraelen, 2005; Iatridis, 2010; Iatridis and Rouvolis, 2010; Joia and Nakao, 2014). Earnings management is defined as the purposeful action to manage or manipulate earnings using some methods or techniques in accounting (Akers et al, 2007). Higher level of earnings management would likely to reduce the quality of financial statement information because the data presented might not the real condition of the firms (Iatridis, 2010). Managers tend to use discretionary accruals to manage earnings (Jackson and Pitman, 2009; Sun and Rath, 2009). Value relevance is the ability of accounting numbers to summarizing and capturing firms’ market value (Kargar, 2013). The higher the value relevance would provide the evidence of higher financial statement quality because the information presented are able to predict and conform prior expectation (Beest, 2009).

Based on the previous literature, the hypotheses in this research are as follows (Iatridis, 2010):

H₁ : IFRS is likely to reduce the scope for earnings management.
H₂ : Financial statements reported under IFRS are likely to exhibit higher value relevance.
3. Research Methodology

3.1 Dataset Selection and Sampling Techniques

This research uses Basic Industry, Miscellaneous Industry, Consumer Goods Industry and Trade, Service, and Investment sectors listed in Indonesia Stock Exchange (IDX) as the unit analysis. Those industry sectors have higher probability to conduct earnings management (Hsu, 2004; Almeida et al, 2006). The period of analysis is focused on mandatory IFRS implementation, 2012 and pre-mandatory IFRS implementation, 2011 (Iatridis, 2010).

This research uses purposive/judgment sampling in which researchers choose the sample based on the predetermined sample criteria below:

- The firms have complete data which cover all the variables in this research
- Using Rupiah as its reporting currency
- The restatement of financial statement must due to IFRS adoption.

The total population of those industry sectors is 243. However, the number of firms which fulfill the required criteria are 169 firms.

3.2 Design of Hypotheses Testing

There are two kinds of tests of hypothesis 1 and two kinds of tests of hypothesis 2. In total, there are four different kinds of hypothesis testing. Each hypothesis is described below.

3.2.1 Test for \( H_1 \)

The first test for \( H_1 \), regarding earnings management is conducted by analyzing the earnings volatility. In analyzing earnings volatility, researchers test the volatility between a) \( \Delta NP \), which is a change in the net profit scaled by total assets b) \( \Delta NP \) deflated by \( \Delta CF \), in which CF is the total operating cash flow divided by total assets. This research uses paired sample t-test to test volatility before and after implementation of PSAK-based IFRS. The more volatile the earnings indicate the less earnings management (Iatridis, 2010) and vice versa. This first test compares data before IFRS mandatory adoption (2011) and data after IFRS mandatory adoption (2011 restated).

The second test for \( H_1 \), researchers use OLS regression presented in equation 1 to examine the association between earnings management (using discretionary accruals as a proxy) and cash flow, as well as control variables, consist of size, profitability and leverage.

\[
DAC_{i,t} = a_0 + a_1D_{i,t} + a_2DOCF_{i,t} + a_3DMV_{i,t} + a_4DOPM_{i,t} + a_5DLEV_{i,t} + e_{i,t}
\]  

\( DAC_{i,t} \) = discretionary accruals represented by the residual regression of Jones model (1991).

\( D_{i,t} \) = dummy variable indicating the financial reporting system in use. \( D_{i,t} = 0 \) for 2011 financial number which have been restated into PSAK-based IFRS. \( D_{i,t} = 1 \) for 2012 PSAK-IFRS financial based number.

\( DOCF_{i,t} \) = multiplication of dummy variable and operating cash flows (OCF) – used to investigate the impact of IFRS adoption on the association between discretionary accruals and cash flows.

\( DMV_{i,t} \) = multiplication of dummy variable and the natural logarithm of market value – used to investigate the impact of IFRS adoption on the association between discretionary accruals and size.

\( DOPM_{i,t} \) = multiplication of dummy variable and operating profit margin – used to examine the impact of IFRS adoption on the association between discretionary accruals and profitability.

\( DLEV_{i,t} \) = multiplication of dummy variable and total liabilities to shareholder’s fund – used to examine the impact of IFRS adoption on the association between discretionary accruals and leverage.

\( e_{i,t} \) = error term.
The value of $\alpha_1$, $\alpha_3$ and $\alpha_5$ are expected to be lower than 0 while the value of $\alpha_2$ and $\alpha_4$ are expected to be higher than 0. This test uses the financial data in the period of 2011 restated into IFRS based and 2012. Discretionary Accruals ($\text{DAC}_{i,t}$) is the proxy of earnings management and also the depended variable in this model. $\text{DAC}_{i,t}$ is calculated by using cross-sectional model by Jones (1991). The residual of this regression model will become the DAC. The cross-sectional model (Jones, 1991) is presented below:

$$\text{AC}_{i,t} = a_0 \left( \frac{1}{A_{i,t-1}} - 1 \right) + a_3 \Delta \text{REV}_{i,t} + a_2 \text{PPE}_{i,t} + e_{i,t}$$

(2)

$\text{AC}_{i,t}$ = total accruals in year $t$ scaled by lagged total assets.
$A_{i,t-1}$ = total assets in year $t-1$.
$\Delta \text{REV}_{i,t}$ = the change in revenue at year $t$ scaled by lagged total assets
$\text{PPE}_{i,t}$ = gross property, plant and equipment in year $t$ scaled by lagged total assets.
$e_{i,t}$ = error term or Discretionary Accruals

3.2.2 Test for $H_2$

There are two models used to test $H_2$. For the first test, researchers examine the explanatory power of $R^2$ and the coefficients obtained from the OLS regression of share price on book value per share and net profit per share. The model used in this research is as follows (Iatridis, 2010):

$$P_{i,t} = a_0 + a_1 \text{BVPS}_{i,t} + a_2 \text{NPPS}_{i,t} + e_{i,t}$$

(3)

$P_{i,t}$ = total market value of equity at year-end scaled by number of shares outstanding.
$\text{BVPS}_{i,t}$ = total book value of equity scaled by number of shares outstanding.
$\text{NPPS}_{i,t}$ = total net profit scaled by number of shares outstanding.

A second test is based on the explanatory power of $R^2$ and the coefficient obtained from OLS regression of profit on stock return. The model used is as follows (Iatridis, 2010):

$$\text{NPP}_{i,t} = a_0 + a_1 \text{AR}_{i,t} + e_{i,t}$$

(4)

$\text{NPP}_{i,t}$ = net profit deflated by beginning share price.
$\text{AR}_{i,t}$ = the annual return calculated by deducting ending share price in the year $t$ with the ending share price in the year $t-1$. The result of deduction will be deflated by ending share price in the year $t$.

The research investigates the value relevance of financial numbers by comparing the PSAK-based financial numbers, as reported in 2011 before the mandatory adoption of IFRS, with the 2011-restated financial numbers after the mandatory adoption of IFRS.

4. Results and Discussions

4.1. Results from $H_1$ Testing (Earnings Management)

Table 1 presents the result of earnings management testing (hypothesis 1). For earnings management test, proxied by earnings volatility, the period used are 2011 and 2011 restated. For earnings management test, with discretionary accruals as the proxy, the period used are 2011 restated and 2012. Researchers also conduct additional earnings management test, proxied by discretionary accruals using a period of 2011 and 2011 restated. The results are not described here, but in general, the results are robust after being tested using sample period 2011 and 2011 restated.

The findings from the first test (earnings volatility) show insignificant differences regarding volatility in change in net profit ($\Delta \text{NP}$) before and after IFRS mandatory adoption. These results are in line with the results from Beijerink (2008), who found insignificant differences.
before and after IFRS mandatory adoption. The result from paired t-test of change in net profit deflated by change in cash flow (\(\Delta NP/\Delta CF\)) also shows no significant difference regarding earnings volatility before and after IFRS adoption. It means that IFRS adoption does not bring significant change or effect on the earnings management scope.

The second test of earnings management is conducted by regressing discretionary accruals (DAC) on firms’ liquidity, profitability, size, and leverage. Due to multicollinearity problem, the proxy of size (DMV) is eliminated from the model. The second test of table 1 shows that dummy variable (D), which indicates the reporting system in use is significantly positive. This suggests that firms reporting under IFRS appear to possess higher discretionary accruals, which indicating that they tend to conduct an earnings management. The similar results came from the research by Rudra and Bhattacharjee (2012).

### Table 1. Result from Earnings Management Test

<table>
<thead>
<tr>
<th>1st Test: Earnings Volatility</th>
<th>Before IFRS Adoption</th>
<th>After IFRS Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2011 Restated</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>Volatility of (\Delta NP)</td>
<td>1.142</td>
</tr>
<tr>
<td></td>
<td>Volatility of (\Delta NP/\Delta CF)</td>
<td>8.295</td>
</tr>
<tr>
<td></td>
<td>Sig</td>
<td>0.223</td>
</tr>
</tbody>
</table>

2nd Test: OLS Regression of Discretionary Accruals

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>D</td>
<td>0.039</td>
<td>0.001**</td>
</tr>
<tr>
<td>DOCF</td>
<td>-0.429</td>
<td>0.000**</td>
</tr>
<tr>
<td>DOPM</td>
<td>0.062</td>
<td>0.002**</td>
</tr>
<tr>
<td>DLEV</td>
<td>-0.001</td>
<td>0.613</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.007</td>
<td>0.352</td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.115</td>
<td></td>
</tr>
</tbody>
</table>

* and ** indicate statistical significance at 5% and 1% respectively

Results from regression of DAC on DOCF (cash flow) also support the results from the regression of DAC on the financial reporting system (D). The coefficient of DOCF is significantly negative, which indicates that under IFRS, firms tend to increase discretionary accruals or manage earnings when the firms are less liquid and vice versa. These results are supported by Kersten (2011). While results from testing DAC and leverage (DLEV) show insignificant differences after mandatory adoption of IFRS. The similar results also suggested by Tendeloo and Vanstraelen (2005).

However, results from testing DAC and profitability (DOPM) shows positive significant association, implying that firms with low profitability would not likely to increase accruals (manage earnings). In general, results from both of the earnings management tests indicate that IFRS adoption does not bring significant difference in scope of earnings management. Therefore, the hypothesis 1 is rejected. Several issues can limit the success of IFRS adoption such as fair value estimation in emerging markets which mostly relied on estimation and less detailed guidance of IFRS (Ball, 2006). Any accounting standard alone is not sufficient enough to increase the quality of information (Karampinis and Hevas, 2009).
4.2. Results from H2 Testing (Value Relevance)

Table 2 examines the quality of accounting measures before and after mandatory adoption of IFRS. The findings are consistent with Lin et al (2012) and Joia and Nakao (2014) which indicate that the adoption of IFRS does not lead to higher value relevance. The first value relevance test, using OLS regression of price on book value and net profit per share show that financial number after IFRS mandatory adoption have lower explanatory power (Adjusted $R^2$) compared to financial number before IFRS mandatory adoption. This suggests that after IFRS adoption, financial numbers do not result in higher value relevance. The larger significantly positive coefficient of the book value of equity per share (BVPS) also supports the suggestion above. While the result of net profit per share (NPPS) after the mandatory adoption is not significant.

From the second test of value relevance, researchers find that the financial numbers after IFRS adoption do not display higher value relevance, evidenced by higher explanatory power (Adjusted $R^2$) before IFRS mandatory adoption compared to after IFRS mandatory adoption. Moreover, the coefficients of annual return (AR) show insignificant differences before and after mandatory adoption. So, both of the tests imply that accounting measures under IFRS does not lead to higher value relevance. The results of hypothesis 2 are in line with the results of hypothesis 1. There’s no significant difference in earnings that cause insignificant differences in value relevance. Therefore, hypothesis 2 is rejected.

Table 2. Result from H2 Testing (Value Relevance)

<table>
<thead>
<tr>
<th>Test</th>
<th>OLS Regression of Price on Book Value and Net Profit per share</th>
<th>OLS Regression of Net Profit deflated by Price on Stock Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>2011 Before IFRS Mandatory Adoption</td>
<td>2011 Restated After Mandatory Adoption</td>
</tr>
<tr>
<td>Variables</td>
<td>Coefficients</td>
<td>p-value</td>
</tr>
<tr>
<td>NPPS</td>
<td>-0.001</td>
<td>-2.277*</td>
</tr>
<tr>
<td>BVPS</td>
<td>0.006</td>
<td>5.973**</td>
</tr>
<tr>
<td>Constant</td>
<td>5.702</td>
<td>55.875</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.375</td>
<td></td>
</tr>
<tr>
<td>2nd</td>
<td>2011 Before IFRS Mandatory Adoption</td>
<td>2011 Restated After Mandatory Adoption</td>
</tr>
<tr>
<td>Variables</td>
<td>Coefficients</td>
<td>p-value</td>
</tr>
<tr>
<td>AR</td>
<td>0.035</td>
<td>1.441</td>
</tr>
<tr>
<td>Constant</td>
<td>0.095</td>
<td>8.881</td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.009</td>
<td></td>
</tr>
</tbody>
</table>

* and ** indicate statistical significance at 5% and 1% respectively

5. Conclusion

This research investigates the impacts of IFRS adoption on financial statement quality in the light of mandatory implementation of IFRS as of January 1, 2012 for the firms listed in Indonesia Stock Exchange (IDX). The major quality issues which are explored in this research are regarding earnings management and value relevance. The results suggest no significant difference of earnings management scope and value relevance before and after IFRS mandatory adoption. In other words, during the mandatory adoption, IFRS does not reduce the scope of earnings management and financial statements under IFRS does not exhibit higher value relevance.
The results of this research also support the results from previous researches regarding IFRS adoption in countries which adopt code-law system, in which the adoption of IFRS in code-law countries does not bring significant difference (Joia and Nakao, 2014).

This research possesses some limitations such as the object of research and period of research which is short, that might not reflect the general result of the mandatory IFRS implementation in Indonesia. The subsequent research might include all firms listed in Indonesia Stock Exchange (IDX) and use a longer period of analysis. Subsequent research might also determine discretionary accruals using another model besides Jones model (1991).

References


Analysis of External Environmental Forces and Company Resources Its Influence on Strategic Orientation, Absorptive Capability and Value Creation and Their Implication on Business Performance: A Survey on Courier Services Companies in Indonesia

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ABSTRACT

Objective – Explore the data and information on External Environmental Forces and Company Resources on Strategic Orientation, Absorptive Capability, Value Creation and their implication on Business Performance of courier service industry in Indonesia.

Methodology/Technique – The nature of this research is descriptive and verification. The unit of analysis is the courier service industry, and a sample of 72 courier companies from various regions in Indonesia. The time horizon is cross-sectional, where the research is done at a certain time. Primary data is collected by a questionnaire and interviews with management of the companies and stakeholders. The analysis is done by using the model verification Partial Least Square (PLS).

Findings – Company Resources have the positive impact on Absorptive Capability to increase Value Creation and Business Performance. However, the magnitude of the influence is faced with the problems of in optimal development of Company Resources on the aspects of tangible and intangible assets. The condition makes companies could not optimize in Absorptive Capability as well as Value Creation to improve Business Performance.

Type of Paper: Empirical

Keywords: Absorptive Capability, Business Performance, Company Resources, External Environmental Forces, Strategic Orientation, Value Creation.

1. Introduction

The growth of business performances of the courier service industry in Indonesia during a period of 5 years tends to stagnate. The percentage of selling performance has been still difficult to achieve, even though the achievement of profit target in last 2 (two) years

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experienced, but the increase in profit growth is relatively small. Yet on the other hand, according to Wheelen and Hunger (2012) business performance is said to be optimal if the company has a high rate of sales growth and profitability. Based on the results of preliminary observations, the low performance of the business of courier services industry in Indonesia, because there are weaknesses in creating value creation, due to the products tend to not fully referring to market demands, it has not been created a unique products that are more competitive when compared to competitors' products, it has been still difficult to create product innovation that is hard to duplicate by the competitors, it has not been created a close industrial cooperation with various stakeholders, as well as weakness in anticipation of changes in the business environment. Meanwhile, according to Kotler and Keller (2012: 58) the value creation has three important steps that are creating benefits for customers, having a domain in business and the creation of appropriate partnerships with various stakeholders.

In addition, the low performance of the business, also because the development of absorptive capability that has not been optimal, which is indicated by the general ability of the company to evaluate, assimilate, and utilize external knowledge for commercial purposes that has been not optimized. This was caused by a tendency of the company’s management that has not been optimized in considering the conditions and the situation of the company's business environment, and has not been fully able to consider the strategic orientation as a basis for the development of the absorptive capability. Meanwhile, according to Tsai and Chen (2008) absorptive capability in the company's development must be supported by the company's ability to evaluate, assimilate, and utilize outside knowledge for commercial ends.

In addition, the management was not being fully able to adapt and anticipate the strength of external environment, namely in terms of anticipating opportunities and threats of the external environment. The external environment includes: global economic conditions, government policies, the demands of workers, and the conditions of competition. Meanwhile, according to Wheelen & Hunger (2012) that the sustainability of the business is largely determined by the ability of the management company to adapt and anticipate the strength of the external environment, both macro and micro environment. So far, the courier of the company has not been able to thoroughly perform resource development, while essential resources are input for the company in conducting the business processes. Low ability to manage resources, in the courier service industry, indicated by the weakness in terms of ownership of tangible assets, such as still not optimal working capital, ownership of the technology that is still not adequate, and the lack of investment funds in the process of order completion. In addition to the ownership of intangible assets also tend to have problems, especially in terms of corporate reputation have not been particularly good in the eyes of the market when compared with foreign courier services companies, and weak organizational capability, especially in creating a superior work culture. Meanwhile refer to Wheelen & Hunger (2012: 138) the uniqueness of resources emphasize to empowering superior resources.

Based on the above statements, it is interesting to be studied in a research about the analysis of external environmental forces and company resources, their influence on strategic orientation, absorptive capability and value creation and the implication to the business performance of courier service industry in Indonesia.

2. Literature Review

Wheelen & Hunger (2012:98) states that “before the organization begin strategy formulation, it must scan the external environment to identify possible opportunities and threats and its internal environment for strength and weaknesses. Refer to Pearce & Robinson (2011:87), external environment can be divided into three interrelated subcategories: factors in the Remote Environmental, Industry Environmental, and Operation Environmental. The external environment External environment are factors beyond the company's control that can affect the selection, direction and action, organizational structure, and the company's internal processes. Changes in the external force may be changes in consumer demand for products and services of industrial and consumer. External forces affecting the types of products
developed, the nature of promotion and market segmentation strategy, the type of services offered and the choice of the business to be bought or sold. David (2013:93) stated that external forces can be divided into five broad categories: (1) economic forces, (2) social, cultural, demographic, and environment forces, (3) political, governmental, and legal forces (4) technological forces, (5) competitive forces.

Based on the statement of Wheelen dan Hunger (2012) to evaluate company resources, whether that is strength or weakness, can be done by with a measure of (1) the company’s past performance, (2) the company’s key competitors, and (3) the industry as a whole. The resources include tangible assets, such as its plant, equipment, finances, and location, human assets, in terms of the number of employees, their skills, and motivation, and intangible assets, such as its technology (patents and copyrights), culture, and reputation.

Cravens & Piercy (2009:5) the uniqueness of data resources is a set consisting of a complex aspect of organizational processes, the accumulation of knowledge and expertise, coordinated activity and asset utilization. Ireland, Hoskisson & Hitt (2013:16), company resources are classified into three categories: physical resources, human resources, and organizational resources. Pearce & Robinson (2011:154) suggested that there are three basic resources needed by the company ie tangible assets, intangible assets and organizational capabilities. Tangible assets are most easily identified and can be found on the balance sheet of a company, as the production facilities, raw materials, and financial resources. Tangible assets generally in the form of physical and financial assets used by the company to deliver value to its customers. Intangible assets are assets that cannot be seen with the naked eye or touched cover: brand, reputation, organizational morale, technical knowledge, patents, trademarks, and the accumulated experience of a company. Toffen & Hammervoll (2010:109) “Strategic orientation is here understood as the strategic directions implemented by a firm to create the proper behaviour for the continuous superior performance (Gatignon and Xuereb, 1997; Grinstein, 2008; Hitt et al., 1997). In line with Weinzimmer, Robin, Michel (2012:82) Strategic orientation has been defined as the inclination of a firm to focus on strategic direction and proper strategic fit to ensure superior firm performance (Barney, 1986; Gatignon & Xuereb, 1997; Pleshko & Nickerson 2008). Liu & Fu (2011:109) quoting from Narver and Slater (1990) that the strategic orientation reflects the direction of the strategy implemented by a company to produce the proper behavior to generate superior business performance continuously.

Tsai (2006:160) suggested that Absorptive capability refers to the capability of a business to manage knowledge for customers, that is, the ability to acquire, transfer, update, renew, and apply customer knowledge. Absorptive capability is extremely helpful for innovation (Wong, 1995). Cohen Levinthal (1990) in Tsai (2006:160) defined Absorptive capability as the capability of a business to understand external information value, and to apply it for business innovation”. Tsai; Chuang; Chen (2008: 98) also adapted Cohen & Levinthal, 1990 as: “A widely accepted definition of absorptive capability proposed by Cohen and Levinthal (1990) equates it with a firm’s general ability to evaluate, assimilate, and utilize outside knowledge for commercial ends.

Prahalad & Ramaswamy (2004) value creation is something that is offered by the company in carrying out the transformation process involving the customer together with the company making the creation of value. Richard Priem (2007:220), suggested that value creation related to innovation in order to increase the benefits for consumers. From the consumer side, value creation associated with the increase in value which could have an impact on improving customer loyalty. Kotler & Keller (2009:79) illustrated that “to exploit a valuable opportunity, the company needs value-creation skills. Marketers need to: identify new customer benefits from the customer’s view; utilize core competencies from its business domain; and select and manage business partners from its collaborative networks. To craft new customer benefits, marketers must understand what the customer thinks about, wants, does, and worries about. Marketers must also observe who customers admire, who they interact with and who influences them”.

Matic & Jukic (2012:199) measured business performance as “Business performances are indicators of how well does organization accomplish its goals (Ramanujam, 1986 in: Lin and
Kuo, 2007, pp. 1069”. Refer to Best (2009:66), business performance is the output or result of the implementation of all activities related to business activities, an indicator of business performance is sales growth and profitability. Meanwhile, according to Wheelen & Hunger (2012) business performance can be measured by sales, market share and profitability.

The purpose of this study is to explore the data and information about:

1. The influence of external environmental forces and company resources on strategic orientation in the courier service industry in Indonesia
2. The influence of external environmental forces and company resources on absorptive capability in the courier service industry in Indonesia
3. The influence of external environmental forces and company resources on value creation in the courier service industry in Indonesia
4. The influence of external environmental forces and company resources for business performance in the courier service industry in Indonesia
5. The influence of strategic orientation on absorptive capability in the courier service industry in Indonesia
6. The influence of strategic orientation and absorptive capability for value creation in the courier service industry in Indonesia
7. The influence of strategic orientation and absorptive capability of business performance in the courier service industry in Indonesia.

3. Research Methods

3.1 Research design

Given the nature of this research that are descriptive and verification conducted through data collection in the field, the research method used are descriptive and explanatory surveyed. The type of investigations conducted is a cross-sectional, because the research is carried out at a certain time. The unit of analysis of this study is the courier industry. The observations using a time horizon that is a cross section / one shoot, meaning that information or data collected directly at the scene empirically at a certain time (2010: 119).

3.2 Sampling technique

The population in this study is all courier service companies in the area of research. Small population size causes the size of the sample to be taken is small. The sample size will be distributed to several regions in Indonesia. The sampling technique used is stratified random sampling that divide the population into groups, in this case the distribution of geographic regions. Sample size is as much as 72 courier companies operating in various regions in Indonesia most of the headquarters in Jakarta.

3.3 Hypothesis testing design

The research design consists of: 1) Analysis of descriptive data, which aim to determine the responses of respondents regarding the variables studied, once used to answer the problem; and 2) Analysis of verification, which is used to answer the hypothesis, using Partial Least Square (PLS), which is a method for modeling relationships between sets of observation variables through latent variables.

Based on the conceptual hypothesis proposed and research paradigms, it can be described a relationship path framework between the variables in the form of the model as follows.
4. Discussion

Before carrying out testing of hypothesis, first tested the model with the analysis of the measurement model of each variable. The variables that will be analysed and measured are: External Environment Forces, Company Resources, Strategic Orientation, Absorptive capability, Value Creation. The first stage of the structural equation modelling is doing the Confirmatory Factor Analysis (CFA). CFA analysis is the analysis used to test the quality of the items and the dimensions used to measure the research variables. The measurement model in this study is the measurement model Second order. After the Outer Model is valid and reliable, further doing a test of structural model (Inner model) of the complete model. The complete model is to unite all the variables that have made the reduction process of indicators that are not valid. Here is the value of R-Square on constructing: Structural Model on PLS evaluated by using Goodness of Fit model, which shows the difference between the observed values and the values predicted by the model.

Table 1. Test of Structural Model (Inner Model)

<table>
<thead>
<tr>
<th>Latent variables</th>
<th>Avg</th>
<th>Cronbachs alpha</th>
<th>Communality</th>
<th>R square</th>
<th>Gof</th>
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<td>0.954</td>
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<td>0.637</td>
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<td>Strategic orientation</td>
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<td>0.784</td>
<td>0.782</td>
<td>0.785</td>
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<td>Absorptive capability</td>
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<td>0.751</td>
<td>0.906</td>
<td></td>
</tr>
<tr>
<td>Value creation</td>
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<td>0.983</td>
<td>0.737</td>
<td>0.927</td>
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<tr>
<td>Business performance</td>
<td>0.833</td>
<td>0.900</td>
<td>0.833</td>
<td>0.793</td>
<td></td>
</tr>
</tbody>
</table>

Source: OUTPUT SmartPLS
The methods used to see the discriminant validity is value of square root of the average variance extracted (AVE). Suggested value is above 0.5. Table 1 shows the value of AVE > 0.5 for all the constructs on research model. The reliability test also reinforced by Cronbach’s Alpha (Suggested value is above 0.6). Reliability test will demonstrate a satisfactory value if above 0.7. The above table shows that Cronbachs Alpha for all of variable > 0.7. Thus strengthening the test results, that the measurement model of the six variables has already had the consistency and accuracy in measuring the construct. Test of R-squared (R²) aims to determine how well the inner model (structural model) formed. Refer to Ghozali (2011:27), the R2 value of 0.67 (good), 0.33 (moderate) and 0.19 (weak) to endogenous latent variables in the model inner. This study has a lower value of R-squared (R2) = 0.782, which indicates that this research has inner good model, as well as GoF value of 0.785, so that it can be concluded that the model of research supported by the empirical or model is fit.

Based on Appendix A, the results of the complete measurement model above is known either value loading, AVE and Composite reliability becomes more good. All dimensions have a value of loading factor greater than 0:50 (or the value of the t statistic > 1.96) so that it can be concluded to be valid. Similarly, every dimension generates the value of Composite reliability, greater than 0.700 so that it can be concluded to be reliable.

The above figure shows value of t test of a complete model of measurement and structural model. The findings of this study reveal that the direct effect of value creation on business performance (13.2%) greater than the direct effect of strategic orientation (7.18%) and the absorption capability (0.13%). While the variables that have the greatest effect on value creation is strategic orientation (0.574), followed by absorption capability (8.93%). Strategic orientation is greater influenced by external environmental forces (58.82%) compared if influenced by company resources (19.37%). The variables that provide the highest influence on strategic orientation is external environmental forces, followed by company resources.

Thus, to improve business performance of the courier company in Indonesia, should be improving the value creation which is supported by the development of a strategic orientation and absorptive capability. To improve strategic orientation, companies must optimize the adaptation of the strength of external environmental forces, while to optimize the absorption capability, companies must optimize the development of company resources. A dimension that gives the highest influence in reflecting value creation is business partner, followed by business domain, and customer benefits. A dimension that gives the highest influence in reflecting strategic orientation is customer orientation, followed by inter functional coordination, entrepreneurial orientation and competitor orientation. A dimension that gives the highest influence in reflecting absorption capability is the application of knowledge, followed by knowledge evaluation, knowledge management, and knowledge transfer. A dimension that gives the highest influence in reflecting the strength of the external environmental forces is the environment industry, followed by technological environment, and macro environment. While the dimension that gives the highest influence in reflecting the company's resources is tangible assets, followed by intangible assets, and capability organization.

5. Conclusions

There is a positive influence of External Environmental forces and company resources on strategic orientation in the courier service industry in Indonesia, in this case the influence of External Environmental forces is greater than the influence of Company Resources on Strategic Orientation. There is a positive influence of External Environmental forces and company resources on absorptive capability in the courier service industry in Indonesia. Company resources have a greater impact than External Environmental forces in effecting absorptive capability. There is a positive influence of External Environmental forces and company resources on value creation. Company resources have a greater impact on value creation in the courier service industry in Indonesia, compared to External Environmental forces. There is a positive influence of external environmental forces on business.
performance in the courier service industry in Indonesia, while there is no influence of the company resources to business performance. There is a positive influence of strategic orientation on absorptive capability in the courier service industry in Indonesia. The dimensions that have highest influence of strategic orientation in influencing absorptive capability is customer orientation, followed by inter functional coordination, entrepreneurial coordination, and competitor orientation. There is a positive influence simultaneously of strategic orientation and absorptive capability for value creation in the courier service industry in Indonesia. Partially shown that the influences of strategic orientation are greater than the influence of absorption capability on value creation. There are positive influences of strategic orientation and absorptive capability simultaneously on Business Performance in the courier service industry in Indonesia. However, partially, the influence of Strategic Orientation is greater than the influence of Absorption Capability on Business performance. There is a positive influence on value creation on business performance in the courier industry in Indonesia. The dimensions reflecting most of value creation in influencing business performance are a business partner, followed by business domain, and customer benefits.

This research resulted are to achieve good performance, the courier company must perform create value, which can be realized by the company with the support of strategic orientation and absorptive capability. To improve strategic orientation, the company must optimize adaptation of external environmental forces, while to optimize the absorptive capability, companies must optimize the development of its enterprise resource. There is very little influence on the performance of the company if the company does not have a value creation, strategic orientation and capability Serap, although they have a better understanding of external environment forces and company resources. The research findings in this paper, is expected to be a reference for academics to conduct research development, by making these findings as part of the premise in developing the framework.

Based on the results of this dissertation research which has limited in the variables which include; External Environmental Forces, Company Resources, Strategic Orientation, Absorptive Capability, Value Creation, and Business performance, as well as the limited number of samples of 72 courier company operating in various regions in Indonesia, it is suggested for further research in the future to do research on courier service industrial with different viewpoints as well as specificity in the field of marketing management or operations management. In this study, courier service comprises five service either complete or incomplete in a unit of analysis, thus suggestions for further research, it can be studied and analyzed each type of service.

References


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Appendix

### Appendix A. Complete Measurement Model

<table>
<thead>
<tr>
<th>Variables</th>
<th>Dimensions</th>
<th>Indicators</th>
<th>Loading Factor (λ)</th>
<th>Standard Error (STERR)</th>
<th>T Statistics (λ/STERR)</th>
<th>AVE</th>
<th>Composite Reliability</th>
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</tr>
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<td>Loading Factor (λ)</td>
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<td>33.449</td>
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<td>λ/STERR</td>
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Understanding Employee Psychological Contract and Job Satisfaction

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ABSTRACT

Objective- Organizational changes and transformations are common phenomenon these days. Changes may lead to the breach of the psychological contract of employer-employee expectation on the employment thus affects employee job satisfaction. This study was conducted with the aim to identify the relationship between psychological contract and employee job satisfaction. 

Methodology/Technique- Two components of psychological contract were used in this study, namely transactional dimension and relational dimension. Data was collected using a questionnaire which involved the total of 100 employees at Oil and Gas Company in Malaysia.

Findings- Generally, the results indicated that there was a significant relationship between psychological contract and job satisfaction. However, the only relational dimension of psychological contract is significantly related to job satisfaction. Thus, it is important to understand the influence of psychological contract towards employee job satisfaction since it will affect the overall performance of an organization. It is crucial for organizations to develop mutual long term interdependence with their employees by providing on-going training and development and promotion opportunities in return making employee obligated to go beyond the explicit requirement of their role.

Type of Paper: Empirical

Keywords: Psychological Contract; Relational Dimension; Transactional Dimension; Job Satisfaction.

1. Introduction

The concept of psychological contract has emerged as a potential bridge between the expectations of management and expectation of employees. Management of psychological contract is important because modern organizations cannot succeed unless their employees agree to contribute to their mission and survival. In order to do so, workers and employers need to agree on the contributions that workers are expected to make to the firm, and vice versa. However, it is not easy for employers to know what employees expect and which kinds
of incentive will influence employees to make desired contributions. To add, since the expectations of each organizational member vary from one another it is difficult to find a balance between employer-employees expectation (Kotter, 1973).

In practice, potential employees had little voice in projecting their wants and which required them to meet the demands of the organizations for which they want to work. This situation shows where expectations end and obligations begin in the minds of employees (Coyle-Shapiro & Kessler, 2000) thus lead to unmet employee’s expectation from the organization. Furthermore, organizational transformation through merger and restructuring for instance, will lead to disruption of the employment relationship (Brand, 2000) and consequently lead to changing needs and obligations that comprise the psychological contract (Herriot and Pemberton, 1996). This situation will possibly reduce employee job satisfaction which in return is expected to impact other outcomes such as employee commitment and engagement.

Job dissatisfaction may result from unidentified and unclarified expectations of the employee which could have been better defined prior to the hiring decision. In addition, periodic updating of expectations during the course of employment would potentially also bring to light discrepancies between management and employee expectations before conflicts become unmanageable. Morrison and Robinson (1997) propose that when an employee perceives a discrepancy in the reciprocal promises made between the employee and the organization, their response may manifest as job dissatisfaction, with resulting increases in absenteeism and turnover (Griffeth, Hom, & Gaertner, 2000). If dissatisfied employees remain in the organization, they may engage in counterproductive behaviors such as poor service, destructive rumors, theft and sabotage of equipment (Spector, 1997). These represent a very significant cost to the psychological and physical well-being of the employee, and an indirect financial cost to the organization in terms of sub-optimal performance and sick leave. Therefore, this study aims to identify the most dominant psychological contract dimension as well as to ascertain a correlation between employees’ psychological contract and job satisfaction.

2. Literature Review

2.1 Psychological Contract

Psychological contract is an unwritten set of expectation between every member of an organization with their employer (Schein, 1980). It is not a one side expectation, but involves an implicit reciprocal obligation of promises between employer-employee that are not included in the formal contract of employment, thus creates the employer-employee interdependence that is required to maintain the employment relationship (Rousseau, 1995; McDonald and Makin, 2000; Chambel and Alcover, 2010). The psychological contract includes solid agreements between a company and its employees, beyond the written contract, specifying their contributions, expectations, beliefs, promises, and obligations between both parties. This psychological contract is related to the increasingly relevant aspect of workplace relationships and wider human behavior. According to Guest and Conway (2002), psychological contract is a valuable construct to examine the employment relationship, and essentially is concerned with employees’ and employers’ perceptions of the other party’s obligations. There are two dimensions of psychological contract that will be focused at for this study namely, transactional dimension and relational dimension (Rousseau, 1995).

2.1.1 Transactional Dimension

Rousseau and Wade-Benzi (1994) described transactional contracts as those containing terms of exchange which have monetary value, are specific and of limited duration. These contracts can be characterized as “a fair day’s work for a fair day’s pay”. In terms of the psychological contract, transactional components could be described as being synonymous with the “effort bargain”, namely the reciprocal process of exchanging reasonable effort for extrinsic and intrinsic rewards (Marks et al., 1996). Transactional contract center essentially
on economic interests and the material benefits that the employee considers or expects to receive from their relationship with the organization (Chambel and Alcover, 2010).

The transactional contract is short term and normally does not result in ongoing employer-employee interdependence. It is related to well-specified benefits and contributions that are economic and short-term in nature with low emotional investment by both employee and organization (Rousseau, 1995; Chaudhry et al., 2010). Due to that, employees will respond to limit their attitudes and behaviors to meet only the minimum level of organizational requirement that has equal value with the outcome received (Chambel and Alcover, 2010; Chaudhry et al., 2010).

2.1.2 Relational Dimension

Relational dimension characterized by long term arrangement that focus on mutual trust and loyalty (Chaudhry et. al., 2010). It is not only focusing on mutual agreement related to monetizable and materialistic elements, but extended to long term and open ended socioemotional elements which include personal development (Bal and Kooij, 2011). Relational contract increases the employee’s likelihood of having strong member-organization integration, higher affective commitment and job satisfaction and more committed to achieving the organization’s goals (Dabos and Rousseau, 2004; Bal and Kooij, 2011).

Rousseau (2000) defined relational psychological contract into two dimensions, namely stability and loyalty. Stability refers to the expectation that the employer offers stable and long-term employment to employees. On the other hand, loyalty refers to employee identification and commitment to the employer and in return employer will be responsible in supporting the well-being and interests of employees and their families (Chaudhry et. al., 2010). An employee with the relational contract will have higher demands and expectation towards the outcome provided by the organization. Conversely, employees will benefit organization with long term and stable relationship. However, the employee will question the employer’s initiatives involving transformations that take place in the organization that change employer-employee roles. As a result, employees will closely monitor and re-evaluate every aspect of the psychological contract that previously they overlooked. (Rousseau, 2000; Chaudhry et. al., 2010).

2.2 Job Satisfaction

Job satisfaction is defined as an affective reaction or attitude toward one’s own work environment (Weiss, 2002) resulting from the comparison of actual outcomes with those that are desired or expected (Cranny et. al., 1992). According to Eskildsen and Dahlgaard (2000), employees who are satisfied and committed will likely to produce good services and performance that can be observed through their social interaction and working activities in the organization.

Raja, Johns and Ntalianis (2004) found that the violation of a psychological contract may affect job satisfaction. The link between both variables can be seen when an employee feels that the organization has failed to fulfill the promises and obligations. Thus, an imbalance can arise that could lead to a psychological contract breach and lastly may contribute to job dissatisfaction. As the consequences, emotional responses can lead to various unfavorable organizational attitudes (Robinson and Rousseau, 1994).

Thus, there is a need to reconsider the resources that might help to develop a strong psychological contract in order to increase employee job satisfaction. In short, a matched or congruent psychological contract will increase likelihood that the individual will want to stay, and to contribute willingly to the organization via increased loyalty, commitment and enthusiasm for work (Purvis and Cropley, 2003).
3. Conceptual Framework

Figure 1 illustrates the conceptual framework in examining the relationship between employee’s psychological contract and job satisfaction.

![Conceptual Framework](image)

4. Methodology

This study originally involved 105 Group Human Resource Management (GHRM) employees in oil and Gas Company in Kuala Lumpur. A questionnaire was used as an instrument for data collection and distributed using convenient sampling to the respondents. Participation was voluntary and the confidentiality of the responses was assured. At the end of two-week period, 100 questionnaires were received that constitutes a response rate of 95.2%.

<table>
<thead>
<tr>
<th>No.</th>
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<th>No. of Items</th>
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<td>2.</td>
<td>Relational Dimension</td>
<td>7</td>
<td>0.815</td>
</tr>
<tr>
<td>3.</td>
<td>Psychological Contract</td>
<td>17</td>
<td>0.823</td>
</tr>
<tr>
<td>4.</td>
<td>Job Satisfaction</td>
<td>18</td>
<td>0.888</td>
</tr>
</tbody>
</table>

Reliability analysis was conducted to measure the consistency of the items used in this study. The Cronbach’s alpha value of overall psychological contract items is 0.823 indicating the items used to measure psychological contract is highly reliable. The items for each dimension of psychological contract, namely transactional dimension and relational dimension are also reliable with the value of Cronbach’s alpha 0.812 and 0.815 respectively. Meanwhile the alpha value for job satisfaction is 0.888 also indicates the consistency of the measure. Table 1 shows the score of Cronbach’s alpha for the questionnaire items. The Cronbach’s alpha values exceeded 0.80 indicating that all items in the scale had a good reliability (Malhotra, 2004).

5. Findings and Discussion

5.1 Respondents’ Profile

Table 2 summarizes the demographic information of the 100 respondents. The analysis of the respondents’ background covered gender, age, education level, position and length of service.
<table>
<thead>
<tr>
<th>GENDER</th>
<th>POSITION</th>
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<tr>
<td>Male</td>
<td>37 Secretary</td>
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<tr>
<td>Female</td>
<td>63 Non-Executive</td>
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<td></td>
<td>23 Executive</td>
</tr>
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<td></td>
<td>44 Manager</td>
</tr>
<tr>
<td>AGE</td>
<td></td>
</tr>
<tr>
<td>&lt; 25 years old</td>
<td>29 Senior Manager</td>
</tr>
<tr>
<td>26 – 35 years old</td>
<td>44</td>
</tr>
<tr>
<td>36– 45 years old</td>
<td>20 LENGTH OF SERVICE</td>
</tr>
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<td>&gt; 46 years old</td>
<td>7 &lt; 1 year</td>
</tr>
<tr>
<td></td>
<td>17 2 – 5 years</td>
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<td></td>
<td>29 6 – 10 years</td>
</tr>
<tr>
<td></td>
<td>33 &gt; 46 years</td>
</tr>
<tr>
<td>EDUCATION LEVEL</td>
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<tr>
<td>Diploma</td>
<td>8 11 – 15 years</td>
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<tr>
<td>Degree</td>
<td>68 16 – 20 years</td>
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<tr>
<td>Master</td>
<td>14 &gt; 21 years</td>
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<td>PhD</td>
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<td>Others (Certificate)</td>
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</table>

### 5.2 Discussion

#### Table 3. The Result of Correlation Analysis

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<td>Relational Dimension</td>
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<td>.893**</td>
<td>.666**</td>
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<td>3</td>
<td>Psychological Contract</td>
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<td>.587**</td>
</tr>
<tr>
<td>4</td>
<td>Job Satisfaction</td>
<td>3.79</td>
<td>0.52</td>
<td>.125</td>
<td>.370**</td>
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</tr>
</tbody>
</table>

Notes:**significant at the 0.01 level

In order to determine the most dominant psychological contract dimension, the mean value of transactional and relational dimension was computed. Based on data presented in Table 3, the mean value of relational dimension is higher (3.87) compared to the transactional dimension (3.21). Thus, these results indicated that relational dimension is more dominant than transactional dimension. It showed employees have higher expectation that the organization will provide a more relational contract which relate to intrinsic and long term benefits that encompass factors such as job security, sense of belonging and career advancement opportunities. In return, employees will work harder, engage in citizenship behavior and loyal to their organization (Millward and Hopkins, 1998). This result might be due to the fact that the majority of the respondents comes from generation Y who was born after the year 1980 (age below 35 years old as referred to Table 2) (Eisner, 2005). This is consistent with the study conducted by (Lub et. al., 2011) which found that generation Y have more expectation of the relational contract compared to generation X.

The research hypothesis was tested using correlation analysis in order to identify the relationship between psychological contract and job satisfaction among employees at oil and gas company. Correlation result in Table 3 shows that there is a significant relationship between psychological contract and job satisfaction (p<0.01, r = 0.370). This result indicates a moderate strength of relationship since the r value is in the range of 0.25-0.50 (Hair et. al., 2007). It shows that the level of job satisfaction will increase if the employees’ psychological contracts are met. The correlation analysis for each psychological contract dimension was also conducted. Based on the result, only relational dimension showed a significant moderate relationship with job satisfaction (p<0.01, r = 0.587). On the other hand, transactional
dimension did not significantly influence job satisfaction (p>0.01, r = 125). Thus, it indicated that job satisfaction will increase if the relational dimension of the psychological contract were met by the organization.

These results were found consistent with the study conducted by Turnley and Feldman (2000) and McDonald and Makin (2000) who also found a significant relationship between psychological contract and job satisfaction. Employees enter into an employment relationship with an understanding that their employer has certain obligations to them and vice versa, thus creating an atmosphere of reciprocity. If the employees’ belief that the employer owes his return to his work and the employer is able to very well fulfil this obligation, the employee will feel satisfied. Moreover, since the only relational dimension has a significant relationship with job satisfaction, it is indicated that a long term commitment to the organization is expected of the employee. It can be seen that the majority of employees has been working more than 6 years in this organization. It is a sign that they have developed their loyalty and stronger employment relationship instead of short term outcome.

6. Conclusion and Recommendation

Overall, this study expands our understanding of the psychological contract and its relationship with job satisfaction. This study provides evidence that the psychological contract influences employees’ job satisfaction. Continuous action must be taken to ensure the employer-employee expectations are consistent over time to reduce the tendency of any counterproductive behavior. As a result, a long term employment relationship can be developed.

It is important for organizations to identify and understand the expectations of employees at the same time communicating organization’s expectation to employees. This will reduce the tendency of mismatch expectations of both parties. Thus, it is recommended to the organization to take the early initiative by providing and offering a clear and effective communication channel so that employees can voice out opinion and share any demand or dissatisfaction. In fact, the initiative can begin during the recruitment and selection process by asking potential employees on their needs and wants as well as providing a realistic job preview to give a clear picture of the future task requirements. Organizations should also prepare a career development blueprint for their employees that can give a clear picture on how can they grow with the organization.

Acknowledgements

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References


Developing measurement of value creation in Malaysian Government Linked Companies using the Delphi technique

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ABSTRACT

Objective – Value creation is an important element in every organization. Value creation in Malaysian Government Linked Companies (GLCs) can improve performance by maximizing earnings per share, create sustainability, be competitively strong, and ensure a high level of operational effectiveness. This paper aims to explore a measurement for value creation among GLCs.

Methodology/Technique – Using the Delphi technique, this study interviewed a panel of three experts who have experience in Malaysian GLCs. The first round was conducted to explore how these experts perceived as measurement to measure for value creation in relation to Malaysian GLCs.

Findings – Overall, the first round assessment of value creation, which adopted the Delphi technique, revealed that stock prices, market value, sales growth, PE ratio, market share, market positioning survey, customer survey, ROI, EBITDA and reduced business risks as measurement related to value creation.

Novelty – The paper used Delphi technique to develop the measurement of value creation in a context of Malaysian GLCs. This paper contributes to the value creation literature and provides insight to relevant panel experts in developing appropriate measurement of value creation particularly in GLCs.

Type of Paper: Empirical

Keywords: Delphi Technique; Government Linked Companies; Panel Expert; Value Creation.

1. Introduction

Value creation has been one of the major objectives of every business organization that intends to maximize the customer’s satisfaction and shareholder’s wealth (Normann & Ramirez, 1993; Langfield-Smith et al., 2006). Currently, value creation has become a global issue due to the continuous stream of failing companies, discontinued products, stock market
pressure, brand destruction and a competitive market (Lau & Tong, 2008; Melnick, 2000; Prahalad & Ramasamy, 2004). Moreover, value creation has been found to have a positive impact on business performance (Fuller, 2001; Gholami, 2011; Kraaijenbrink & Spender, 2011). According to Fuller (2001), firm value creation is more important and it is an endless process. It starts with building a business model, prioritize sections for a more detailed investigation and discover opportunities for development. This process is followed by implementing the changes needed to maximize the company’s achievements as well as established a measurement and its revision, so this becomes a continuous process that allows management to oversee the changes in the market and sustain long term competitive advantage (Fuller, 2001). Therefore, it is crucial for Government Linked-Companies (GLCs) to understand the importance of value creation in order to achieve competitive advantage and sustain economic growth.

In Malaysia, GLCs serve as the backbone of the economy and play a major role in every commercial concern ranging from transportation, energy, telecommunications, construction, oil and gas to financial services (Lau & Tong, 2008). GLCs are described as organizations that have a main profit-making objective in which the Malaysian Government possess a direct controlling stake. A controlling stake refers to the Government’s power to assign board members, senior management and decide on major decisions for GLCs either directly or through its Government-Linked Investment Companies (GLICs). A company is classified as a GLC if the government owns an effective controlling interest, which is more than 50 percent. Vision 2020 highlighted the role of GLCs as growing and shaping the economy (PCG, 2005). Despite the significant impact of GLCs on the Malaysian economy, some performances of GLCs have been poor and lack-luster from as early as 1990 (PCG, 2007). Some of the factors responsible for the critical success of the GLCs whereby some GLCs have shown above average performance or underperformed, could be due to how well they create firm’s value through their talent, skills and capabilities within the organization itself (Amirul & Daud, 2012; MINDA, 2009).

This paper is designed to develop a measurement for value creation in Malaysian government-linked companies (GLCs). Why GLCs? GLCs were selected as the sample in this study due to the increasing attention GLCs have received lately. In addition, the unique of GLCs characteristics such as having direct links to the government via shareholders together with the social and national interests. Furthermore, as privatization takes hold, GLCs have been struggling to cope with a rapidly changing business setting and competitive business environment (Arumugam et al., 2011) and this has shown that GLCs have dual objectives, which is to maximise shareholders’ return while meeting their social obligations (Norhayati, 2009). This provides an indication of the importance of GLCs to the community and the country. There are a numbers of studies that have highlighted the factor contributing to this issue, which is the lack in creating value in the organization (Lau & Tong, 2008; MatZain and Sulaiman, 2011; Ting & Lean, 2011). However, to date, the measurement of value creation is not fully understood and not well-developed, which is the main concern of this paper.

This paper therefore aims to explore the measurement of value creation, particularly in Malaysian GLCs. The first round of the Delphi technique was conducted in order to develop new measures of successful value creation in GLCs. This paper is structured as follows: first, an introduction to GLCs and explaining the concepts of value creation. The second parts are discussion on the methodology and results of the study. Finally, the discussion and conclusion about this study is based on the overall view using the Delphi technique.
2. Related Literature

Through an organization’s business model, value can be created by transforming inputs and capital throughout their business activities and interactions to produce outputs and outcomes either over the short, medium or long-term period and create or destroy value related to the organization, its stakeholders, society or the environment (Ernst & Young, 2013). Ramli et. al., (2013) stated that customer participation in value engineering exercises is important because customers could contribute to the creation of values related to products or services.

Basically, value refers to the worth of some product or service to the consumer (Husted et al. (2012). Porter (1985) defined value as what customers are willing to pay, and superior value offers equivalent benefits as other competitors, but at lower prices or provide unique benefits that more than offset higher prices. A firm creates value by combining its resources innovatively to increase the productivity of those resources (Moran & Ghoshal, 1999).

Understanding value invites holism rather than particularization, as value creation can simultaneously refer to content and process (Lepak et al. 2007), and thus requires understanding the assessment of value as well as the processes involved in creating it. According to Miller and Floricel (2004), value creation can be developed through new products and services and firms with high profitability and growth level are deemed to adopt capabilities and practices to create value rather than to adopt best practices.

Value creation is a fundamental change in how organizations execute their value creation process and objectives, interface and relationship with customers and stakeholders, and resource allocation process. It could be created by increasing the benefits and use of products through improved quality, function and, imaging or by lowering costs through production, efficiency and other means (Kasali, 2010). According to Ernst & Young (2013), value can be created by transforming inputs and capital present in their business activities and interactions to produce outputs and outcomes either over the short, medium or long-term period and, create or destroy value for the organization, its stakeholders, society and the environment.

Kraaijenbrink and Spender (2011) indicated that every firm has its own way of creating value such as efficiency or smart anticipation, effective integration or alignment the activities, or either from creative judgments of resource attributes.

Value creation is generally described as an idea embarked by the organization in order to increase stakeholder’s wealth. Therefore, it is necessary to understand the importance of value creation in the context of Malaysian GLCs and how to measure successful value creation in their organizations. This paper indicates the development of value creation measurement in Malaysian GCLs, which will improve firm performance as well as maximize shareholder’s wealth and lead to business excellence.

3. Methodology

A two-round Delphi study will be conducted to assess the agreement among the experts in this study. The first round was conducted to explore how these experts perceived as measure the most important element to measure for value creation in relation to Malaysian GLCs. The second assessment allows all participants to provide further evaluation of their earlier views. The second assessment is aimed at rating their agreements on the measurements and investigates the extent to which the experts collectively agree on the importance of the measures under consideration. The categories of agreement were referred to as ‘consensus’; representing the distribution agreement by all the experts. This distinction was made for the present research is interested in identifying the development of new measurements that the experts collectively rate as important when measuring value creation in GCLs.

3.1 The Delphi Technique

In order to develop new measures for value creation in GLCs, this research used open-ended questions. To achieve this aim, a Delphi study (Whitman, 1990) was considered to be an appropriate technique. The RAND Corporation developed the Delphi technique in the 1950s.
as a strategy for solving complicated problems that depended on iterative feedback to arrive at a consensus or statistical summaries. The decisions made by using the Delphi technique were made by the participants through a committee approach that helped focus on the feedback pertaining to the most widely shared views (Whitman, 1990).

Briefly, this Delphi technique allows panel experts in this study to express their opinions or assessments in an open-ended questionnaire in two or more rounds. The contribution from these panel experts are then collected and then summarized, and returned to the panel experts as a feedback for further evaluation in the second round. This process helps the researcher obtains a genuine opinion from the panel experts in order to develop a measurement of value creation in the context of GLCs.

3.2 The Panel Experts

Delphi involves the purposive selection of respondents, which has a high impact on the outcome of the survey (Agumba, 2014). In order to qualify as an expert, each individual is required to meet the following minimum requirements: 1) minimum five years of work experience at the management level in GLCs: 2) at least one professional qualification: and 3) A member of Malaysian Institute of Accountants (MIA). The Table 1 below exhibits the details of the panel expert and information on the first round conducted in this study.

Table 1. Panel experts’ details

<table>
<thead>
<tr>
<th>Details</th>
<th>Panel 1</th>
<th>Panel 2</th>
<th>Panel 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>7th May 2015</td>
<td>7th May 2015</td>
<td>12th May 2015</td>
</tr>
<tr>
<td>Venue</td>
<td>Office</td>
<td>Coffee house</td>
<td>Office</td>
</tr>
<tr>
<td>Position</td>
<td>Group Senior General Manager - Finance</td>
<td>Financial Controller</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Professional qualification</td>
<td>CIMA</td>
<td>ACCA</td>
<td>CIMA</td>
</tr>
<tr>
<td>Years of service in management level</td>
<td>18 years</td>
<td>15 years</td>
<td>10 years</td>
</tr>
<tr>
<td>Type of industries</td>
<td>Property developer</td>
<td>Healthcare services</td>
<td>Logistic services</td>
</tr>
</tbody>
</table>

3.3 First Round

The first round of the research aimed to obtain experts’ answer open-ended questionnaires (Gordon, 2003; Sekaran & Bougie, 2013). The contributions from all the experts were them collected and summarized. The summarized measurement will be in the form to be distributed in the second round and the panel experts need to rate them according to their preference. The findings from the first round have discussed in the next section.

4. Results

In the first round, Figures 1, 2 and 3 revealed the results of each panel expert individually. Results in Figure 4 indicated the combination of all the results with some of responses indicating similarity in the findings. The first and second responses agreed on Stock price and
Sales growth. The first and third responses shared the same opinion on *PE ratio* and *Market value*. Meanwhile, the second and third responses shared the answer on *Reduced business risk* as one of the measurements. Other measurements such as *Market share*, *Market positioning survey* and *Customer survey* were indicated by the second response and *EBITDA*, *Return on investment* was answered by the third response. As these were the results from the first round, not much conclusions could be made as changes in ranking were expected in subsequent rounds. The result of such a meeting needs to be clearly identified to keep all the participants on track of what needs to be achieved.

![Figure 1. Result from first response](image1)

![Figure 2. Result from second response](image2)
5. Discussion and Conclusion

This study aims to assess how panel experts such as the chief executive officers, financial controllers and senior group general managers in charge of finance would perceive the measurement of value creation in GLCs. During the first round assessment, several measures of value creation were proposed. It is expected that the second round would see some consensus among the experts. This improvement practically answered the second objective of the research, which was to evaluate the extent of how experts can collectively agree on the measurement. The new development of measures on value creation in GLCs suggests that it is very important to create awareness among GLCs regarding the importance of how to measure value creation in their organizations and to take part in the decision-making process.

The Delphi technique, which is a qualitative research approach, was used in this exploratory study. Three local experts from various industries sitting at the management level of GLCs
were identified and they participated in the two rounds of the Delphi technique. The effectiveness of the Delphi technique contributed to the success of the study by allowing a group of people to deal with difficult topics and a complex problem, with a lack of information about a scenario and finally reached a consensus based on a collective human intelligence process (Abdul Gani et al., 2015; Adler & Ziglio, 1996; Linstone & Turoff, 1975). By using the Delphi technique, this research was able to identify the measurements relevant for measuring value creation in GLCs.

Overall, the first round assessment of value creation, which adopted the Delphi Technique, revealed that stock prices, market value, sales growth, PE ration, market share, market positioning survey, customer survey, ROI, EBITDA and reduced business risks were measures related to value creation. These findings are in agreement with those from some previous studies (Diez et al., 2010; Kasali, 2010; Melnick, 2000). The selected measures for value creation in Malaysian GLCs were priority measurements of successful value creations, particularly in GLCs. In addition, the new developments in measurements identified in this study are a significant contribution as these measurements are specifically related to Malaysian GLCs. The findings from the analysis show that these measurements might help relevant stakeholders to plan and execute a successful plan in order to create value and to subsequently achieve competitive advantage and sustainability.

However, this study is subject to limitations in the methodology used, which included the lack of agreement on the sampling methodology and the criteria for selecting the panel of experts to oversee the process. The reliability of the methodology also posed some uncertainties (Williams & Webb, 1994). Nevertheless, the process is seen as a fair method for identifying areas of consensus.

Acknowledgements

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References


The Roles and Competencies of Human Resource Professionals within Human Resource Transformation in Sidoarjo and Pasuruan Manufacturing Industries

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ABSTRACT

Objective – This survey research identifies and describes the current execution of the roles and competencies of human resource professionals in Sidoarjo and Pasuruan manufacturing industries. It also examines the significant influence of those competencies on roles of human resource professionals within human resource transformation.

Methodology/Technique – Referring to the complexity of the research framework and amount of samples, mean score and partial least squares are used to analyse data. The result shows that respondents possessed Operational Executor competency focusing in labor legislation and performed Employee Champion roles focusing on participating to build employee’s morale. HR Competencies on HR Professional Competencies have the most significant influence on HR Roles on Operational Focus.

Findings – In conclusion, the respondents’ position is still on traditional human resource function and work more on day-to-day activities (operating). It reveals that human resource transformation is not done in their companies yet.

Novelty – Implication to respondents is that they need a human resource consultant to help them implement human resource transformation because they are still lack of competencies and roles.

Type of Paper: Empirical


1. Introduction

For more than twenty years, human resource management (HRM) had been evolving in response to the demographic trends and changing business conditions which moved globally.

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Many expertises and scientists of HRM had transformed human resource (HR) roles strategically in business activities to meet those demands. A well known concept of new human resource roles had been released by Dave Ulrich providing the fourth roles of HR resource professionals, which consist of Strategic Partner, Employee Champion, Change Agent, and Administrative Expert (Wang, Y.D and Niu, H.J.: 2010).

In Indonesia, this concept had been used as an assessment base for HR Excellence Competition Awards held by Management Institution of Economic Faculty from Indonesia University accompany with the SWA magazine (Soetjipto, 2008). According to that, more than 300 big companies in Indonesia attended this competition in 2007. This refers to empirical study, many big companies in Indonesia had implemented an HR transformation by using HR Roles’s concept. According to this research conducted in 2011, it was predicted there will be more companies and maybe even medium size companies implement HR transformation in 2011 onwards.

2. Literature Review

The changing roles of HR that in the past few years, roles for HR professionals were often viewed in terms of the transitional form such as operational to strategic; but HR professionals must fulfill both operational and strategic roles (Ulrich, 1997; Bhatnagar & Salma, 2005). Researchers gave emphasis on the requirements of HR competencies that are important to execute the new HR Roles and to demonstrate the capabilities of HR professionals in order to get credibility among them in the organization. Revolutionary change and the blurring of boundaries in the business world have resulted in an emphasis on the alignment of all functional activities of the organization toward the achievement of strategic objectives. One consequence of this trend is that many have called for a new strategic role for the HR function (Schuler, 1992; Lemmergaard, 2008).

In the new HR function that in order to create value and deliver results, HR professionals must begin not by focusing on the activities or work of HRM but by defining the deliverables of that work. Deliverables guarantee the outcomes of HRM work. In terms of deliverables, there are four key roles that HR professionals must fulfill to make their business partnership a reality, which are Strategic Partner, Change Agent, Employee Champion, and Administrative Expert (Ulrich, 1997; Bhatnagar & Salma, 2005).

2.1. Human Resource Roles

HR Roles are a developmental theory of traditional HR (administrative) to comprehensive HR roles, integrated, and deliver value to organizational competitive advantage. In its growth, those roles directly to people and process roles. As cited from Ulrich concept, it is described how HR results value added through four key roles of HR in order to meet the needs of the organization. The two arrow axes show the professionalism of HR in its focus and work activities.

The four HR Roles consist of, Management of Strategic HRM, Management of Transformation and Change, Management of Employee Contribution, and Management of Firm Infrastructure. Those four key roles are expected to be performed by HR professionals comprehensively in order to be strategic partners of the companies. Meanwhile the new HR roles become more strategic, the expectation to HR professionals follow in order to perform all accordingly. Expectation to HR professionals means that higher capabilities expected in this case, and to achieve that, specific HR competencies must be afforded by HR professionals.

2.2. Human Resource Competencies

Following the development of HR roles to become more strategic, many researchers conducted surveys to get findings of what the required competencies needed to execute strategic HR roles. A competency model can serve as an integrative framework for an
organization’s entire HR system. It can help align the HR system vertically with the organization’s strategic objectives, or horizontally with other HR functions, to ensure harmony and consistency across the many facets of HR activities that impact human performance (Rothwell & Wellins, 2004; Ramlall, 2006). The demands of new competencies for HR professionals seem to be a must that to sustain the transformation of HR function, HR professionals must develop a demonstrate a new set of competencies to fulfill the changing roles and responsibilities (Yeung et al., 1996; Ramlall, 2006).

Understanding those statements from researchers, there is a new set of competency model “Human Resource Competency Study (HRCS) 2007” released by Ulrich & RBL Research Team 2010 that provide of what key competencies suitable for HR professionals to perform and execute the new HR Roles and add value to the sustainable competitive advantage of the organization. It shows that successful HR professionals must manage both people and the business. Within these two major dimensions, the research has identified these six domains that lead to excellence in an HR professional is as follows.

2.2.1 Credible Activist

The most effective HR professionals are both credible (respected, admired, and listened to) and action or activist (offers a point of view, takes a position, challenges assumptions). Some have called this “HR with an attitude.” HR professionals who are credible, but not activists are admired but have little impact. Activists who are not credible have ideas that no one implements. Credibility moves you up the people axis, and activism moves you up the business axis. As credible activists, HR professionals create sustainable business outcomes as they link the people and business dimensions with energy, insight, sensitivity, and impact. The Credible Activist domain has four sub-domains: 1) Delivering Results with Integrity; 2) Sharing Information; 3) Building Relationships of Trust; 4) Doing HR with an Attitude. Focusing on these actions will help the HR professional excel in the role of Credible Activist. Both are required for transformational HR.

2.2.2 Business Ally

Businesses succeed by setting goals and objectives that respond to external opportunities and threats and executing plans of action that achieve those ends. HR professionals should contribute to the success of a business by knowing the social context or setting in which their business operates. They also know how the business makes money (which we call the value chain of the business), who customers are, why they buy the company’s products or services, and how the company has organized itself to respond to customer requirements. Finally, they have a good understanding of the internal business processes, of the value proposition of the various functions (finance, marketing, research and development, engineering), and of what these functions must accomplish and how they work together, so that they can help the business organize to make money. They can pass a business literacy test of how the business operates. The Business Ally domain is composed of four sub-domains: 1) Interpreting Social Contract; 2) Serving the Value Chain; 3) Articulating the Value Proposition; 4) Leveraging Business Technology. Focusing on these actions will help the HR professional excel in the role of Business Ally.

2.2.3 Strategy Architect

The most effective HR professionals have a vision for how the organization can perform and win in the marketplace, now and in the future. HR professionals play an active part in the establishment of the overall strategy to deliver on this vision by being an active participant in creating a strategy. They also turn strategy into HR practices that culminate in organizational capabilities. They ensure that leader behaviors throughout the organization match the strategy. They help articulate how the strategic bridges employees inside and customers...
outside. They manage the process of who is involved in shaping and sharing the strategy. The Strategy Architect domain has two sub-domains: 1) Sustaining Strategic Agility and 2) Engaging Customers. Focusing on these actions will help the HR professional excel in the role of Strategy Architect. The Engaging Customers factor was added to the Strategy Architect domain after the Non-HR associates’ dataset was factored separately from the respondents who were HR professionals. This is significant because it shows that this is seen as an important competency for the HR professional by Non-HR associates, while it is not seen as important by HR professionals themselves.

2.2.4 Operational Executor

The most effective HR professionals execute the operational aspects of managing people and organizations. Policies need to be drafted, adapted, and implemented. Employees also have many administrative needs (for example, to be hired, trained, relocated, and paid), and HR professionals ensure that these basic needs are efficiently dealt with through technology, shared services, or outsourcing. This operational work of HR ensures credibility if it is executed flawlessly and grounded in the consistent application of policies. HR professionals continually solicit and receive feedback from employees on the accuracy, speed, and responsiveness of all HR administration processes and practices. The Operational Executor domain has two sub-domains: 1) Implementing Workplace Policies and 2) Advancing HR Technology. Focusing on these actions will help the HR professional excel at the role of Operational Executor.

2.2.5 Talent Manager and Organization Designer

The most effective HR professionals master theory, research, and practice in both talent management and organizational design. Talent management focuses on competency requirements and how individuals enter and move up, across, or out of the organization. Organizational design focuses on how a company embeds capability (for example, collaboration or innovation) into the structure, processes, and policies that shape the way it works. HR professionals should ensure that the company’s means of talent management and organizational capabilities are aligned with strategy, integrated with each other, and working effectively and efficiently.

HR is not just about talent or organization; it is also about the two of them together. Good talent without a supporting organization will not be sustained, and a good organization will not deliver results without talented individuals with the right competencies in critical roles. The Talent Manager and Organization Designer domain have five sub-domains: 1) Ensuring Today’s and Tomorrow’s Talent; 2) Developing Talent; 3) Shaping Organization; 4) Fostering Communication; 5) Designing Rewards Systems. Focusing on these actions will help the HR professional excel in the role of Talent Manager and Organizational Designer. The Designing Rewards Systems factor was added to the Talent Management and Organization Designer domain after the Non-HR associates dataset was factored separately from the respondents who were HR professionals. This factor was considered an important competency by HR professionals as well, but under their data set, it showed up as significant under the Operational Executor domain. We determined to consider this an important factor of the Talent Management and Organization Designer role instead of the Operational Executor role because the outside-in view of the competencies of HR professionals is likely to be more accurate in determining what is essential for HR professionals.

2.2.6 Culture and Change Steward

The most effective HR professionals appreciate, articulate, and help shape a company’s culture. Culture is a pattern of activities rather than any single event. Ideally, this culture starts with clarity around external expectations (firm identity or brand) and then translates these expectations into internal employee and organizational behaviors. As stewards of culture, HR professionals respect the past culture and also help to shape a new culture. They
coach managers in how their actions reflect and drive culture, weave cultural standards into HR practices and processes, and make culture real for employees. Additionally, successful HR professionals facilitate change by helping to develop an appropriate company culture and by developing disciplines to make change happen throughout the organization. This may include implementation of strategy, projects, or initiatives. They help turn what is known into what is done. The Culture and Change Steward domain have four sub-domains: 1) Facilitating Change; 2) Enacting Culture; 3) Crafting Culture; 4) Personalizing Culture. Focusing on these actions will help the HR professional excel in the role of Culture and Change Steward. The six domains and sub-domains of HR competencies as above mentioned are to be used in preparing questionnaires as an instrument in this research (details of the above six domains are cited from Ulrich & RBL Research Team, 2010, p. 6-8).

2.3. Traditional Human Resource Function

In the past, the HR function was recognized as the personnel management that focuses on administration (selection, appraisal, reward, and development), welfare and industrial relationship (Fombrun et al., 1984; Long, Y, 2009: 18). Traditional HR function focuses on day-to-day activities, tried to meet employees’ needs and made control of them.

2.4. The New Human Resource Function

The main tasks of HR professionals still focused on the daily administration, but broadened management activities are involved in the HR function, which reflected that the HRM began to pay its attention to the relationship with strategic business issue. The lack of integration with the line management level, and the lack of power were the two major obstacles affecting the effectiveness of the HR function. To be more effective in service delivery, HR function needed to be strategic to operational and managerial level, and to become more mission-oriented (Hall & Goodale, 1986: Long, Y, 2009: 19-20).

The development of HRM has made the HR function has changed a great deal from the activities and transaction basis to management level and strategic focus. This shiftment has made the traditional structure of HR function different with the involvement of line managers and employees in HR issues.

2.5. Understanding Human Resource Transformation

Ulrich et al. mentioned that a true HR transformation is an integrated, aligned, innovation, and business focus approach to redefining how HR work is done within within the org so that it helps the organization deliver on promises made to customers, investors, and stakeholders (Ulrich et al., 2009: 8-9). Beside HR professional, the important position for the success of HR transformation is Line Manager. The line managers who believe that issues like talent, organizational capability development, strategy execution, and leadership are the keys to their business success (Ulrich et al., 2009: 4).

HR transformation is about transforming HR function, HR practices, and HR professionals. In the process of doing it, HR function changes in strategic level in order to be aligned with business strategy. An HR transformation HR function can be interpreted into two aspects: firstly, the main tasks of HR professionals have changed by redesigning its structure, or outsourcing the whole HR department. Secondly, it is a change in management level. An obvious change is the participation of line manager and employees in the staffing issue along with the HR professionals (Mohrman & Lawler, 1997; Long, Y, 2009: 29). Given an understanding of the statements, the accountability of HR transformation is on the senior human resource professional, which is in the position of strategic level. HR professional on a managerial level together with Line Managers work on HR practices, while on a operational level remains to employees and/or outsourcing. HR professionals will succeed in performing HR Roles to implement HR transformation with the quality standard of HR competencies. For the success of HR transformation and achieving the business result, HR professionals are expected to transform themselves by upgrading with to a quality standard of competences.
2.6. The Relationship Between HR Roles and HR Competencies

It comes to the attention competencies is important on the changing roles of HR resource. This changing has made HR professionals perform their new roles in the HR transformation process and add value to their companies. And HR professionals are expected to possess a quality standard of HR competencies for it. To become a successful strategic partner, the HR manager must have competencies that have to do with the business issues involved in strategy and strategy development, and ability to contribute to organizational design and change management (Lawler III and Mohrman, 2003: Inyang, 2010). HR executives must work with top management in achieving concrete plans and results if HR is to become a strategic partner. They must understand the operational side of the business and comprehend the complex organizational design, and they must be able to determine the strategic capabilities of the company’s workforce, both today and in the future (Mondy, 2010: 14).

It is known that for the successful implementation of strategic partner role, HR professionals are expected to transform themselves with new key competencies that make them in the position of senior management level in order to work with top management to contribute to strategic business objectives. HR professionals are also expected to translate the formulation strategies into strategic plans and executions (HR policies and practices).

2.7. Conceptual Model

A model is given for understanding the complex synergies that HR professional has to perform the operational and strategic roles in perspective the people and process. On the operational side, there are two issues that form the basis of performing day-to-day activities. Figure 1 is a conceptual model of the relationship between HR Competencies and HR Roles.

<table>
<thead>
<tr>
<th>Business Related Competencies:</th>
<th>HR Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Business Ally</td>
<td>Strategic Focus</td>
</tr>
<tr>
<td>2) Strategy Architect</td>
<td>a) Strategic Partner</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HR Professional Competencies:</th>
<th>Operational Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>3) Credible Activist</td>
<td>c) Employee Champion</td>
</tr>
<tr>
<td>4) Operational Executor</td>
<td>d) Administrative Expert</td>
</tr>
<tr>
<td>5) Talent Manager &amp; Organization Designer</td>
<td></td>
</tr>
<tr>
<td>6) Culture &amp; Change Steward</td>
<td></td>
</tr>
</tbody>
</table>


Figure 1. Conceptual Model

2.8. Research Framework And Hypothesis

The figure is modified from the above conceptual model, to test whether HR Competencies, which have two dimensions of Business Related Competencies and HR Professional Competencies, have significant influence on HR Roles which also have two dimensions of Strategic Focus and Operational Focus. Testing is to be done separately on the relation of each dimension of both sides. So, this research is expected to find the most significant influence of HR Competencies on HR Roles. Research framework can be seen in Figure 2.
Figure 2. Research Framework in Form of Path Diagram Construct

Note:
X1  = Business Related Competencies  
X2  = HR Professional Competencies 
X1.1 = Business Ally
X1.2 = Strategy Architect
X2.1 = Credible Activist
X2.2 = Operational Executor
X2.3 = Talent Manager & Organization Designer
X2.4 = Culture & Change Steward
Y1 = HR Roles on Strategic Focus
Y2 = HR Roles on Operational Focus
Y1.1 = Strategic Partner
Y1.2 = Change Agent
Y2.1 = Employee Champion
Y2.2 = Administrative Expert

H1 – H4 = Hypothesis

Hypotheses are drawn based on theoretical and empirical above that arrange in the figure of research framework, and formulated as follows:

H1: Business Related Competencies are expected to have significant influence on HR Roles on Strategic Focus.

H2: HR Professional Competencies are expected to have significant influence on HR Roles on Operational Focus.

H3: Business Related Competencies are expected to have significant influence on HR Roles on Operational Focus.

H4: HR Professional Competencies are expected to have significant influence on HR Roles on Strategic Focus.

3. Research Methodology

Participants of this research were HR professionals from Sidoarjo and Pasuruan manufacturing industries in East Java. Respondents were members of Human Resource Managers Associations who attend to their monthly gathering on the certain dates, at that moment the research were conducted. The Result of this research has only 46 respondents who returned their survey instrument after filled it out. Convenience or Accidental sampling was utilized considering the easiest to reach respondents, distribute survey instrument and collect them at the same time. Interview method was accomplished directly to chairmen and a few members of the associates in order to get information excluding a list of questionnaires.

Data collection instruments used in this research are quantitative method. The Survey instrument is developed based on 6 domains and 21 sub-domains of HR competencies identified on HRCS 2007 (Ulrich & RBL team, 2010), and four HR roles of Ulrich’s concept (1997) as well. Questionnaire rating used for HR competencies is Likert scale that ranged from: 1 = strongly disagree, 2 = disagree, 3 = moderately agree, 4 = agree, and 5 = strongly agree. While a rating of questionnaire used for HR roles is Likert scale that ranged from : 1 = very little extent, 2 = little extent, 3 = some extent, 4 = large extent, 5 = very large extent. This instrument used to ask respondents how well they perform their HR roles and what
competencies they possess to perform it in their daily work. This instrument also used to measure how well they implement HR transformation in their work. Information gathered from interview completed the data to be analyzed. Partial Least Square (PLS) used to analyze data with some considerations, such as predict orientation, small amount of samples (46 samples), high complexity (105 indicators). According to Ghozali, Modeling in PLS consists of : Inner model (Structural model) is structural model that relates latent variable to other latent variables; Outer model (Measurement model) is measurement model that relates latent variable to its indicators or manifest variables ; Weight Relation in which case values of its latent variables can be estimated (Gozali, 2008: 22). The outer and inner models then can be figured out in the path diagram construct, which is displayed in Figure 2.

Hypothesis testing is done by using Bootstrap resampling method, developed by Geisser & Stone. The Statistic test used is t test. Application of resampling methods enabling distribution free going into effect, does not need normal distribution assumption and also does not need big amount of samples (minimum sample recommended is 30). For t test, \( p\)-value \( \leq 0.05 \) (alpha 5 % = 1.96); significant (Ghozali, 2008: 44).

4. Results

All of the respondents represented as Human Resource Managers because these associations were discussing human resource problems and for Human Resource Managers only. Total respondents is 46 people, the majority and highest position of all members are HR Managers, reached 34 respondents (74%). HR Supervisors are 10 (22%). Three respondents who still in these positions, although they have been working for more than 15 years. The rest of two are Finance and accounting staffs who also handle HR’s job (4%). On the last two positions usually indicated that there is no HR Manager’s position in their medium size companies. They attended to this event represented themselves as HR Managers.

There are 18 respondents who have been working for 15 years and more at HR’s job (39%). Respondents who have been working in HR’s job for 10 to 14 years are 10 respondents (22%). Surprisingly, there are 18 respondents (39%) who have been working at HR’s job for 1 to 9 years, and mostly in HR Manager position. Respondents level and background of education could reveal the capabilities and competencies of executing human resource roles. Respondents who held Master degree is 5 (11%). All of them are in the position of HR Managers. A bachelor degree is very common on the level of education for each employee, it reached 34 respondents (74%). The rest of 7 respondents were Non degree (15%). Result of validity and reliability test using PLS describe that both are valid and reliable, shown stability and high consistency in answering the construct.

The mean score shows the highest mean score of HR Competencies is that of the Operational Executor. It obtained a mean score of 4.174, it means the preference of respondents possess HR competency of Operational Executor. To find the specific competency of Operational Executor, the highest score of respondents’ preference in choosing each item of Business Ally is on the 3rd level of Likert’s scale with 38,42%. It means that 38,42% of all respondents are moderately agreed to possess competency of Business Ally. The highest score of choosing each item of Business Ally is BA4 with 56,5%. It means that 56,5% of all respondents possess competency of Business Ally on doing demographic trends that influence their business. Other data processing is presented on the finalization of the result.

While on HR Roles, the result shows that the highest mean score of HR Roles is that of Employee Champion. It obtained a mean score of 3.833, it means the preference of respondents executes HR roles is that of Employee Champion. The highest score of respondents’ preference in choosing each item of Strategic Partner is on the 4th level of Likert’s scale with 38,91%. It means that 38,91% of all respondents on executing or performing the role of Strategic Partner is large extent. The highest score of choosing Strategic Partner is SP1. It means that 45,3% of all respondents execute or perform the role of Strategic Partner in developing the processes and strategy programs of human resource to
achieving business strategy of the company. Other data processing is presented on the finalization of the result.

The result shows of linearity test with a curve fit that Significant F = 0.0000 is less than 0.05, it means the relationship of model 1, which is Business Related Competencies and HR Roles on Strategic Focus is linear. For model 2, 3, and 4 by the same data processing have given results that the three models are linear as well. So it can be concluded that:

Model 1: Business Relationship Competencies and HR Roles on Strategic Focus
Model 2: HR Professional Competencies and HR Roles on Operational Focus
Model 3: Business Relationship Competencies and HR Roles on Operational Focus
Model 4: HR Professional Competencies and HR Roles on Strategic Focus

are linear on the relationship of each variable.

Load factor recommended is more than 0.50. It shows all convergent validity scores are higher than critical than the of 0.50, it means that all indicators in the constructs are valid. Method to test discriminant validity is AVE (Average Variances Extracted) for each construct. Then AVE score of each variable must be more than 0.50, so that variable used is valid. PLS outputs of AVE shows that AVE score for all variables are more than 0.50, hence variables used in this research are valid. The Indicator block which measure a construct can be evaluated with two kinds of measurement, such as internal consistency developed by Werts, Linn & Joreskog (1974) and Cronbach’s Alpha. The accepted critical score for level of composite reliability (ρc) is more than 0.70 (Ghozali, 2008: 25). By using PLS output, herewith the table of reliability test result. Based on this, it is shown that scores of Composite Reliability as well as Cronbach’s Alpha are more than 0.70. These indicate that all variables used in this research have good reliability.

Testing for structural model have been done by assessing R-Square score for dependent construct, Stone-Geisser Q-Square test for predictive relevance, and t test and also parameter coefficient significance of its structural linear which obtained from the bootstrapping procedure for hypothesis testing (Ghozali, 2008:26). It is shown that R-Square on Operational Focus is 0.5706. It indicates that this model has Goodness of Fit of 57.06%. It means that variability of X1 (Business Related Competencies) and X2 (HR Professional Competencies) give a contribution to Operational Focus equal to 57.06%, while the rest 42.94% is contributed by other variables outside this research. The second result of R-Square on Strategic Focus is 0.5501. It indicates that this model has Goodness of Fit of 55.01%. It means that variability of X1 (Business Related Competencies) and X2 (HR Professional Competencies) give a contribution to Strategic Focus is 55.01%. the rest of 44.99% is contributed by other variables outside this research.

Q-Square test for predictive relevance is to measure how good observation score is resulted by model and also its parameter estimation. Q² score has a range of 0 < Q² < 1, when the closer score to 1, the model is better. Q-Square is obtained by using the formula:

\[
Q² = 1 - (1 - R₁^2)(1 - R₂^2) \ldots (1 - R_p^2)
\]

\[
Q² = 1 - (1 - 0.5501)(1 - 0.5706)
\]

\[
= 1 - 0.1932
\]

\[
= 0.8068
\]

Q²-Square score resulted is 0.8068, refers to the observation score resulted by model and also its parameter estimation has measured 80.68% better.

Hypothesis testing is done by using a bootstrap resampling method, developed by Geisser & Stone. The statistic test used is t test. Application of resampling methods enabling distribution free going into effect, does not need normal distribution assumption and also does not need big amount of samples (minimum sample recommended is 30). Statistical significance is on p-value ≤ 0.05 (alpha 5% = 1.96) (Ghozali, 2008: 44).

The result of PLS output can be explained that:
Business Related Competencies have a positive influence on Strategic Focus with a path coefficient of 0.5038, and t-values obtained 3.276 is higher compared to table of 2.015, so that H0 is rejected. It means Business Related Competencies have significant influence on HR Roles on Strategic Focus.

HR Professional Competencies have a positive influence on Operational Focus with a path coefficient of 0.6377, and t-values obtained 9.343 is higher compared to table of 2.015, so that H0 is rejected. It means HR Professional Competencies have significant influence on HR Roles on Operational Focus.

Business Related Competencies have a positive influence on Operational Focus with a path coefficient of 0.1626, and t-values obtained 2.038 is higher compared to table of 2.015, so that H0 is rejected. It means Business Related Competencies have significant influence on HR Roles on Operational Focus.

HR Professional Competencies have a positive influence on Strategic Focus with a path coefficient of 0.3047, and t-values obtained 2.088 is higher compared to table of 2.015, so that H0 is rejected. It means HR Professional Competencies have significant influence on HR Roles on Strategic Focus.

5. Discussion

5.1. HR Roles and HR Competencies by HR professionals

The result of this research shows that most respondents possess HR Competencies on Operational Executor focusing on labor legislation is the highest level. Operational executor still works on the orientation of people and operational focus, day to day basis. Result of HR Roles, mostly respondents execute or perform the role of Employee Champion focusing on participating to build employee morale is the biggest role that currently executed by them. When it refers to the information gathered from interviews with the chairmen and members of the associations, these results make sense. According to them, only a few of their companies in Sidoarjo have done organization transformation, while in Pasuruan is none. It because all of the respondents in Pasuruan work at private and medium size companies owned by the individual that still implement traditional human resource management function. Although respondents were quite familiar with the HR Roles concept from Ulrich, they did not know much how to implement it in their companies. The owners or shareholders have just felt enough of what they have gained, did not need to make improvements for the future. So that respondents have to take it for granted of what they faced with these conditions without having effort of making changes in their work. The background and level of education of respondents have also resistance to make changes in management.

5.2. HR Competencies that influence on HR Roles

The result shows the highest R-Square is on Operational Focus, which has the score of 0.5706. It indicates that this model has Goodness of Fit of 57.06%. When it compared to R-Square’s score on Strategic Focus, which is 0.5501, the variability of Business Related Competence (X1) and HR Professional Competencies (X2) have a fitted on Operational Focus (Y2). Referring to hypothesis testing, each of the hypothesis is proven by Bootstrapping result, and the result shows the most significant influence is that of HR Professional Competencies on HR Roles on Operational Focus (0.6377) with t-values of 9.343. These results prove the findings VoF respondents’ preference that the majority of HR Competencies is Operational Executor as well as HR Roles on Employee Champion. When it refers to the rank of finding for HR Competencies, as previously mentioned that Operational Executor is the most preference. And the position of Employee Champion is on Operational
Focus. So that it can be decided that HR Professional Competencies have the significant influence on HR Roles on Operational Focus.

6. Conclusion and Implication

6.1. Conclusion

Based on the results that already discussed, most respondents possess or perform HR roles and HR competencies are still on standard quality of traditional human resource function. While HR transformation can only be done by senior HR professionals which is on a strategic level. The conclusion is that HR transformation is not done in respondents’ companies.

6.2. Implication

HR transformation needs to be more socialized to business communities, especially in East Java. HR transformation is a must to be done in global business nowadays to have a competitive advantage in organizations. HR professionals proactively to inform their top management as well as shareholders about HR transformation if their companies have an urgency to gain competitive advantage in the marketplace, meanwhile HR professionals have to transform their competencies and roles to be strategic partners for their companies.

Reference


Review on Process Representation in Accounting Information System

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ABSTRACT

Objective – Understanding business processes is becoming increasingly critical. In light of the understanding of business process, the notion of understandability has received much attention in accounting information system (AIS). The current study focuses on the comparison of different representation format, namely diagram-oriented and textual-oriented. Type the brief purpose of the paper and illustrate the direction that is taken, whether it is empirical or theoretical testing in analyzing the research subject.

Methodology/Technique – The paper looks at, through systematic approach the collection of prior research papers relevant to the use of representation format depicting business processes and/or other information artifacts.

Findings – Observable differences have been studied between different representation modes in which understandability serves as part of a dimension of interest. Experimental works It appeared that here is also inconclusive concession with regard to the review. Such a comparison is highly relevant, as business process is attributed with risks that may affect the organization at different level of exposures.

Novelty – This paper strives to contribute to the body of knowledge by focusing on the current state of the relationship between different process representation formats with a user utilizes in relation with a process perspective of accounting and information system.

Type of Paper: Conceptual

Keywords: Business Process; Accounting information system; Diagrammatic; Textual; Process Representation; Experimental.

1. Introduction

Among the function of accounting information system (AIS) is to help decision makers and organizations wide (1) communicate the organization’s financial and operational situation and performance (Sajady et al., 2012) (2) improve their business processes through the development of a more effective and efficient transaction and information processing...
(Bagranoff et al., 2010, pp. 5-9) and (3) establish accountability of business operation by satisfying internal control directives, professional standards and regulatory compliance (Romney et al., 2012, pp. 137-141). Understanding the business processes that circulate within an organization, thus constitutes an essential element of meeting the aforementioned organizational objectives with respect to accounting information system. For example, the International Federation of Accountants’s International Standard on Auditing (IFAC’s ISA) places stronger emphasis on understanding business processes considered to be crucial for subsequent risk identification (IFAC, 2010).

One of the approaches to cultivate a business process understanding is to employ process representation. Process representation depicts some abstractions from a real business process and in turn helps users to use the knowledge to specify or improve existing information system and organizational process (Figl et al., 2012). It is among the many methods of fact-gathering techniques that are available. Flowchart is one popular process representation that has been widely used. For example, it is widely used to portray the current business process and to locate its associated risks in information system (IS) assurance or audit. Despite its common adoption in audit environment (Borthick et al., 2011; Lehman, 2000), it is surprising that whether business processes depiction with diagrammatic flowcharts meets the users’s need does not show conclusive result (Bradford et al., 2007; Kotchetova et al., 2005).

There exists a broad spectrum of process representation with relative strengths and weaknesses. On one hand, many of the popular notations popularly named as modeling grammars build on a graph-based representation where the activities of a process are connected with directed arcs defining the control flow, e.g. Business Process Modeling Notation (BPMN) (OMG, 2011), EPC (Event Process Chain) (Scheer, 2000) or ERD-based Resources Event Agent (REA) (McCarthy, 1982). These notations have been actively researched in both conceptual and empirical senses. On the other hand, textual representation has also been defined, viewed as the other way at the other end of the representation spectrum utilized to meet system requirement for system analysts and auditors.

Despite ample studies in the use of system documentation to help AIS support process understanding, there appears to be little information about how these two representations are carried out in practice and whether one mode outperforms another. Evidence is extensive with regards to prior works in conceptual modeling that relate to comprehension. However, only a handful of previous researches that qualify process-related text-diagram analysis. Some of these researches can be grouped as tables versus graphs (DeSanctis & Jarvenpaa, 1989; Vessey & Galletta, 1991), inter text groupings (Kopp & O’Donnell, 2005; O’Donnell & Schultz Jr, 2003) (Kopp and O’Donnell 2005; O’Donnell and Schultz Jr 2003), inter-grammar evaluation (Dunn et al., 2011; Jones et al., 2002) and intra-grammar evaluation (Burton-Jones & Meso, 2006; Mendling et al., 2010a).

Some view the superiority of using diagrams over text, e.g., for externalizing problems (Scanlan, 1989), whereas others find the opposite superiority for the other end. This lack of consensus among the findings is a disadvantage, and this gives rise to the question of whether choice of business process documentation to understand underlying organizational processes and to specify system requirements is in favor of diagrammatic process models as opposed to textual representation. This motivates us to conduct a structured evaluation that provides the portrayal of comparison between diagrammatic-oriented and textual-oriented process representation. We aim to catalogue existing knowledge in the area to date and to facilitate future research efforts on this topic. Furthermore, the research about how process representations enhance understanding is still evolving, especially when anchored by user characteristics.

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3 In this paper, process representation has an equivalent meaning with process documentation or process modeling in other literature. For more coverage on process modeling and understanding at syntactic and semantic level, see Mendling et al. (2012), Mendling et al. (2010b) and Recker et al. (2009).
The remainder of the paper is structured as follows. In Section 2, the research questions for the review are presented. Section 3 provides the methodological aspect used in this systematic review. The result is covered in Section 4, followed by the conclusion in Section 5.

2. Related background

AIS, in combination with processing procedures, collects and communicates business process information, and ultimately transforms it into meaningful and relevant information for decision-making activity. In fact, many emerging strategic initiatives refer process as an important and central concept (Belfo & Trigo, 2013). As organizations increasingly embrace Business Process Management (BPM), the importance of processes information pervades at virtually all levels of management, amplifying the potential capability of AIS in the shared environment even more. It particularly facilitates detailed analysis on the coupling of the attributes of each business process instance with information pertaining to accounting dimension the related process instance.

According to theory of Equivalence of Representation (Larkin & Simon, 1987), two representations are computationally equivalent if the same information can be extracted from each (the same inference drawn) with about the same amount of computation, up to a factor of proportionality. One representation (diagram) may outperform another (textual) if it is informationally equivalent, and in additional this particular representation can facilitate inference in an easier and quicker way than another representation, indicating the existence of a computational advantage.

3. Review method on the process representation in AIS

To ensure that our literature review obtain relevant studies in an unbiased manner, we adopt the systematical approaches in software engineering designed by Beecham et al. (2008) and Biolchini et al. (2005). We then adapt the protocols with business information system focus. We also take other approaches as additional references to strengthen our understanding of doing the protocol, such as Kitchenham et al. (2009) and Beecham et al. (2008). The next subsections elaborate the adapted version of the review protocol that have been compromized with the goal of the current study.

3.1 Question Formularization

In order to understand current state of process representation, in terms of gaps and commonalities in existing comparison between process representation, research questions need to be formulated.

AIS, in combination with processing procedures, collects and communicates business process information, and ultimately transforms it into meaningful and relevant information for decision-making activity. In fact, many emerging strategic initiatives refer process as an important and central concept (Belfo & Trigo, 2013). As organizations increasingly embrace Business Process Management (BPM), the importance of processes information pervades at virtually all levels of management, amplifying the potential capability of AIS in the shared environment even more. It particularly facilitates detailed analysis on the coupling of the attributes of each business process instance with information pertaining to accounting dimension the related process instance. The main driver for conducting the systematic review is to identify observable differences in the existing empirical comparison related to the role of different process representations on user characteristics. The research question serves the basis for giving readers grasp over the current development and to form a stepping stone for the future research in AIS. Thus, we formulated the following research question:
RQ: What is the recent development in empirical comparison of AIS process representation?

This research question serves as the primary question which is to be operationalized into five composing sub-questions:

1. What aspect of the process or context that exist on the comparison between contrasting process representations?
2. What are the types of process representations used in the empirical comparison?
3. Who are the users that participate in the empirical study?
4. How does the study measure the variables or constructs of interest?
5. What are the findings that particularly convey the diagrammatic versus textual comparison?

To find the answer to the RQs, the list of keywords had been collected and utilized that can help us implement our selection strategy for relevant papers from the initial dataset. These keywords also anticipated English grammatical rules that applied to specific words like the use of s/es for plural, different UK/US English style, synonyms, and others: “business process”, “business process model”, “process representation”, “process diagram”, “understanding”, “comprehension”, “task performance”, “experiment” and “information system”.

The expected outcome of this structured review was the knowledge over the state of the comparison between diagrammatic and textual representation, what differences there had been and whether or not these observed differences had been substantiated. Furthermore, a number of common attributes that were part of the queries were applied to this comparison. Populations under observation were the publications that studied the empirical comparison between diagrammatic and textual representation of processes. We also scoped our review to studies whose evidences obtained through experimentation as compared between diagrammatic and textual representation is best viewed from experimentation angle.

3.2 Sources Selection

We conducted a two-stages search. The first stage of the search was looking up works, based on the keywords already defined above, that were web-indexed in several scientific databases focused in business and information system: Google Scholar, Science Direct, ACM database, and Emerald. We assigned the defined keywords onto respectable value fields in the advanced search mode of each database. A combination of logical boolean operators such as AND, OR, and NOT. Additionally, these queries had to be adapted to each database engine to meet our search objective. For example, in the Google Scholar search engine, we entered “business” to find all the words, “process model” for the exact phrase, and “documentation”, “representation”, “modeling”, “understanding”, “comprehension” to get at least one of the words anywhere in the articles being searched. As the result, the search engine returned 155 hits.

Additional search was also conducted to collect data from proceedings of accounting information system or business process management conferences. This web-based search was conducted in several iterations against each database. Each iteration was performed from the beginning to the each database, instead of using search results from prior iteration. The second stage were manual searches to ensure the inclusion of relevant studies that were not indexed by the scientific databases above. We included some studies obtained from the first stage that we deemed appropriate to be further analyzed.
3.3 Study Selection

From the search engine, we obtained a total of 756 articles. To ensure that our literature review remained within a manageable scope, we established a set of inclusion and exclusion criteria that are in line with our interest. To do this, we contends that iterative process is a necessity. It is iterative because of the repetition of one or more activities such as looking for new articles, applying inclusion/exclusion criteria, etc (Sánchez González et al., 2010). As the first exclusion hurdle, we are mainly interested with complete articles dedicated for scientific purposes. As a consequence, any document in a form of table of contents, a tutorial, a book, a manual, white paper, a packet of proceedings, or non English documentation was excluded. Next, as a general rule, we consider only those studies whose principal subject is the empirical study that compares different process representation in an accounting information system environment in relation to pragmatic properties like user understanding. We thus filtered out papers that focus on the syntactic aspect of process representation like cross-connectivity, structuredness, etc.

Another important inclusion criterion is the characteristics of process representation that qualify for diagrammatic and textual. As the properties that describe a diagrammatic representation are relatively easy to distinguish, extra care is needed to put a particular representation as a textual. We adopted the distinction explained in Larkin and Simon (1987) that use structural and behavioral properties to differentiate sentential from diagrammatic representation. Accordingly, we decided studies involving similar structures with narrative/text such as Backus–Naur Form (BNF), pseudocode, structured English, tabulated text, and other symbolic patterns were classified as textual representation.

Table 1. Result of search on search engines (year 1980 – 2015)

<table>
<thead>
<tr>
<th>Database</th>
<th>Discovered</th>
<th>Relevant</th>
<th>Duplicated</th>
<th>Selected</th>
</tr>
</thead>
<tbody>
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<td>Google Scholars</td>
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<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Science Direct</td>
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<td>Emerald</td>
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</tr>
<tr>
<td>Additional source</td>
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<td>1</td>
<td>0</td>
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<tr>
<td><strong>Total Accepted</strong></td>
<td><strong>17</strong></td>
<td></td>
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</tbody>
</table>

4. Discussion

The research question along with the five sub-questions served as the main quality assessment checklist for the data extraction stage. Based on the checklist, we then came up with a total of 17 papers that were deemed important with regards to the objective of the current study. Here, we summarize the categorization of select papers based on the research criteria. Table 2 presents the partial distribution of the total number of papers that study the comparison between process representation viewed from the context in which the comparison took place and the type of diagrammatical and textual representation. In overall, the majority of experimental work seems in favor to diagrammatic over textual representation. The complete distribution can be requested to the corresponding author due to the limitation of space.

Some works postulate a superiority of using diagrams for externalizing problems (Scanlan, 1989), whereas others find the opposite superiority for the other end (Boritz et al., 2012). Alencar et al. (2008) show that texts elicit more account codes than diagrammatic business model. Among the relatively few papers on diagram versus text for understanding, it appears that no strong conclusion can be derived whether a diagram surpasses text in decision-making tasks. (Amer et al., 2002) report that no difference was found in accuracy based on either a business process diagram or a narrative. In a more recent study, another study reported that
while there was no reported difference on accuracy scores, participants receiving the textual representation were more efficient and had a greater weighted-average performance than those receiving the diagrammatic representation (Boritz et al., 2012) (Boritz et al. 2012). In contrast, another experiment found that the absence of flowchart renders benefits when compared with only using an internal-control matrix (Bierstaker et al., 2009). Furthermore, performance differences in terms of time exist between the entity relationship (ER) model and Backus-Naur-Form (BNF) language grammar, but do not occur in terms of accuracy (Dunn & Gerard, 2001). Another research identifies characteristics that BPMN is consistently preferred over other formats (Figl & Recker, 2014).

<table>
<thead>
<tr>
<th>Relevant Papers</th>
<th>Context when performing comparisons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alencar et al. (2008)</td>
<td>Audit risk assessment</td>
</tr>
<tr>
<td>Amer et al. (2002)</td>
<td>Application documentation for audit review support</td>
</tr>
<tr>
<td>Dunn et al. (2011)</td>
<td>Cardinality validation</td>
</tr>
<tr>
<td>Bierstaker et al. (2009)</td>
<td>Internal Control</td>
</tr>
<tr>
<td>Boritz et al. (2012)</td>
<td>Risk assessment</td>
</tr>
<tr>
<td>Cunniff and Taylor (1987)</td>
<td>Program comprehension</td>
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<tr>
<td>Dunn and Grabski (2001)</td>
<td>System Analysis</td>
</tr>
<tr>
<td>Dunn and Gerard (2001)</td>
<td>Accounting Process</td>
</tr>
</tbody>
</table>

5. Conclusion

Understanding business processes is critical. In light of the understanding of business process, the notion of understandability has receive much attention in information system, including accounting information system (AIS). This current paper attempts to systematically review and hence contributes to the body of knowledge by collecting current state of empirical comparison of process representations between diagrammatic and textual in light of the ability of certain representation to support comprehension. Observable differences have been evidenced between different representation modes in which diagrammatic process representation seems to outperform textual counterpart with regard to the notion of understandability. However, whether diagrammatic representation contributes to the whole aspects of particular problem tasks and larger audiences is not conclusive. Future empirical work is warranted to address this issue. This review provides the basis for the next stage to augment process comprehension quality of individuals interacting with process representation.
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OMG. (2011). Business Process Model and Notation (BPMN) 2.0: Object Management Group


The Impact of Capital Structure on Financial Performance of the listed Agriculture Companies in Indonesia

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ABSTRACT

Objective – The paper analyzes the impact of capital structure on the financial performance of the agriculture companies listed in Indonesia Stock Exchange. In addition, this paper also analyzes which one between equity and asset that is able to cover the firm’s debt.

Methodology/Technique – The time scope of this thesis is taken from 2010 until 2014 with 16 agricultural companies listed in Indonesia Stock Exchange as the samples. The independent variable in this thesis is capital structure that is measured by Debt Equity Ratio and Debt Asset Ratio. The dependent variable is financial performance that is measured by GPM, NPM, ROA, ROE, and EPS. The methodology used in this thesis is multiple regression and the data is processed by using SPSS.

Findings – The result of this paper shows that Debt Equity Ratio, which is one of the indicators of capital structure, has a significant impact and a negative relationship with ROE.

Novelty – This study also finds that rather than the land, the value of the company’s building contributes more significantly towards the agriculture company’s total assets which are more able to cover the debt.

Type of Paper: Conceptual

Keywords: Capital Structure; Financial Performance; Agricultural Company, Profitability Ratio; Debt Equity, Debt Asset

1. Introduction

1.1 Background

The capital structure is basically a firm's financial framework. It is a combination between debt and equity capital maintained by a firm. It is also a mixture of various long term sources of funds and equity shares, including reserves and surpluses of an enterprise (Booth, et al. 2001). Capital structure in a company is used to finance its overall operations and growth

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which includes the combination of a firm’s long-term debt, specific short-term debt, common equity, preferred equity and retained earnings. Since capital structure is directly related to the risk and return of a firm, the arrangement of capital structure is a very important financial decision. It can result in high cost of capital if there is any unwise decision towards the capital structure; hence the firm’s value will be lowered while effective capital structure decision can do the opposite (M. B. Hasan, et al. 2014).

The capital structure is about putting in place the structure, processes and mechanism that ensure the firm is being directed and managed in a way to enhance long term shareholder value through accountability of managers and enhancing organizational performance. Because firm performance and capital structure is a tool for socioeconomic development, it has succeeded in attracting a good amount of public interest. Moreover, when there is a good firm performance and capital structure, there will be proper and efficient practice in the administration of business entities. The firm may have their retained earnings increase their capital structure (Kajananthan and Nimalthasan 2013).

Based on (Uwalomwa and Uadiale 2012), researchers have continued to analyse capital structures and to try to determine whether optimal capital structures exist. An optimal capital structure is usually explained as one that will minimize a firm’s cost of capital but maximizing shareholder’s wealth. According to finance theory, the capital structure does affect a firm’s cost of capital and consequently financial performance. Cost of capital works as the benchmark for firm’s capital budgeting decisions, therefore the optimal combination of debt and equity is crucial to outperform. Shareholders’ wealth maximization concept also tells that firms choose the optimal combination of debt and equity financing that best serves the main purpose of the firm.

The research problem from this study comes from when there is Modigliani-Miller Theory that stated capital structure is irrelevant to the firm’s financial performance. However, a study by Jensen and Meckling in 1976 stated otherwise. They stated that the company’s financial leverage can affect the firm’s financial performance. For this study, there have been many studies that analyze about the same topic.

In Indonesia, neither previous research regarding the company’s capital structure data from the Indonesia Stock Exchange is performed on listed agriculture companies in Indonesia. Indonesia is the world’s largest producer of palm oil and other commodities such as cocoa, rubber and coffee with its agriculture sector contributes 12.27% to its GDP in 2013. However, Indonesia still relies on imports for other basic commodities such as wheat, soybeans and sugar (Indonesia Agriculture Sector 2012). Even though agriculture’s share of the Indonesia's GDP has decreased during the last five decades, the income source of Indonesia households mostly still comes from agriculture. In 2012, this sector employed approximately 49 million Indonesian individuals; it indicates 41% of the total Indonesian labor (Agriculture Sector of Indonesia - Indonesian Agriculture Products 2011). Regarding the land, the data shows that area of agricultural land in Indonesia has been slightly decreased from 40.1 million ha in 2009 to 39.6 million ha in 2012.

Therefore, this study focused on the agriculture sector because the economics in Indonesia are mostly influenced by the agriculture sector (Indonesia Facts - Trade Expo Indonesia 2015). An assumption has also been made where since agricultural companies need more land to run their operation, it means the total amount of fixed assets they have are mostly coming from the land. From this assumption, it means that the companies’ land has a major role in increasing their fixed assets; and the higher the fixed assets, the higher will be the total assets hence their total asset is more able to cover the debt in agricultural companies. Therefore, this study will analyse whether agriculture companies’ land is indeed having a major effect on total fixed assets or not.

1.2 Research objective and limitation

The objective is to determine how significant capital structure affects the financial performance of the listed agricultural companies in Indonesia. Besides, the research is also to
determine whether the land of the listed agricultural companies in Indonesia contributes significantly towards its total assets and therefore more able to cover its debt. The scope of this study is annual and financial reports of agricultural companies in Indonesia that are listed on the Indonesia Stock Exchange (IDX) from year 2010-2014.

2. Literature Review

2.1 Capital Structure

The capital structure of a firm is the way a firm finances its operation by using a mix of different securities. In general, capital structure refers to the proportion of debt and equity that make up the liability of owners’ equity side of a firm’s balance sheet which is usually referred as leverage (Nirajini and Priya 2013). A firm’s capital structure is the combination of long-term debt and equity. In other words, what percentage of the firm’s cash flow goes to creditors and what percentage goes to shareholders (Ross, Westerfield and Jordan 2009). Basically, the capital structure is a mix of debt and equity financing, and considers the required rate of return of debt as well as equity investors (Brealey, Myers and Marcus 2004).

The financial structure of a company includes internal and external finance. If it is internal financing, the aim of optimal investment in non-current assets results in profits that may be distributed in the form of dividends or retained for future investment. If it is external financing, it is mostly consisted of debt (loans, debentures, etc.) and equity (ordinary shares) (Davies, Boczko and Chen 2008).

2.2 Debt

Debt is a sum of money that somebody owes or the situation of owing money (Turnbull 2010). The main differences between debt and equity financing are debt is not an ownership interest in the firm, the firm’s payment of interest on debt are considered as cost and is tax deductible, and unpaid debt are considered as a liability of the firm (Ross, Westerfield and Jordan 2009). Debt capital is the financing that a small business owner has borrowed and must repay with interest. Even though sources of debt financing are more numerous and allow owners to maintain the whole ownership of the business, debt financing can be as hard to maintain as equity financing (Sources of Financing: Debt and Equity 2014).

2.3 Equity

Equity is the value of a company’s shares or the value of a property after all charges and debts have been paid (Turnbull 2010). Equity capital is the personal investment of the owners in a business where sometimes as risk capital because the investors consider about the risk of losing funds if the business fails (Sources of Financing: Debt and Equity 2014).

2.4 Asset

According to Weygandt, Kimmel and Kieso (2010), assets are resources which a business owns and uses for its production and sales. There are two types of assets which are current assets and non-current assets. There is also a kind of non-current asset called intangible asset.

2.5 Financial Leverage

Financial leverage has an important effect on the long-term stability of a firm because it may affect the firm’s financial risk (Davies, Boczko and Chen 2008). Leverage ratios can also be called gearing ratios. These ratios measure to what extent that the company uses its debt to finance its operations and give an insight into the firm’s long-term solvency (D’Amato 2010). It also measures the firm’s long-term ability to meet its obligations (Ross, Westerfield and Jordan 2009). Financial leverage ratios represent the relationship between two sources of finance, which are debt and equity.
2.5.1 Debt equity ratio

\[
\text{Debt/equity ratio} = \frac{\text{Total Debt}}{\text{Equity}} \quad (1)
\]

2.5.2 Debt to total assets ratio

\[
\text{Debt to total assets ratio} = \frac{\text{Total debt}}{\text{Total assets}} \quad (2)
\]

2.6 Financial Performance

Financial ratios simplify the process of determining the firm’s financial position by looking at the firm’s financial statements, management, health, and make reported financial information more useful for the shareholders (D’Amato 2010). Ratio analysis also shows the relationship between specific item of financial statement data in the form of a percentage, rate, or proportion (Weygandt, Kimmel and Kieso 2010).

2.7 Profitability ratio

Profitability ratios are usually used to measure how efficiently firms use their assets and how firms manage their operations (Ross, Westerfield and Jordan 2009). These ratios also measure the firm’s income or operating success. Therefore, creditors and investors are interested in evaluating profitability because income not only shows the firm’s ability to obtain debt and equity financing; it also shows the company’s liquidity position and its ability to grow (Weygandt, Kimmel and Kieso 2010).

2.7.1 Gross Profit Margin

\[
\text{Gross profit margin} = \frac{\text{Sales} - \text{COGS}}{\text{Sales}} \times 100 \quad (3)
\]

2.7.2 Net Profit Margin

\[
\text{Net profit margin} = \frac{\text{Net income}}{\text{Sales}} \times 100 \quad (4)
\]

2.7.3 Return on Asset

\[
\text{Return on Asset} = \frac{\text{Net income}}{\text{Average total assets}} \times 100 \quad (5)
\]

2.7.4 Return on Equity

\[
\text{Return on equity} = \frac{\text{Net income}}{\text{Average shareholders’ equity}} \times 100 \quad (6)
\]
2.7.5 Earning per Share

\[
\text{Earnings per share} = \frac{\text{Net income}}{\text{Total shares outstanding}} \tag{7}
\]

2.8 Research Framework

![Figure 1. Research Framework](image)

3. Research Methods

3.1 Population and Sampling

The population of this study is all agricultural companies that are listed in the Indonesian Stock Exchange (IDX). There are currently 21 listed agricultural companies in IDX. However, sampling is done based on the availability of the companies’ financial data; only companies that have the complete financial data from 2010 to 2014 are used in this study. Therefore, 16 companies out of 21 companies are chosen that fulfilled the sampling requirement.

Table 1. List of Sample Companies

<table>
<thead>
<tr>
<th>AALI</th>
<th>ANJT</th>
<th>BISI</th>
<th>BTEK</th>
<th>BWPT</th>
<th>CPRO</th>
<th>DSFI</th>
<th>GZCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>IIKP</td>
<td>JAWA</td>
<td>ISIP</td>
<td>SGRO</td>
<td>SIMP</td>
<td>SMAR</td>
<td>TBLA</td>
<td>UNSP</td>
</tr>
</tbody>
</table>

3.2 Data sources and Collection

Secondary data is used using annual and financial report from listed agricultural companies gathered from Indonesian Stock Exchange website and the companies’ websites. These reports are used as the main source to find the variables needed in this study. Independent variables are measured by debt-equity ratio and debt asset ratio, while dependent variables are measured by Gross Profit Margin (GPM), Net Profit Margin (NPM), Return on Asset (ROA), Return on Equity (ROE), and Earnings per Share (EPS). These ratios are obtained by using specific accounts in statements of financial position and statements of comprehensive income to be used in the ratio formula.

3.3 Method of Data Analysis

Methods of data analysis are performing ratio calculation and asset analysis. Regression analysis is processed using SPSS statistical software with classical assumption tests of normality, multicollinearity, autocorrelation and heteroscedasticity test.
4. Results and Discussion

4.1 Ratio Analysis

4.1.1 Debt Equity and Debt Asset

4.1.2 Gross Profit Margin and Net Profit Margin

4.1.3 Earnings per Share

4.1.4 Analysis by Sectors and Companies

There are 4 subsectors in agriculture, which are crops, plantations, fishery, and other. The amount of debt during 2010-2014 is higher than equity but lower than assets. The lowest
average of Debt Equity Ratio comes from crops 0.16 whereas the highest comes from fishery 6.88. CPRO contributes to the fishery which is nearly 18.0. The average of Debt Asset Ratio is almost same in fishery, plantation and other subsectors around 0.47 but significantly higher than crops 0.14. The lowest debt asset ratio comes from IIKP.

Crops has the highest average of Gross Profit Margin 40.37 when the fishery showing loss of -3.51 because of IIKP. The fishery subsector also has -26.46 Net Profit Margin because of CPRO and IIKP that had loss during 2010-2014. Other subsector is also -7.9 because of BTEK.

Crops and plantation sectors have positive ROE and ROA when fishery and other sectors are minus because of those 3 companies. CPRO moreover, has minus and lowest ROE and ROA.

The highest average of EPS comes from the plantation. AALI has the highest EPS followed by ANJT and CPRO. Moreover, SIMP also has the highest average of total equity followed by AALI and UNSP. For SIMP and AALI, inappropriate retained earnings contribute significantly for an average 69% of the total equity. However the total equity for UNSP mainly came from the capital.

In 2010, the profitability ratios from BTEK are all minus. This is because of the loss of its gross profit and net income. If a company has gross loss and income loss, its profitability ratios are automatically has minus amount because profitability ratios deal with gross profit and net income. In 2011, the company which had minus amount for its profitability ratios is IIKP for the same reason as BTEK. In 2012, CPRO has the highest debt equity. It is because of the big amount of debt it has. The high debt equity ratio indicates higher financial risk because it means higher amount the company owes to the creditors. The same thing happened to IIKP when its profitability ratios are all having minus amount. In 2013, IIKP has the same condition as in 2011 and 2012. This year concluded that AALI has the highest EPS, which can be considered as high compared to the other companies. In 2014, AALI has the highest EPS with more than three times as many as SMAR which has the second highest EPS. IIKP has a loss for its profitability ratios; this indicates that for four consecutive years IIKP always has gross loss and net loss.

4.2 Asset Analysis

From the financial statement of these agriculture companies, the data shows that SIMP has the highest average of total asset from 2010-2014, followed by UNSP and SMAR. The 2014 Balance Sheet shows fixed assets contributes average 38% of the total assets for the 3 companies when the plantation assets contribute average 16% of the total assets. The examples of the high amount of fixed asset for SIMP are buildings, machinery and plant equipment. For UNSP, goodwill amount is also quite significant. Whereas plantation assets are classified as immature and mature plantation. Immature plantations are stated at cost and are not depreciated or amortized.

The amount of total assets, total fixed asset, the amount of land, buildings, machinery & equipment, and the total debt for each company are used to determine which component of fixed assets is the most significant in affecting the total debt. From the calculation, there are only 2 companies where the land has a significant amount of the total assets. These companies are BTEK which is a part of other subsector and BWPT which is a part of plantation subsector. It is shown that the average percentage of land contribution to total assets and to total debt are the lowest with the percentage of total assets is 9.45% and to total debt is 13.80%.

On the other hand, 8 out of 16 agricultural companies in Indonesia show that the most significant component that affect their total fixed assets is machinery & equipment for 17.43%. This asset contributes quite significantly to the companies’ total debt because it has an average of 34.12%. However, the average percentage of building to total assets is the highest with the percentage of 20.27%. Moreover, the building has an average of 200.21% to total debt which is very high. This amount is contributed by IIKP where its building amount contributes 894.54% of its total debt.
4.3 Test Result

4.3.1 Normality Test

GPM, NPM, ROE, EPS, and Debt Equity have significance level of 0.000; Debt Asset has significance level of 0.035; and ROA has significance level of 0.076. These results indicate most of all dependent variables and independent variables are not normally distributed because their significance level is less than 5%, except for Return on Asset (ROA) who has 7.6% significance level. However, if the study used more than 30 observations the data can be considered as normally distributed and since there are 80 observations used in this study therefore this study can be concluded as normally distributed.

4.3.2 Multicollinearity Test

Between independent variables Debt Equity and Debt Asset, there is no mult correlation because both of these variables have VIF of 1. It means that there is no relationship between the independent variables and the independent variables and free from multicollinearity.

4.3.3 Autocorrelation Test

The autocorrelation test for GPM, NPM, ROA, and ROE show these models are free from autocorrelation problem. Whereas for EPS model the result is “no decision”, it means that it is indecisive whether there is autocorrelation or not therefore the dependent variable still can be used.

4.3.4 Heteroscedasticity Test

GPM, NPM, ROA, ROE, EPS, Debt Equity Ratio, and Debt Asset Ratio, instead of having heteroscedasticity condition, they have homoscedasticity condition, because from the scatter-plot test the results are showing that the dots from each variable are spread constantly which indicates that the variance in the regression model is the same or constant.

4.3.5 Regression Analysis

Based on R square, F test and T test for all variables, the only financial performance indicator that is affected by the independent variables is ROE. GPM has no any relationship to the capital structure. Changes in Debt Equity and Debt Asset, will not affect GPM. Both Debt Equity Ratio and Debt Asset Ratio have no influence on NPM. Capital structure’s components have no significant effect towards ROA, due to amount of asset that is relatively large. The Debt Asset Ratio has no significant effect to ROE. Moreover, EPS has no relationship with the capital structure which means outstanding share the company is not related to the debt and equity. However, Debt Equity Ratio has a negative and significant impact on ROE when it is tested individually. It means that Debt Equity Ratio is affecting ROE significantly. The increase in Debt Equity Ratio will decrease the ROE due to low amount of equity.

5. Conclusion and Recommendation

This paper concludes that capital structure has a significant effect towards financial performance in terms of Debt Equity Ratio to ROE. Crops sector in listed agriculture companies is the most performed when fishery is the least performed in particular financial condition. Land is not the most significant component of fixed assets, whereas the building is, which more able to cover the company’s debt.

The recommendation for agriculture companies are first, they should increase their efficiency to maintain their asset, higher the return and generate more profit margin. Second, they should provide more detailed-information in their financial statement regarding the category
and amount of total assets related to agricultural products. Lastly, they should attract more investor to increase their equity.

References


Factors Affecting Work Outcomes on the Educators’ Continuous Usage Behaviour of Learning Management System (LMS): A Proposed Conceptual Framework

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ABSTRACT

Objective – This paper develops a theoretical framework that consists of the factors affecting the work outcomes among educator continuous usage behaviour of Learning Management System (LMS).

Methodology/Technique – The conceptual framework is based on the previous literature review and the underpinning theories which are an integral of Technology Acceptance Model (TAM) and IS Continuance Model. Perceived usefulness, perceived ease of use and confirmation are identified as independent variables; satisfaction and IS continuance intention will be employed as mediating variable; and work outcomes as a dependent variable.

Findings – In this study, 13 hypotheses have been proposed based on the conceptual framework outlined. The proposed framework would help the organizations to plan for the potential improvement of the systems and teaching strategies in the context of the LMS, in order to meet the educational goals and to get better learning outcomes.

Novelty – Currently, there are very limited empirical researches that have been conducted on educator’s outcomes on the post-adoption stage of LMS.

Type of Paper: Conceptual

Keywords: Learning Management System; Educators; Work Outcomes; Perceived Usefulness; Perceived Ease of Use; Confirmation; Satisfaction; Continuance Intention

1. Introduction

Nowadays, e-learning becomes an increasingly popular approach to learning in Higher-Education Institutions (HEIs) suitable for widespread growth of Internet technology into the education sectors. Malaysia like a lot of other countries around the world today is anxious about building up their higher-education system. Although e-learning is relatively new in
Malaysia, its rapid development has prompted local universities to adopt an e-learning to stay competitive. Thus, there is a need among HEIs to share best practices with each other to get better for the quality of teaching and learning (Embi, 2011).

E-learning system commonly consists of authoring systems and Learning Management System (LMS). According to Saba (2012), LMS is a system for track student access, delivering the course content and student progress. The use of LMS allows the educators to develop the contents of e-learners. LMS can be used by two types of users; students and educators. Both users’ acceptances are main goal for the successful use of LMS and subsequently the e-learning trend. Educator is a person who delivered the main part of the content, and they are also important initiators, facilitators and administrators behind the use of students into the system (Sorebo, Halvari, Gulli, & Kristiansen, 2009).

Past studies have emphasized much more study on the important factors that drive educators’ decisions to accept or adopt using the LMS (Larsen, et al. 2009). However, there are very limited researches conducted on the post-adoption where educators who will choose whether to continue or not to continue use of the LMS (Islam, 2012). Nevertheless, since technology rejection is common, the future of universities depends on their educators’ capacity to adopt and diffuse the LMS technologies to meet the intricate needs of the academic masses. Thus, this study highlighted that very few studies have been conducted with an educators’ continuance intention of using LMS in Malaysia HEIs. From the literature, most of the e-learning outcome’s studies have only been carried out between student outcomes (Bliuc et al., 2010; Galy, Downey, & Johnson, 2011; Haverila, 2011; Islam, 2013; Kim, Trimi, & Park, 2012; Lin, 2012; Mehrdad, et al., 2011; Piccoli, Ahmad, & Ives, 2001; Sulaiman, 2013). According to Juhdi et al. (2007), teaching and learning process may have significant impacts on educator’s work outcomes when they use the e-learning system. The important outcomes of the use LMS from the perspective’s educator are mainly to evaluate the success within the system. However, there are very limited empirical researches that have been conducted on educator work outcomes on the post-adoption stage. So, there is a need to study how educators using LMS and how their duties influence the work outcomes.

Therefore, the objective of this research is to examine the LMS users’ post-adoption behaviour in the relationship between predictors and work outcomes from the educator’s perspective in Malaysia’s context, specifically among the factors of perceived usefulness, perceived ease of use, confirmation, satisfaction, IS continuance intention and work outcomes. Moreover, this research has also to examine the relationship between IS continuance intention mediating by satisfaction and work outcomes mediating by IS continuance intention.

2. Literature Review

2.1 Work Outcomes

The core variable of interest for the researcher for this study is Work Outcomes using the LMS. Furthermore, the main goal of LMS is to get teaching and learning that can deliver the equal or better outcomes than personal learning. As mentioned by Carswell, Agarwal, and Sambamurthy (2001) evaluating outcomes is very important because persons that are less satisfied with the LMS had fewer tendencies to enroll in future courses LMS. Work outcomes referred to the expected results of the company’s workers to satisfy their job or roles (Brouther, 2002).

2.2 Confirmation

Confirmation refers to the perception among users about the congruence of the use of certain expectations from the application system and the actual performance (Bhattacherjee, 2001b). It is the confirmation or disconfirmation of the expectation that has a relationship with how they view the usefulness of and satisfaction with the system. In the study that conducted by Kim, Kang and Jo (2014); Lee and Chen (2014) found that the result of the relationship
between confirmation and perceived usefulness is significant. Moreover, Ismail et al. (2012); Kim (2010); and Limayem and Cheung (2008) found that the result of the relationship between confirmation and satisfaction was significant.

2.3 Perceived Usefulness

Davis (1989) defines it “is to the extent to which a person trusts that using a certain system would increase their work performance is advantageously” (p.320) (Davis, 1989). Moreover, Davis further explain the usefulness as “the degree to which the application contributes to increased user performance took less time to complete the necessary tasks, producing the high-quality work products, etc.” (p.318). People incline to use or not to use an application to date. In addition, they are also trust it will give advantage to them to execute their duties better (Davis et al., 1989). Al-Maghribi, Dennis, Vaux Halliday and BinAli (2011); Shiau, Li and Shih (2011) found the relationship between perceived usefulness and IS continuance intention is significant, while the study by Lin, Chen and Fang (2011) shows there is no significant relationship. Studies by Almahamid and Rub (2011) and Chen (2010) found out that the relationship between perceived usefulness and satisfaction is significant, whilst the study by Lin, Chen and Fang (2011) found the relationship is not significant.

2.4 Perceived Ease of Use

The variable is defined as "the extent to which a person trusts that using a certain system would be free of effort" (Davis, 1989). Davis explained that the application is acceptable to users and easy to use. This variable is measured in the information system with the features flexible, clear and easy to understand, easy to master, easy to learn and also easy to control (Davis, 1989). Studies by Wangpipatwong, Chutimaskul and Papasratorn (2008) and Hong, Thong, and Tam (2006), found the relationship between perceived ease of use and IS continuance intention are significant whilst the study by Praveena and Thomas (2013) found the relationship is not significant. It is also found that there is inconsistency of finding of the variable used for these studies. Lin, Fang and Tu (2010) and Roca, Chiu and Martinez (2006) found the relationship between perceived ease of use, and satisfaction was significant. Wong, Osman, Goh and Rahmat (2013); Lin (2011) and Lin, Chen and Fang (2011) found the relationship between perceived ease of use and perceived usefulness was significant.

2.5 Satisfaction

Satisfaction refers to the users’ post-acceptance affect, recorded as positive (satisfied), indifferent, or negative (dissatisfied) (Bhattacherjee, 2001b). Based on the definition given by Oliver (1997), satisfaction is a user’s fulfillment response. It is a decision that a service features or product, or the service itself or product, provided (or provide) an enjoyable level of consumption-related fulfillment, comprising the level under or over fulfillment“ (p.13). In a study conducted by Yeh and Tao (2013) and Li and Shi (2012) has found out that the relationship between satisfaction and IS continuance intention was significant. Meanwhile, Lin (2012) showed the relationship between satisfaction and work outcomes (perceive impact on learning) on web learning performance was significant.

2.6 IS Continuance Intention

The variable is defined as users’ intention to continue to use the information system (IS) (Bhattacherjee, 2001b). Refer to the theory of expectation confirmation (ECT); continuance intention was also defined as the user’s intention to continue to use a product or service in the stage of post-acceptance. Besides that, Santhanamery and Ramayah (2013) defined as users’ intention to continue or use the technology in the long term and also to make certain that the technology is better than the previous one. From the past researches, the IS Continuance Model has been successfully used to clarify the factors leading to intention to continue of information systems (IS) in areas such as e-learning, mobile data service, e-government, e-commerce, Facebook and online community (Limayem & Cheung, 2008; Kim, 2010; Jin et
Past studies by Lin (2012), found that the relationship between IS continuance intention and job outcome (perceive the impact on learning) on web learning performance is not significant. However, the studies conducted by Cheng (2011) showed that the use of a web-based learning system affected the perceived performance was significant.

2.7 Underpinning Theories

2.7.1 Technology of Acceptance Model

Theory of Technology Acceptance Model (TAM) was initially developed from the Theory of Reasoned Action (TRA) (Fishbein & Ajzen, 1975). Davis (1989) developed TAM as a basic computer theory to explain the determinants of human behavior that is common usage directly from the basic of TRA (Fishbein & Ajzen 1975). The basis theories of TAM are considered perceived ease of use and perceived usefulness.

2.7.2 IS Continuance Model

Bhattacherjee (2001) was adapted Expectation Confirmation Theory (ECT) to the domain of post-acceptance of computer technology, change the mix of the use of pre/post consumption, an ECT model to a pure post-acceptance IS model. He said that a usage decision of users continues to use of IS is the same as the users’ re-purchase decision because these two decisions follow the decision of re-purchase and initial acceptance, influenced by experience and initial use of the product or information system (IS), and it has the possible to lead to ex-post reversal of the initial decision (Bhattacherjee 2001a, p.355). Refers to the IS Continuance Model, the continuance intention was influenced by user satisfaction and perception of the post-acceptance usefulness, while user satisfaction is determined by the past use of expected confirmation and perceived usefulness. In addition, the confirmation influenced perceived usefulness.

2.8. Proposed Conceptual Framework

The research model developed based on the integrated model containing TAM, IS Continuance Model and work outcomes. The conceptual model was proposed in order to examine the factors affecting educators’ continuous usage behaviour of LMS in Malaysia’s context. Therefore, this study fulfills the research gap in the past studies by integrating the constructs from the model of Davis (1989) Technology Acceptance Model and Bhattacherjee (2001) IS Continuance Model with work outcomes to continue to use the LMS. Based on the review of the literatures, the Figure 1 below showed a conceptual framework. The variable is that we will employ in this research are: Perceived Usefulness, Perceived Ease of Use and Confirmation as independent variables, Satisfaction and Continuance Intention as the mediator, and Work Outcomes as the dependent variable.
The following propositions are formulated based on the review of literatures. We proposed that:

- **H1**: Educator perceived confirmation has positive relationship on their satisfaction with the LMS usage.
- **H2**: Educator perceived confirmation has positive relationship on the perceived usefulness of LMS usage.
- **H3**: Educator perceived usefulness of the LMS has positive relationship on their satisfaction with the LMS usage.
- **H4**: Educator perceived usefulness has positive relationship on IS continuance intention of LMS usage.
- **H5**: Educator perceived ease of use has positive relationship on perceived usefulness of LMS usage.
- **H6**: Educator perceived ease of use has positive relationship on satisfaction of LMS usage.
- **H7**: Educator perceived ease of use has positive relationship on IS continuance intention of LMS usage.
- **H8**: Educator perceived satisfaction has positive relationship on IS continuance intention of LMS usage.
- **H9**: Educator level of their satisfaction has a positive relationship on LMS work outcomes.
- **H10**: Educator level of their IS continuance intention has positive relationship on LMS work outcomes.
- **H11**: Satisfaction mediates the relationship between perceived usefulness and IS continuance intention.
- **H12**: Satisfaction mediates the relationship between perceived ease of use and IS continuance intention.
- **H13**: IS continuance intention mediates the relationship between satisfaction and work outcomes.

### 2.9 Conclusion

The study focused on the post-adoption usage behaviour of LMS continuance intention and work outcomes in Malaysian Public Universities, and the respondents were educators, who
important facilitators behind the students’ utilization of the LMS. The study was used the TAM theory and IS Continuance Model. This paper investigates the integration of these two theories and proposed the work outcomes in context of LMS in Malaysia. The conceptual framework is proposed with 13 hypotheses to be tested. Results are expected to be consistent with the previous research would be the purpose of research output. However, there are certain limits, which can be a challenge to make a success of research and the proposed conceptual framework for this research is based on the past literature review.

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Reducing Labor Turn Over Through Succession Plan in Indonesian Textile Industry: The Pipeline Management Analysis

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ABSTRACT

Objective – This study is intended to explain the phenomenon of labor turnover (LTO) in Indonesia and its solution through a succession plan. As understood by the human resources (HR) practitioners LTO always be a barrier for the human resources department in order to improve the productivity of HR. It is understood that the company which connects the quality of human resources with production quality, it will create internal customer satisfaction.

Methodology/Technique – This research carried out with qualitative methods based on grounded theory process as one of the characteristics of the phenomenological approach. Key informants in this study are HR manager and deputy of training and development. While supporting the informant is the management representative.

Findings – The study was found that there are several ways that can be used to minimize the bad possibility of LTO and simultaneously reduce it from the company. However, some way has very costly and not long-term oriented. Based on the phenomenon, the company is highly recommended to use a succession plan and career management with the pattern of pipeline management. In practical terms, this approach can be done by using talent management. Generally, all of these activities have become part of the human resource investment.

Novelty – This study is interesting because it shows how companies, especially the textile industry in Indonesia can find an appropriate formula to overcome the LTO. Pipeline management approach through the program succession plan in this study is believed to provide a positive policy for its stakeholders.

Type of Paper: Empirical

Keywords: employee, succession plan, pipeline management, talent, labor turnover (LTO), human resource, career.

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1. Introduction

Generally, productivity was always used as a measure of how the company can increase the number of products, the volume of sales, profit, customer satisfaction, and keep stabilize company's operations. However, an organization can be run or not is depending on humans that exist in it and how good the quality of the human level in all parts of the organization (Mathis and Jackson, 2010: 151).

Human resource investment if was understood correctly by the company, will be a great investment for the short, medium and long term. However, most companies do not care about the process of how the amount of labor turnover. Since the early 2000s, many companies in the United States have begun to discuss and give attention to the urgency of human resource planning as a process. World companies such as Fiat, Pirelli and Benetton puts the planning and development of human resources as a company's success. Nevertheless, there are still many companies in Indonesia who have not considered the planning process and the development of human resources as an important thing. The main problem is the high labor turnover (LTO) that occurs in the company have an impact on company productivity and performance within organization lines.

LTO levels can be caused by several kinds, among others, the level of salaries and compensation that is not feasible, the nonconforming work, and other things that lead to disgruntled employees. But conceptually, high LTO occurred because companies do not undertake development of human resources properly and stable.

Employee planning and development became an important issue today if it has associated with productivity. The high level of LTO becomes a phenomenon that often appears without any solution except re-recruitment that costly.

Human resource planning and development related to the theory of a succession plan, where the employee development process must develop a strategy to direct a person who are competent and performing well in the company in order that are in the right place and right time. In applying the theory, some companies have implemented HR planning and development by using the pipeline management as a method of employee development toward the proper succession plan.

However, most companies in Indonesia have not been applied, this theory in conducting employee development and tend to choose a solution which costly. Thus the focus of this study is to explore the form of pipeline management in succession plan needs that can prevent high LTO.

Furthermore, this study tried to raise two main issues, ie: (a) how forms, applications, and the role of pipeline management in supporting the achievement of the succession plan for the company?, and (b) how the pipeline management analysis towards achieving the succession plan can lessen LTO and support the process of human resources investment?

The issues above are important to be studied. As known, the LTO has many negative impacts for the company (Twomey, 2009). These impacts include the cost of recruitment, selection, placement, training and termination (Flamholtz, 1999). Identification of the initial investment on those costs is important to estimate the cost of replacing employees. However, numbers only are not sufficient. For example, if the initial investment was up or down, how old is the employee is expected, and any other questions that are qualitative but has a major influence on the company. The negative impact besides the cost is about achievement, communication and social patterns, and declining employee morale.

2. Literature Review

Two perspectives on this research regard succession plan and pipeline management. First, this study adopts the concept of succession plan as a system, not an event, such as manager and/or director succession. Second, succession plans and pipeline management are a strategic HR
activity and more than simply replacement planning, which was central to previous forms of succession plan.

2.1. Succession Plan

The succession plan has been used to describe a wide variety of activities that involve planning for key transitions in leadership within organizations (Garman and Glawe, 2004). Friedman (1986) differentiated a succession plan from a succession event by using the term “succession system.” In this definition, he clearly mentions that a succession plan is an ongoing process instead of a single change event. In previous years, research largely studied succession as an event rather than a human resource activity (Dessler, 2000; Friedman, 1986; Kesner and Sebora, 1994). Dessler (2000) defined succession plan as the process of ensuring a suitable supply of successors for current and future senior or key jobs arising from business strategy, so that the career of individuals can be planned and managed to optimize the organization’s needs and the individual’s aspirations.

Succession plan should not be confused with replacement planning, though they are compatible and often overlap (Rothwell, 2001). Traditionally, succession plan equates with replacement planning (Charan, Drotter, and Noel, 2001). In the simplest form, replacement planning is a form of risk management (Rothwell, 2001), which focuses on the actions that ideally should take place if a key executive should leave (Burdett, 1993).

Individuals who leave the company, apparently expecting a positive outcome. But often they do not have enough information about the company that will be entered. Most employees are only imagining very high expectations. The phenomenon of “more pleasant circumstance” indicate the views of employees is unrealistic.

Some managers argued that career mobility of employees is not always moving up vertically. During an individual has certain abilities in the role, the career development will be more extensive. When the industry is growing, evolved in various types and the availability of new ventures, collaboration between knowledge, skills, and abilities that exist in a person may be shifted (Champoux, 2010).

On the other hand, the succession plan is necessary for the company to be stabilizing productivity of the company. It is part of identification and observation of the performance of high-potential employees. Moreover, it is also one way to overcome the LTO. High-potential employees will always participate in the company’s development programs such as education, training, mentoring, job rotation through job assignment (Ford, Harding, and Stonoya, 2010).

Ford, Harding, and Stonoya (2010) also mentions that there are several objectives for succession plan as the best way to overcome LTO, ie: (a) develops a future career manager from mid-manager towards executive manager, (b) provide for the company some employees who are able to compete positively, and (c) helping the company in retaining highly skilled employees. Usually, employees with high ability are always sought by the top management level through alignment program in the corporate culture (Jackson, Schuler, and Werner, 2009). The management subsequently identifying any weaknesses in the ability from leadership capability which has been shown by the employee (Stuart, 2006).

In a study by Gandz (2006), not all firms in the world, especially in Asia always use HR systems to develop their employees. It is rare for the company to provide the time and cost to perform activities of employees training and development. On the other hand, the survey results indicate that the United States as industrial country is able to develop and persevering employees by using the talent pipeline or pipeline management. This concept is a pattern which provides two or three people who are ready or willing and able to enter every position.

2.2. Pipeline Management

Pipeline management is part of the talent development construction architecture. Its application is more structured when compared to the traditional way that emphasizes the personal approach. In the talent development of architecture does not see employees
individually, but based on different levels of management. General Electric (GE) has run this system by preparing 20 people with potential in high-performance, 30 people in terms of performance and experience, and 40 people with a combination of experience, performance and seniority. Through these systems, GE chose some to be leader of the organization (Stahl, 2007).

There are other related terms are also often used are talent pipeline and talent management. A talent pipeline is a pool of candidates who are qualified to assume open positions that have been newly created or vacated through retirement or promotion. Creating a talent pipeline begins by crafting a skills and qualifications profile for a given role and identifying people who might be strong candidates for the position. Human resources (HR) leaders then assess the gaps between the individual’s current abilities and those needed to perform the target role effectively and help them to develop the necessary skills. Having a talent pipeline ensures that roles will not go unfilled for long periods or that people are not promoted before they are ready.

Maxwell and MacLean (2008) address the talent management as an important topic around the world. The concept of talent management was derived from World War II (Cappelli, 2008) and its strategic importance was realized when McKinsey Consultants Group named the human resources as “War for Talent” in the late 1990's (Scullion and Collings, 2010). Furthermore, talent management is broadly defined as the implementation of integrated strategies or systems designed to increase workplace productivity by developing improved processes for attracting, developing, retaining and utilizing people with the required skills and aptitude to meet current and future business needs (Society for Human Resource Management, 2005). Some organizational leaders associate talent management with efforts to devote special attention to managing the best-in-class talent of the organization, the upper 1 to 10% (Rothwell, 2005).

Based on the exposure can be stated that succession plan and pipeline management need not be limited solely to management positions or management employees. Indeed, an effective succession plan and pipeline management effort should also address the needs for critical backups and individual development in any job category, including key people in the professional, technical, sales, clerical, and production ranks (Rothwell, 2005).

3. Method

The main phenomenon revealed in this study is about the concepts, processes, and the shape of of pipeline management. This became attractive because an important and strategic role of the model, but is still not widely known. In addressing pipeline management should also pay attention to other things that support, the succession plan. This could be implemented properly when supported by the right process by using talent management periodically.

By viewing this concept, this research is more concerned with the process than the results. This is due relationships of the parts that being investigated will appear more clearly when observed in the process. Thus the flow of research is based on the following chart:
This research was conducted in the HR department of the textile industry in East Java. Furthermore, key informants used are the personnel manager and the individual responsible for training and human resources development. While supporting informant are the management representative of the companies in the textile industry. In addition to using primary data derived from interviews and direct observation, secondary data such as company documents are also used. Technique of study used triangulation method that will generate the amount of data from key and supporting informants. The collected data then reduced in order to choose subject matter and ensure it remains focused on the phenomenon are discussed (Miles and Huberman: 1994). The validity of the data of this study is determined by four criteria, namely credibility, transferability, dependability, and conformability (Moleong, 2010: 327).

4. Results and Discussion

The issues regarding LTO are one of the common problems of the company. It also occurs within the textile industry in East Java. The following is an LTO chart of 3 companies representing large textile industry in East Java:
Based on the analysis conducted during January and February 2015, there are some major cause of high LTO 3 of the company:

- The absence of corporate concern for employees' career life stages. This is evident from the lack of implementation of training programs for employees so that the work accident increases. The lack of open opportunity in new higher positions for employees also appears in this issue.
- The amount of salary does not fit for the work, the results of work, and the risks are obtained by the employees. In addition to the workload does not determine the amount of salary received.
- Employees also got a higher workload than the job description.
- The line management is not doing a good supervision and still found to lack leadership abilities of the manager.
- The allocation of working hours are not precise primarily occurs in the equipment and machinery.

The LTO phenomenon required the Company compose talent management as a tool that integrates with the needs of pipeline management succession plan. Furthermore, the company formed five life cycle, namely: (1) the trial stage for the age of 24-30 years, (2) stabilization stage from the age 30-40 years, (3) mid-career crisis stage for the 30s to 40s, (4) maintenance stage since the age of 45-50 years, and (5) decline stage since the age of 50 years and above.

With the combination of the three elements of talent management, timeline, and the life cycle of enterprises in the textile industry could make a pattern which is called as pipeline management. Here is the pattern of pipeline management that could be implemented on the textile industry in East Java.

![Figure 3. The Formed Pipeline Management Pattern](image)

The picture above shows that talent management were incorporate elements of the timeline and life cycle has made the company have a pattern were more integrated and structured in managing human resources. However, the implementation of this pattern is still very flexible because most companies still have not been using this system. For example, in terms of life cycle, the company is still considering other matters relating primarily to older employees.
Meanwhile, for new employees, the pattern can be used in almost 70% of member companies. Thus, it is certain that the most difficult are how to make old employees align with this pattern.

According to explanations from the HR manager, there are some benefits that can be achieved by using a pattern of pipeline management, namely:

- Can improve and build a more solid base if the company specifies that this system becoming the strategy in the management of employee orientation.
- Pipeline management is a strategic step for the company to ensure the learning and development of employees that currently running as a momentum to sustain new potential that will be prepared in the process of succession plan.
- Company management assumes pipeline enables the HR department to analyze the needs in the future because of integrated planning.
- Pipeline management has helped the company in developing the capability measurement through a process of review and assessment of the performance appraisal in each period.
- Succession plan on the basis of pipeline management has been providing a wide range of career development opportunities, and the company is also able to find out quickly the best potential for most important key positions.
- Pipeline management has helped the company to be more focus on identifying early on the employees who have the motivation and capability to become the next leader.

There are several things that must be considered in using pipeline management for succession plans. First, the importance of the control of top management control who has no authorized in the affairs of management employees. They should support but not in the context of HR department control. It needs to be executed in order to making the business line manager and CEO can come together to support what can be done through a pipeline management. Second, the leader in enterprise business must be in the forefront in the pipeline management implementation as part of a business strategy to achieve corporate objectives. In these circumstances, the leader who will be the successor pension also received through the same assessment as he did. Thus, leaders know how his successor assessed.

Third, not all instruments used in assessing and developing employees created solely by the HR department. But some have adopted from various sources that are adjusted to the needs and corporate culture. In general, an instrument that relates to the talent can be used locally and internationally. Fourth, to strengthen pipeline management initiatives, all elements of companies must pay attention how the whole process had to run, having an effective communication flow, clear in calculating compensation, care about skills development, and objective assessment.

5. Conclusion

Pipeline management that is implemented by the textile industry in East Java shaped a pattern that contains several integrated processes. The pattern is constructed by showing differences in the life cycle, namely: the trial stage (period of 24-30 years old), stabilization stage (period of 30-40 years old), a mid-career crisis stage (period of 30s - 40s years old), maintenance stage (period 45-50 years old), and the decline stage (period of 50 years old and above).

Practically, the company developed a talent management process by adding the pension process that occurs during the period of decline stage. In this process the company also provides training programs to prepare for retirement. Training opportunities are intended for permanent employees can be planning a career after retirement in accordance with the choices on the opportunities that exist.

With having measured and integrated instrument in the talent management, and scalable implementation timeline, the company already has a pattern of pipeline management. The use of this system will make the company able to manage employees well in terms of self-development, training, succession, and the application of fair compensation.
Pipeline management has become a guide for managing employees, so it can perform succession plan. Thus the company can be easier to reduce the level of LTO. This happened because the company has the right process and can improve employee satisfaction through the provision of career opportunities. Furthermore, expenses for recruitment will also be minimized.

References

The Effect of Corporate Governance on Firm Performance: Empirical Evidence from Indonesia

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ABSTRACT

Objective – The main purpose of this research is to examine the effect of corporate governance on firm performance. The corporate governance characteristics was represented by the board structure (board of commissioner, board of director and independent commissioner) and ownership structure (institutional ownership, managerial ownership and public ownership), while the proxy of firm performance is return on equity.

Methodology/Technique – This research used data from Indonesian Stock Exchange (IDX) period 2004-2014 with purposive sampling method and panel data regression analysis as data analysis method.

Findings – The empirical result indicate that board of director, independent commissioner, institutional ownership and public ownership in a company has significant effect on firm performance, otherwise the board of commissioner and managerial ownership has no significant effect on firm performance. Overall, all of the independent variables (board and ownership structure) have significant effect on firm performance.

Novelty – The use of long research period during 2000 to 2014 allows to see the consistency of the application of corporate governance in Indonesia since 2001. Confirmed that Corporate Governance (Board and Ownership Structure) have significant effect on firm performance in Indonesia.

Type of Paper: Empirical

Keywords: Board Structure; Corporate Governance; Firm Performance; Panel Data Analysis; Return on Equity; Ownership Structure

1. Introduction

Corporate Governance became familiar topic and received much more attention in the emerging market economies. Since 2001, when Enron Xerox, WorldCom gets involved in
accounting scandals, the credibility of corporate financial reports started to under suspicion. Consequently, a corporate governance mechanism has been a crucial issue discussed again.

A research study in Indonesia, Hamzah and Suparjan (2009), find that the good corporate governance will increase the value of the firm. Corporate governance help direct the corporate system to be more focused, to increase corporate value and shareholder wealth.

The Indonesian Stock Exchange has made an effort to realize good corporate governance, in 20 July 2001 by implementing the regulations of Securities Registration about the Establishment of an Independent Commissioner, these regulations required all companies listed in Indonesian Stock Exchanges to establish an audit committee, independent board and company secretary. In the Private sector, there is also initiated to help disseminate corporate governance in Indonesia, such as forming some institutions, there are Forum for Corporate Governance in Indonesia (FCGI), Corporate Leadership Development in Indonesia (CLDI), Indonesian Institute for Corporate Directorship (IICD) and Indonesian Institute for Corporate Governance (IICG). Each institution has a different activity, but have the same goal of helping the government to socialize the application of corporate governance in Indonesia.

Many characteristics of corporate governance had been identified by Heenetigala & Armstrong (2011) and Zangina et al., (2009). Zangina et al., (2009) find that board size, leverage and income volatility are significantly determined the firm value (share price), nevertheless inside ownership has no significant influence on firm value (share price). Heenetigala & Armstrong (2011), find positive relationship between governance practices (separate leadership, board composition, board committee) with the firm performance (based on return on equity, return on asset and Tobin’s Q). Such a relationship along with this its effect shows that firms have implemented corporate governance strategy, has a higher profitability and share price performances.

Most of the works in the literature have evolved against the backdrop of developing economies, while there is very little known (empirically) about such issues in emerging market economies, like in Indonesia. Besides, there was inconsistency of the results from several prior studies about the influence of corporate governance characteristics and firm performance. Gap phenomenon occurs when there was inconsistencies direction of the relationship among the research variables, in which some researchers stated positively related corporate governance characteristics to firm performance, while some other researchers expressed negatively relationships. Those two reasons are exactly inspired the researcher to examine the effect of corporate governance on firm performance in Indonesia, during the period 2000 to 2014. The reason for choosing the period of 2000 to 2014 is during the period the economic situation in Indonesia has gradually improved after the monetary crisis in 1998.

The results of this study are expected to give a new contribution to the firms, investors, governance and the researchers. The First is to provide evidence about the effects of corporate governance on firm performance in Indonesian firms at the time 2000 - 2014. The Second is for the firms those are listed on the Indonesia Stock Exchange, the result of this research can be used to better manage corporate governance in order to achieve the higher firm performance. For investors the research results can be used to assist investment decision. For the government, they can be trigger to make a good corporate government regulation. Finally, for the scientific research will open new horizons in research and issues of financial management, especially about the issue of corporate governance and firm performance.

2. Literature Review

According to Cadbury Committee, Corporate Governance is a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and internal and external stakeholders in respect of their rights and responsibilities. Since the early work of Berle and Means (1932), corporate governance has focused upon the principal-agent problems arising from the dispersed ownership in the modern corporation. They viewed corporate governance as a mechanism where a board of directors is an essential monitoring device to minimize the problems brought about by the principal-agent relationship. In this context, agents are the managers, principals are the owners and the board of directors act as...
the monitoring mechanism. The separation of ownership from management can lead to managers of firms taking action that may not maximize shareholder wealth, but could benefit them and not the owners. Hence a monitoring mechanism is required to protect shareholder interests (Jensen & Meckling 1976).

2.1 Corporate Governance in Indonesia

In Indonesia, several institutions propose a definition of corporate governance, one of the institutions is FCGI (Forum for Corporate Governance in Indonesia). Corporate Governance can be defined as a set of rules that govern the relationship between shareholders, directors (managers), creditors, government, employees and all of the internal and external others that relating to their rights and obligations or in the other words, as a system regulating and controlling the firms (FCGI, 2002). Corporate governance problems arise due to separation between ownership and control of the company (agency theory). Asian Development Bank (ADB) explained that:

The issue of corporate governance arises because of the separation of ownership from control in modern corporations. When salaried managers run companies on behalf of dispersed shareholders, they may not act in shareholders and managers, but also between controlling and minority shareholders, between shareholders and creditors and between controlling shareholders and other stakeholders; including suppliers and workers. A sound corporate governance system should provide effective protection for shareholders and creditors such that they do not deny the return on their investment (Zhuang, 1999).

Some consequences are, first, the owners can be divided into two groups, namely controlling and minority shareholders, it may cause misalignment of interests. In Indonesia, it is very often the case, which the controlling shareholders become the main actors in the control of management and therefore the decision was not appropriate because it may harm the interests of minority shareholders. Second, good corporate governance system should provide effective protection for shareholders and creditors. The protection can be done through an internal mechanism (internal monitoring and control) and external mechanism. The external system of corporate governance consists of, first, the regulations that clarify between shareholders, managers, creditors, government and other stakeholders (legislation defining the rights and obligations), and the second, a wide variety of mechanisms, either directly or indirectly, in term of enforcing regulations.

To ensure the achievement of Good Corporate Governance, firms should pay more attention to several principles: transparency, accountability, responsibility, independence, and fairness. The implementation of Good Corporate Governance can be found in the corporate governance characteristics such as board structure (board of commissioner, board of director and independent commissioner) and ownership structure (institutional ownership, managerial ownership and public ownership). Therefore, we hypothesized:

Corporate governance characteristics that represented by board structure (board of commissioner, board of director and independent commissioner) and ownership structure (institutional ownership, managerial ownership and public ownership) has a significant effect on firm performance.

3. Data and Methodology

3.1 Data

The data used in this study is secondary data in the form of annual financial report of the company listed in the Indonesian Stock Exchange during the period of 2000 to 2014. This research takes only the primary and secondary sectors based on JASICA (Jakarta Stock Industrial Classification) Index, and excludes both financial and services companies due to the implication of their regulation. Used purposive sampling technique, based on following criteria:
1. Listed as an Emiten in Indonesian Stock Exchange during 2000 – 2014 (never had a delisting)
2. Issue financial statements yearly
3. The information about board structure (board of commissioner, board of director and independent commissioner), ownership structure (institutional ownership, managerial ownership and public ownership) and firm performance should be mentioned in the financial statements

3.2 Develop the Model

Data used in this study can be categorized as a panel (pooled) data, because used the combination of time series data (15 year period, 2000 – 2014) and cross section data (all primary and secondary firms listed in the Indonesian Stock Exchange). Thus, regression model using panel data referred as a Panel Data Regression Model. According to Gujarati, 2004, there are three estimations of panel data regression model: pooled OLS regression model, fixed effect model and random effect model. Statistical test should perform to be assigned the appropriate model. After obtaining the appropriate panel data regression model, the next step is to do a classical assumption test, such as autocorrelation, multicolinearity and heterocedasticity test.

The panel data regression analysis used to explain the relationship between corporate governance characteristics and firm performance, with the basic model:

\[
FP_{i,t} = \alpha + \beta_1 \text{Board of Commissioner}_{i,t} + \beta_2 \text{Board of Director}_{i,t} + \beta_3 \text{Independent Commisioner}_{i,t} + \beta_4 \text{Institutional Ownership}_{i,t} + \beta_5 \text{Managerial Ownership}_{i,t} + \beta_6 \text{Public Ownership}_{i,t} + \varepsilon_{i,t}
\]  

(1)

Where:

- \(FP_{i,t}\) = firm performance of firm \(i\) at time \(t\)
- \(\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6\) = coefficient regression of each regressor firm \(i\) at time \(t\).
- \(\varepsilon_{i,t}\) = error term of firm \(i\) at time \(t\)

Firm Performance is the dependent variable which is a proxy of profitability, measured by:

\[
\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}
\]

(2)

Corporate governance represented by board structure and ownership structure, each of the variables measured by:

a. Board of Commissioner = \(\sum\) Number of commissioners
b. Board of Director = \(\sum\) Number of active members of the board directors
c. Independent commissioner = \(\sum\) Number of independent commissioners
d. Institutional ownership = % of shares owned by institutions
e. Managerial ownership = % of shares owned by managers
f. Public ownership = % of shares owned by the public

Some prior studies, declared that large board of director and board of commissioner has diverse opinion and consensus is difficult to reach, then the efficiency being lower (Lipton ND Lorsch, 1992), but the other study reverse, the larger board implies members with diverse background and viewpoints, which is helpful for the quality of decisions therefore positively significant with the firm performance (Bacon, 1973; Zahra & Pearce, 1989; Kiehl & Nicholson, 2003). The independent commissioner must be independent, because according to the Agency Theory, when a chairman acting ad decision maker and supervisor at the same time, the function of the board to minimize the agency cost could be weaken tremendously, in the end corporate performance goes down (Jensen and Meckling, 1976). Besides, ownership structure has a negative significant effect on firm performance, Berle and Means (1932), stated that ownership dispersion may contribute to agency problems between managers and shareholders or shareholders and debtors, then it will cause the lower firm performance.
4. Results and Discussion

This study uses balance panel data with 50 firms as samples, which are classified as primary and secondary industry and listed in the Indonesian Stock Exchange during the period 2000 – 2014. We use the fixed effect model in panel data regression analysis. This study passes the classical assumption test, there is no autocorrelation, multicollinearity and heteroscedasticity.

Table 1. Descriptive statistics

<table>
<thead>
<tr>
<th></th>
<th>ROE</th>
<th>BC</th>
<th>BD</th>
<th>IC</th>
<th>IO</th>
<th>MO</th>
<th>PO</th>
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<tbody>
<tr>
<td>Mean</td>
<td>0.2719</td>
<td>4.6520</td>
<td>4.9533</td>
<td>1.5613</td>
<td>0.6877</td>
<td>0.0342</td>
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<td>12.000</td>
<td>7.0000</td>
<td>0.9960</td>
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<td>0.0000</td>
<td>0.0000</td>
<td>0.0000</td>
<td>-3.7600</td>
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<td>Std. Dev.</td>
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<td>2.1344</td>
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<td>1.1051</td>
<td>0.2104</td>
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<td>0.1859</td>
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<td>750</td>
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<td>750</td>
</tr>
</tbody>
</table>

Table 1. shows that from 750 observations, we obtain the average return on equity 27.19%, means that the owner gets return 27.19% from their investments in companies. The average value of board structure: board of commissioner, board of director and independent commissioner are 4.65, 4.95 and 1.56. During the period 2000 – 2014, the average number of commissioners and directors owned by the company is around 4 – 5 persons, and the average of the proportion of the independent commissioners owned by the company is 1-2 persons. Meanwhile the average value of ownership structure: institutional ownership, managerial ownership and public ownership are 68.77%, 3.42% and 25.94%, means that based on the three kinds of ownership structure, the institutional ownership dominated with the highest average value 68.77%.

4.1 Regression Results

We will test the effect direction and the significance between independent variables (board and ownership structure) and dependent variables (firm performance).

Table 2. Regression Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
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<th>Prob.</th>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Based on the regression results table, there are four variables that have a significant effect to firm performance: board of director, independent commissioner, institutional ownership and public ownership. While in overall, corporate governance characteristics (board and ownership structure) have a significant effect to firm performance (probability value of F-statistics = 0.0000 below α = 0.005).

Adj-R2 showed 70.48%, means that 70.48% firm performance can be explained by the board and ownership structure (board of commissioners, board of director, independent commissioner, institutional ownership, managerial ownership and public ownership), while the rest 29.52% is explained by the other variables.

The main objective of this study is to examine the effect of corporate governance characteristics on firm performance. Corporate governance characteristics are represented by board structure (board of commissioners, board of director and independent commissioner) and ownership structure (institutional ownership, managerial ownership and public ownership).

Board of director has a negative significant effect on firm performance, means that the increase in board size member will have significant effect to decrease firm performance, this research study shows that the increase of board director seen as something does not benefit to the firm performance, contrast with independent commissioner. An increase in independent commissioner has positive significant effect to firm performance, because the existence of an independent commissioner is expected to help monitor the actions of directors to act in the interest of the company. They believed that independent commissioner is a member of a board of commissioner who are not affiliated with the board of directors, other commission members and controlling shareholders, as well as free of the business relationship or other relationship which could affect its ability to act independently or act solely in the interests of the company.

There are two variables from ownership structure that has a positive significant effect to firm performance, shows that the domination of the ownership by some large institutions proven to force company, they provide best efforts to get a positive contribution to firm performance. Although the public ownership have a small percentage in the ownership structure but also have a significant effect to contribute to increase firm performance.

5. Conclusion and Limitations

Based on panel data regression test, there are four variables of corporate governance characteristics that have significant effect on firm performance during the period 2000-2014, those are board of director, independent commissioner, institutional ownership and public ownership, while the board of commissioner and managerial ownership have no significant effect. Therefore the firm has to pay attention more to the board of director, independent commissioner, institutional ownership and public ownership (firm need to consider properly the decision related to increase or decrease the board size of director or the decision to change the percentage of institutional and public ownership, because every decision will give impact to firm performance). The limitations of this research are:

1. Use of Indonesian company listed in the Indonesian Stock Exchange, thus it can enrich the result analysis for various types of Industry.
2. Consider to use control variable to see the impact of corporate governance characteristics to firm performance.
3. Indonesian Stock Exchange (IDX) was implementing good corporate governance in 20th of July 2001. Therefore, we need to consider to make research comparison between the periods before and after the implementation of Good Corporate Governance in Indonesia, it could help us to get a clear picture about the implementation of Corporate Governance in Indonesia.
Acknowledgements

We would like to acknowledge the support of the Faculty of Economics Petra Christian University who gave us the opportunity and allowed us to join GCBSS conference and submit our paper to the Journal. We are also grateful to our family who encouraged us to finish this paper with all their efforts.

References


Diffusion of Innovations on E-Customs Business to Government IT: Developing E-Government Services New Concepts and Technologies

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ABSTRACT

Objective – This research aims to investigate how e-customs innovation diffusion may take place focusing on the benefits that it can bring to potential stakeholders, for business companies and governments. Two research models have been developed based on a literature review on the diffusion of IT innovations as well as on value assessment methods used for IT innovations implemented in the private and public sector. The first part of research aims to illustrate the innovation-development of business-to-government IT innovations, while the second aims to provide a guideline on important variables needed to conduct value assessment for such innovations as well as how to classify the identified benefits.

Methodology/Technique – Multiple SEM analysis on e-customs have been carried out in order to test the proposed research models involving different business companies and governmental bodies.

Findings – Although the Indonesian e-customs regulation states the objectives of the envisioned common standardized e-customs system, functional and technical specifications are provided only at a high level. Therefore, the adoption and diffusion process is relegated to each individual member state. Thus, the analysis on how such a system will be adopted and diffused is the particular interest for all government corporations.

Novelty – This conceptual research is an evidence of continuous improvement building in a struggling effort from the Indonesian government in reducing the poor living. The government has a strong and dominant role as an agent of change to innovate the way of doing business for living. View of research studying this correlations in Indonesian context.

Type of Paper: Conceptual

Keywords: Diffusion of Innovations, E-Customs, E-Government Services.

1. Introduction

Broader ICT access opens innovative territory for citizen participation, electoral support, educational development and service delivery, all of which are critical to governance.
development. As citizens are able to engage more easily and effectively with governing processes through new mobile and online tools, governments are recognizing the need to integrate ICT development into national development agendas (Accenture, 2014). e-governance initiatives also need to consider how governments can capitalize on connectivity to better serve citizen needs through innovations in e-administration, e-service delivery and e-participation, and should look for ways of enhancing people’s participation in policy decision-making and other governance processes (UN, 2008). Many new platforms have been developed which can broaden stakeholder engagement, and these ICT innovations can be harnessed to foster citizen participation. Cooperative partnerships with local municipalities, the private sector, financial institutions and other non-technical partners can help target issues of sustainability and efficiency. Affordable Internet access, for example, is easier to sustain when partnerships and or alternative sources of funding are established during the early planning stages (Johnson, 2003). Indonesia has a population of more than 242 million, the largest of the countries studied. Its GDP per capita is $3,813 and it ranks 124th on the HDI, making it a ‘medium human development’ country according to the HDR (UN, 2010). Indonesia has a literacy rate of 92 percent. It ranks 100 on the GII of the HDR, placing it below the median internationally in terms of gender equity. It also has the second lowest life expectancy at 69.4 years. World Bank indicates that 13.3 percent of Indonesia’s population lives below the poverty line, with 18.7 percent living on less than $1.25 a day (UN, 2010). Indeed, Indonesia also has witnessed a rapid diffusion of new information and communication technologies. Over the past decade, the country has spent nearly a trillion dollars on information technology hardware, software and other services, and the government has created innovative programmes for ICTs in agriculture, education and health as well as women’s access to information and microenterprise development. Indonesia’s Networked Readiness Index ranking high (a composite of the policy environment, readiness and usage) (UN, 2005). New government policies include a high-level strategic plan for ICTs from the Ministry of Communication and Information, a national ICT vision and a high-level ICT coordinating team (Accenture, 2014).

2. Theoretical Background

2.1. e-government Definition

The World Bank (The World Bank Group, 2001) defines and describes the benefits of e-government as: The use by government agencies of information technologies (Networks, the Internet, and mobile computing) that have the ability to transform relations with citizens, businesses, and other arms of government. These technologies can serve a variety of different ends: better delivery of government services to citizens, improved interactions with business and industry, citizen empowerment through access to information, or more efficient government management. The resulting benefits can be less corruption, increased transparency, greater convenience, revenue growth, and/or cost reductions.” This definition explains different uses and the benefits of e-government. It also stresses that ICT, the internet and mobile computing are e-government tools. From these definitions, it can be concluded that e-government is a system that literally engages and covers every entity in its area of authority (i.e. citizens, businesses and public organisations). In other words, depending on the services offered, its scope includes everyone in its jurisdiction. In some instances, its scope can surpass jurisdictional boundaries, where external services to people and businesses, such as tourism and foreign investment services, are provided. Bretschneider (2003) defines e-government as “the use of information technology in general, and e-commerce in particular, to provide citizens and organizations with more convenient access to government information and services …” This definition places ICT and e-commerce as vital components of e-government and emphasises the close relationship between e-commerce and e-government. The conclusion is that e-government benefits extend to service providers as well as the target users. If e-government is properly designed and developed, it provides all stakeholders with a winning situation, enabling savings in time, cost and effort.
2.2. Advantages of e-Government

The internet is ubiquitous. In the past, it was mainly used for educational and information sharing purposes (Norris and Moon, 2005), but internet applications now facilitate day-to-day activities. e-government is an important application of the internet and is used by the authorities to encourage broader use of computers and to facilitate communication and interactions with its institutions, citizens and businesses (Brown, 2005). Cutting red tape, enhancing the efficiency and effectiveness of the services offered and reducing costs for both users and the service providers are some of the aims and goals behind the adoption of this mode of service provision (Berry, 2006). Despite this, e-government should not be thought of as the solution for such inefficiencies but rather the tool that increases the urgency for such aims and ambitions (Taylor and Todd, 2005).

2.3. Service Innovation

Major stakeholders tried to design, development, delivery and maintenance of e-government services include managers (a role as leaders), domain experts (a role that knows more about domain knowledge), IT staff (staff responsible for IT), application service providers (ASPs, out-sourced private firms who execute an activity-specific service) and end users (receivers of an e-service) (West, 2005). Among these, ASPs belong in the category of knowledge-intensive business services (KIBS), whose roles in innovation processes have been studied extensively (Sundbo, 2008). Furthermore, it is possible for the various series of changes or innovations to take place in the various areas of technology (new techniques for making products or services), product (modifications of existing products or development of new product lines), administration (changes in organizational structures, goals, information and other systems) or people (changes in leadership abilities, or the capability to use new technology for delivering services) (Coursey and Norris, 2008). Lin (2003) proposes a four-dimensional framework new service concept, client interface, service delivery system/organisation and technological options, to analyse service innovation. The service concept dimension is an intangible conceptual element which is novel in its application to a particular market. The client interface dimension is the design of the interface between the service provider and its clients. The service delivery system dimension refers to the internal organisational arrangements that have to be managed to empower employees to perform their job properly. The technological options dimension, meanwhile, concerns the degree to which adopters themselves are in practice shaping technological development.

2.4. Government e-Service Innovation

IT investment could bring public service with the new value (Hipp and Grupp, 2005). We use the construct of core/delivery benefit to define the value created by new customer interfaces in an e-government context. In cyberspace, online services create new opportunities that differ from traditional services (Bretschneider, 2003). That is to say, government agencies can innovate by offering an important new ‘core benefit’ or a new ‘delivery benefit’ that revolutionizes citizens’ access to the core benefit. In other words, core benefit connotes providing new services to new users and delivery benefit involves taking existing service and providing it with new accessibility to existing users (Berry, 2006).

We believe that if emphasis is placed on what convenience e-government services provide citizens and what kind of opportunities are thus created, these can be viewed in terms of a delivery benefit and of a core benefit (West, 2005). The delivery benefit refers to those operations that can be completed online, for instance filing taxes, the procedures for which include verification of identity, calculation of taxes payable (carried out automatically by the system), provision of a variety of methods for payment, and online transmission of this (Johnson, 2003). In this scenario, citizens can complete their tax-filing procedures without leaving home. Therefore, timely, ease of use, accuracy etc. are the criteria that must be followed (Gilding and Critchley, 2003). As for core benefit, this comes in the form of services citizens can obtain through access to the databases of various government agencies, which saves them having to visit a variety of offices to complete a single, multi-part task, and...
where the various steps can be taken through a single, integrated window, citizens or businesses alike are saved a great deal of effort (Joines et al, 2003). With this integrated service, the entire operation is accelerated and trade is made all the more convenient (Ross et al, 1996).

2.5. Hypotheses

The theoretical confirmation between the all research variables, conclude eighteen hypotheses as follow:

1. There is a positive correlation between Performance Expectancy and Marketing Strategy.
2. There is a positive correlation between Effort Expectancy and Marketing Strategy.
3. There is a positive correlation between Social Influences and Marketing Strategy.
4. There is a positive correlation between Facilitating Conditions and Marketing Strategy.
5. There is a positive correlation between Policy Issues and Marketing Strategy.
6. There is a positive correlation between Human Capital Experiences and Marketing Strategy.
7. There is a positive correlation between Partnership and Collaboration and Marketing Strategy.
8. There is a positive correlation between Performance Expectancy and Leadership Value.
9. There is a positive correlation between Effort Expectancy and Leadership Value.
10. There is a positive correlation between Social Influences and Leadership Value.
11. There is a positive correlation between Facilitating Conditions and Leadership Value.
12. There is a positive correlation between Policy Issues and Leadership Value.
13. There is a positive correlation between Human Capital Experiences and Leadership Value.
14. There is a positive correlation between Partnership and Collaboration and Leadership Value.
15. There is a positive correlation between Marketing Strategy and Service Innovation.
16. There is a positive correlation between Leadership Value and Service Innovation.
17. There is a positive correlation between Service Innovation and Service Value.
18. There is a positive correlation between Service Value and Consumer Value for Living and Wealth.

3. Methodology

This study was conducted to analyze the inhibiting factors of e-government in the province of Java. The target of the population was East Java province government employees. Data were collected using a survey method with one shot data collection in which the sampling was drawn by using purposive/judgment sampling. The sample size was determined using the conventional approach. According Hair et al (2006), structural equation modelling requires a sample size of between 100-200 respondents. A pre-test of 50 samples was conducted among the respondents to check the reliability and validity of the questionnaire. This research aims to collect 350 qualified answers. We used questionnaires as a measuring instrument for the variables in the research model. The questionnaires were sent to 19 government agencies in the East Java province. The instrument used in this study was constructed by combining several previous research instruments. The questions in the questionnaires were designed based on the measurement items for each construct or latent variable model that exist in the design of the study. The questionnaire items are measured by a Likert’s scale ranging from 1 to 5 (1=”strongly disagree”, 5=”strongly agree”).

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4. Results And Discussion

The study findings reflected the following factor solutions and reliabilities with SPSS 17 as:

4.1. Regression Analysis

Linear regression analysis has been tested to analyse the effects of twelve variables of service innovation in e-government for changes on Indonesian society’s wealth. The major findings of regression analysis for each hypothesis of the research are:

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>85.97</td>
<td>70</td>
<td>1.070</td>
<td>1995.08</td>
<td>0.000</td>
</tr>
<tr>
<td>Residual</td>
<td>0.000</td>
<td>87</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>97.65</td>
<td>91</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F-Value shows that the research models were fit with all the data. As F-Value of 1995.08 is greater than probability base value of 0.000 ≤ 0.001. It also means that, the research data were also qualified. The table 2 bellow shows the hypotheses results as:

<table>
<thead>
<tr>
<th>Test</th>
<th>Variable</th>
<th>Estimate</th>
<th>Critical Ratio</th>
<th>t-table</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>PE-MS</td>
<td>97.05</td>
<td>7.63</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₂</td>
<td>EP-MS</td>
<td>67.30</td>
<td>8.25</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₃</td>
<td>SC-MS</td>
<td>89.78</td>
<td>0.27</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₄</td>
<td>FC-MS</td>
<td>87.99</td>
<td>3.12</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₅</td>
<td>PI-MS</td>
<td>95.19</td>
<td>8.10</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₆</td>
<td>HC-MS</td>
<td>90.98</td>
<td>29.98</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₇</td>
<td>PAC-MS</td>
<td>76.80</td>
<td>10.19</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₈</td>
<td>PE-LV</td>
<td>82.96</td>
<td>5.17</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₉</td>
<td>EF-LV</td>
<td>93.01</td>
<td>8.63</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₀</td>
<td>SC-LV</td>
<td>87.80</td>
<td>8.98</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₁</td>
<td>FC-LV</td>
<td>70.98</td>
<td>9.27</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₂</td>
<td>PI-LV</td>
<td>56.96</td>
<td>6.58</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₃</td>
<td>HC-LV</td>
<td>94.54</td>
<td>7.50</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₄</td>
<td>PAC-LV</td>
<td>86.68</td>
<td>5.56</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₅</td>
<td>MS-SI</td>
<td>47.80</td>
<td>6.9</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₆</td>
<td>LV-SI</td>
<td>86.60</td>
<td>5.9</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₇</td>
<td>SI-SV</td>
<td>43.00</td>
<td>6.65</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
<tr>
<td>H₁₈</td>
<td>SV-CVLW</td>
<td>98.70</td>
<td>9.20</td>
<td>1.96</td>
<td>Excepted</td>
</tr>
</tbody>
</table>

The test of all of the hypotheses in this research can be as strong evidence that prove all of the 18 hypotheses were correct. This result proved that the research literature background was classified as eligible.
4.2. Structural Model Analysis

The test of t-Value shows that the research models were fit with all the data collected. The score of t-Value 76.231, and it is greater than probability base value of 0.000 ≤ 0.001, which means that the research data were also qualified.

<table>
<thead>
<tr>
<th>Model</th>
<th>Un.Coeff.</th>
<th>Stand. Coeff.</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const.</td>
<td>0.89</td>
<td>5.7</td>
<td>.893</td>
<td>.851</td>
<td>Tol. 0.00  VIF 1.00</td>
</tr>
<tr>
<td>PE</td>
<td>.005</td>
<td>.083</td>
<td>.070</td>
<td>.980</td>
<td></td>
</tr>
<tr>
<td>CVLW</td>
<td>1.000</td>
<td>.852</td>
<td>76.231</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

The table 3 shows that there is no multi-collinearity correlation between overall research variables, with the value of VIF= 1.00.

<table>
<thead>
<tr>
<th>Goodness of Fit Index</th>
<th>Cut-off Value</th>
<th>Model Result</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>GFI</td>
<td>≥0.9</td>
<td>0.95</td>
<td>Good Fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≥0.9</td>
<td>0.92</td>
<td>Good Fit</td>
</tr>
<tr>
<td>NFI</td>
<td>≥0.9</td>
<td>0.97</td>
<td>Good Fit</td>
</tr>
<tr>
<td>IFI</td>
<td>0.8≤IFI≤0.9</td>
<td>0.88</td>
<td>Marginal Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>≥0.9</td>
<td>0.96</td>
<td>Good Fit</td>
</tr>
<tr>
<td>RFI</td>
<td>≥0.9</td>
<td>0.98</td>
<td>Good Fit</td>
</tr>
</tbody>
</table>

The table 4 shows that the research models were classified as *Good Fit*. At this point of result, can be concluded that the research model were based on valid and in-depth relevant theoretical analysis.

4.3. Discussion of Implication

In order to have better e-government implementation, the governments should show their commitment (vision and mission) which is approved by the competent authorities; improve the skill of their human resources; create system documentations, standard operating procedures, or guidelines for managing electronic information, develop organizational culture, and have a good marketing skill strategy during e-government implementation.

This study is also expected to further identify the inhibiting factors of e-government service innovation in developing countries. Our government should consider these factors to ensure the success of the e-government service value to decrease the level of the poor.

5. Conclusion

Our research output produces some important conclusions as consideration in the implementation of e-government, particularly in the East Java province government. Leadership, human resources, information management, and cultural organizations were considered as inhibiting factors of e-government implementation in East Java province government, where the service innovation in service value contributing most to improve the...
standard way of living. Thus, it is important for the governments in Indonesia to show their commitment and support for the success of the e-government implementation. This study also concluded that the availability of IT infrastructure does not significantly inhibit the e-government implementation in the East-Java province government. Finally, this research provides a trigger for the Indonesian government both central and local governments to develop and implement better e-government since e-government had been awaited by about 45 million Indonesian Internet users. Although the global ranking of e-Government readiness is in low level, but expectations of Internet users toward e-government is very big.

References


Conceptualising Consumers’ Purchase Intention towards Online Group Buying* 

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ABSTRACT

Objective – Group-buying is a business model based on the power of collective buying. Consumers with similar product interest come together and obtain a significant volume discount from retailers. Online Group Buying (OGB) is growing rapidly and it has become popular and successful in many countries. However, this area still lacks of research and it is in the early stages of development especially in developing and emerging market. This paper aims to conceptual consumers’ purchase intention in online group buying.

Methodology/Technique – Through intensive literature review on consumers’ purchase intention and online group buying, a set of factors proposed as leading influencers.

Findings – Findings of this paper reveal that perceived usefulness, perceived ease of use, price, electronic word of mouth, trust and perceived risk are the main determinants of online group buying.

Novelty – This paper propose a framework for conceptualising factors that influence consumer’s purchase intention in online group buying.

Type of Paper: Conceptual

Keywords: Electronic Word Of Mouth; Online Group-Buying; Perceived Usefulness; Perceived Ease-Of-Use; Price; Trust; Perceived Risk.

1. Introduction

Group buying (or collective buying) is a situation where consumers combine their purchasing power in order to obtain significant volume discounts from retailers (Cheng & Huang, 2013). Group-buying pricing mechanisms allow buyers to combine their purchasing power and gain lower prices than they otherwise would be able to get individually (Kauffman & Wang, 2002). Group-buying works the same either online or offline (Yang & Mao, 2014).
Online group-buying (OGB) has emerged with the advent of e-commerce and social networking. Groupon, established in the year 2008, is the world’s fastest growing group-buying website. Other similar websites have followed suit. There are numerous similar type websites mushrooming in China and other countries. In Malaysia, group buying websites such as Groupon Malaysia, MilkADeal, MyDeal.com.my, Dealmates.com.my and Everyday Coupons are websites that give attractive discounts via online shopping.

OGB is a new form of e-commerce, which benefits all parties in the transaction, for instance, suppliers, intermediaries, merchants and consumers. Consumers can purchase their preferred products and services at a relatively lower price. Meanwhile, merchants can sell greater volumes and reach more consumers (Lau, 2011). Merchants can also use promotional methods that offer quantity based price discounts or free delivery to attract consumers to buy the goods and services (Chen, Chen, & Song, 2002). Besides, new start-ups can make use of OGB websites to promote their products and their brand at low cost. In all these, OGB certainly changes the way how consumers purchase goods and services online. Firms are able to leverage their business to wider reach to potential customers globally through the Internet (Rakshita & Alok, 2014).

Past studies show that there are several challenges for online group buying, which include retaining existing buyers and attracting customers (Cheng & Haung, 2013; Cheng, Wang, Zheng, & Luo, 2013). Other studies show that the price factor mostly affects the purchase intention (Chen J., Chen, Kauffman, & Song, 2009) whilst the consumer decision making is affected by personal attitudes and social standards (Pi, Liao, Liu, & Lee, 2011). It is because consumers often make use of the Internet as a tool for product comparison and price searching in order to obtain their desired product at the lowest available price (Haubl & Trifts, 2000).

Thus, this study is aimed at identifying factors that affect consumers’ purchase intention towards online group buying websites. There are six factors that will be examined in this study, which are: perceived usefulness, perceived ease of use, price, electronic word of mouth, trust and perceived risk.

2. Literature Review

2.1 Technology Acceptance Model (TAM)

The Technology Acceptance Model (TAM) is considered the most influential theory used to explain technology acceptance behavior (Davis, 1989) and it is widely adopted by researchers to explain user acceptance of technology (Bahmanziari, Pearson, & Crosby, 2003). Antecedent studies (Tong, 2010; Rahman, Khan, & Islam, 2013) applied the TAM model in the context of online shopping. Some studies used it to predict consumers’ purchase intention through technology (Tsai, Cheng, & Chen, 2011). According to Davis (1989), the TAM consists of five main variables, such as Perceived Ease of Use (PEOU), Perceived Usefulness (PE), Attitude Towards Using (ATU), Behavioral Intention to Use (BI), and Actual Usage (AU). The TAM has proved that both Perceived Usefulness (PU) and Perceived Ease of Use (PEOU) have a significant relationship on behavioral intentions in online group buying (David, 1989; Tsai et al., 2011).

2.2 Perceived Usefulness (PU)

Perceived usefulness is defined as the degree to which an individual believes in using a particular system would enhance his or her performance (Davis, 1989). Henderson and Divett (2003) indicate that consumer perceives the system to be useful if the system present itself as an effective way of performing tasks. According to Gefen, Karahanna and Straub (2003), PU is a measure of the consumer’s subjective valuation of the utility offered by the new information technology in an explicit task-related context. According to the study by Pikkarainen, Pikkarainen, Karjaluoto, and Phanila (2004) in the study of TAM acceptance online banking, they found that PU positively affects the actual behavior of Internet banking adoption. Sanchez-Franco and Roldan (2005) indicated in their study that PU and behavioral
intention were correlated and it was strong among goal-directed users. Chau (1996) demonstrated two types of PU, near-term and long-term, in a study to review TAM.

2.3 Perceived Ease of Use (PEOU)

Perceived ease of use is defined as the degree to which an individual believes in using a particular system would be free of effort (Davis, 1989). TAM theorizes that PEOU has an influence on the individual’s behavioral intention to conduct financial transaction on a website (Yang & Mao, 2014). Koufaris and Hampton-Sosa (2004) define PEOU as the subjective perception by the consumers regarding the amount of effort required to learn and use the particular website. The work of Selamat, Jaaf and Ong (2009) explained that consumers prefer more a user-friendly and simple system for online shopping. This is supported by Teo (2001) in the study that users are likely to use the particular technology if the system is easy to use and require less effort to learn.

Previous studies indicated that website characteristics play an important role to determine PEOU in online purchase activities (Zeithaml, Parasuraman, & Malhotra, 2002; Beldona, Morrison, & O'Leary, 2005). Further, the study of Lim & Ting (2014) demonstrated that PU and PEOU form the basic measurement towards consumers’ acceptance of a particular new website (Lim & Ting, 2014). Several components need to be taken into consideration, such as simple process flow, elastic and easy to become skillful (Rahman et al., 2013). Nevertheless, effective product searching and easy checkout process are two important features that will help to improve PEOU and achieve higher consumer’s purchase intention (Yang & Mao, 2014).

A group buying website with higher PEOU encourages consumers’ readiness to accept the current website (Davis, 1989) and will possibly motivate them to invite their friends or family members to purchase from the website as well. Previous studies found that PEOU had a positive influence on consumers’ behavior towards online purchase activities (Davis, 1989; Yuslihasri, Islam, & Daud, 2011; Rahman et al., 2013). This is consistent with Yuslihasri et al. (2011) research which indicates that PEOU has proved to be a positive and significant influence towards consumers’ attitude on online purchasing. Additionally, online shopping websites that are easy-to-use and user friendly may lead to increased trust from new consumers towards the company (Koufaris & Hampton-Sosa, 2004).

2.4 Price

Price is the main factor in stimulating consumers to purchase (Kotler & Keller, 2006). Price consciousness is defined as consumers who are reluctant to pay a higher price for products and mostly pay attention to lower prices (Sinha and Batra, 1999; Pi et al., 2011). Price sensitivity is the extent to which persons perceive and respond to fluctuations in prices for products or services (Wakefield & Inman, 2003; Pi et al. 2011).

Pricing is an effective way for price sensitive consumers to be motivated to purchase a particular product at the lowest prices possible or to get the greatest value for their money (Brassington & Pettitt, 2006). When the prices for products and services show a decrease in the group-buying websites, price sensitive consumers will notice and respond, based on prices (Pi et al., 2011).

According to the study by Erdogmus and Cicek (2011), there are two types of price systems occurring in online group buying. The first type is established based on dynamic pricing mechanisms. It implies that a large group of buyers comes together as a group to perform collective buying and enjoy price discounts through the group buying website. The discount prices rely on the number of buyers predefined by the sellers. If consumers succeed in forming a group within a given period of time, then everyone in the group will enjoy at the same discounted price. The second type refers to the group-buying vendors who offer certain products at bigger discounts, usually more than 50%, but the price does not reduce any further even if the number of buyers increases.
2.5 Electronic Word of Mouth (e-WOM)

Westbrook (1987) defined word of mouth (WOM) as any informal communication directed at other customers about the proprietorship, usage, or characteristics of specific goods and services or their sellers. Park & Kim’s study defined WOM as an effective routine to deliver product information to potential consumers as of a user perspective (Park & Kim, 2008). In traditional WOM communication, consumers share their products or service-related experiences with their family members. Kotler and Keller (2006) states in their study that family members (including siblings and parents) (is) are the most influential reference groups in traditional WOM communication although people may not stay together with their family.

The advent of the Internet and communication capability has dramatically improved the scale and scope of WOM communication. The online reviews or electronic word of mouth has become a major information source for consumers to post their feedback and gain other comments on particular products or services (Lin, Wu, & Chen, 2013). Rieger (2007) found that consumers’ purchase behavior changed due to the increasing accessibility of the Internet. Some studies (Cheng & Huang, 2013; Lin et al., 2014) showed that consumers prefer to get information from virtual communities or website discussion groups such as blogs and Internet forums. These online messages have a robust persuasive influence on other people (Smith, 1993).

Consumers are increasingly getting accustomed to accepting digital information and comments regarding products and brands online (Rieger, 2007). Henning-Thurau, Gwinner, Walsh and Gremler (2004) pointed out that e-WOM happens when potential, current or future consumers comment positively or negatively through the online platform regarding a company or product. Product reviews from professional and experienced users, which are posted in group buying websites can influence consumer perceptions of the product characteristics for example quality and function (Cheng & Huang, 2013). Ye, Law and Gu (2009) indicated that sales increase with the number of positive reviews and Duan, Gu and Whinston (2008) also confirmed the importance of e-WOM as an influence on product sales.

2.6 Trust

Trust is defined as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (Mayer, Davis, & Schoorman, 1995). Pi et al. (2011) indicated that trust is the most important issue in purchasing intention. Gefen and Straub (2004) demonstrated that trust can lessen social uncertainty throughout the delivery period of product and services and increase consumers’ readiness to purchase from the seller. Shiau and Chau (2013) mentioned that trust is an effective factor to reduce the insecurity and improve the simplicity of online transaction whilst creating a positive intention towards transaction behavior. Jarvenpaa, Tractinsky and Vitale (2000) proved that trust might be a predecessor element for transaction intention and is related to attitude and behavior. According to Sun, Luo and Liu (2010) the level of trust consumers had on initiators influences group buying. The study indicated five ascendants (such as subjective norm, uncertainty avoidance, disposition to trust, interaction and reputation) of perceived risk and trust on the initiator and found that trust on initiator affects the intention of participating online group buying (Sun et al, 2010). Chiu, Huang and Yen (2010) proved in their study that trust is a positive predictor of consumer intention to repeat purchases.
2.7 Perceived Risk (PR)

Perceived risk is defined as consumers’ subjective expectation of suffering a loss in pursuing a desired outcome (Wang, Wang, & Tang, 2003). Zhou, Dai and Zhang (2007) and Van Noort, Kerkhof and Fennis (2007) defined PR as the consumers’ subjective belief of suffering a loss in pursuit of a desired outcome. Several past studies found that PR has a strong impact on consumers’ purchase intention over the Internet (Barnes, Bauer, Neumann, & Huber, 2007; Zhang, Tan, Xu, & Tan, 2012; Tong, 2010). In the work of Tong (2010) it is explained that a greater perception of risk leads to less willingness to purchase.

PR in consumer behavior is defined as consumers’ experience of pre-purchase uncertainty as the degree of expected loss resulting from the purchase and use of a particular subject (Ye N., 2004). The theory of consumers’ perceived risk explained consumers perceive risk when they encounter undesirable moments and uncertainty due to inappropriate decision (Taylor, 1974). Wang, J. Ashleigh and Meyer (2006) stated in their study that products or service(s) quality, personal privacy and safety are the essential concerns for consumers who often perform online financial transaction.

The concept of PR can be categorized into various types of risks in marketing literature (Zikmund and Scott, 1974; Peter and Ryan, 1976; Chen and Barnes, 2007; Murkherjee & Nath, 2007). Security risk and privacy risk are said to be predominant in an online shopping environment (Chen & Barnes, 2007; Murkherjee & Nath, 2007). Security risk is one of the factors that affect consumer trust in online retailing. It refers to the safety of the security of the e-commerce website, electronic devices, credit card or financial information of the consumer when engaging in an online purchase transaction (Bart, Shankar, Sultan, & Urban, 2005). Privacy risk refers to the consumers’ ability to control the dissemination of information and the ability to control the presence of others during the online transaction (Goodwin, 1991). This is supported by Liebermann & Stashevsky (2002), who conclude that consumers’ personal information and Internet credit card information stealing are two other elements of perceived risk related to the process of online shopping.

The level of perceived risk can be decreased by the association with transaction processes (Pavlou, 2003; Koufaris & Hampton-Sosa, 2004). Several past studies found that perceived risk can be reduced by online trust (Gefen & Pavlou, 2006; Mukherjee & Nath, 2007; Park and Jun, 2003). In the study of Chen and Barnes (2007) it is demonstrated that PR significantly correlated to initial trust in e-commerce. This was supported by Mukherjee and Nath (2007) in their findings that there is a positive relationship between trust and PR (perceived privacy and perceive security) in online retailing.

2.8 Purchase Intention

Purchase intention is defined as consumers’ willingness to purchase certain products or services from the online group buying website (Ailawadi, Neslin, & Gedenk, 2001). Online purchase intention refers to the consumers’ willingness to be involved in an online transaction (Pavlou, 2003). Purchase intention has been broadly used as a focal construct to indicate consumers’ buying behavior in market research (Yang & Mao, 2014).

Past studies indicated that PEOU and PU influence consumers’ online purchase intention (Gefen et al., 2003; Kamarulzaman, 2007; Ha & Stoel, 2008). However, Shergill and Chen (2005) argued in their findings that information privacy as the consumers’ primary concern which affects perceived risk and online purchase intention.

According to Chang and Wildt (1994), the authors identified two attributes used to evaluate consumers’ purchase intention. They are consumers’ willingness to purchase and their willingness to return to an e-commerce website within a period of time. This is in line with previous findings (Pi et al., 2011; Pavlou & Gefen, 2004) in which they found that purchase intention as a key factor that positively influences consumers’ actual purchase behavior and that the purchase intention may influence future transaction activities.
3. Research Proposition Development

Based on the literature above, we offer the following propositions:

Proposition 1: Perceived usefulness is positively related to consumers’ purchase intention towards online group buying.

Proposition 2: Perceived ease of use is positively related to consumers’ purchase intention towards online group buying.

Proposition 3: Price is positively related to consumers’ purchase intention towards online group buying.

Proposition 4: Electronic word of mouth is positively related to consumers’ purchase intention towards online group buying.

Proposition 5: Trust is positively related to consumers’ purchase intention towards online group buying.

Proposition 6: Perceived risk is positively related to consumers’ purchase intention towards online group buying.

4. The Proposed Conceptual Framework

Figure 1 demonstrates the proposed conceptual framework for the current study.

5. Conclusion and Future Research

This study focuses on the determinants of consumers’ purchase intention towards online group buying. There were six factors proposed as propositions that influence consumers’ purchase intention towards online group buying. There are limited studies on consumers’ purchase intention towards online group buying as it is still in the early stages of development. Therefore, this study aims to provide valuable information and insights to companies and researchers in this area. Firms which are aiming to venture into online group buying may use this paper as a guide for improvement whilst companies that are already running OGB businesses may find this paper useful as a benchmark to improve grey areas.
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The Delivery of Service in Forming the Image of the Hospital and Patients Satisfaction to Gain Patients Loyality in Kajuruhan Kepanjen Hospital Malang Regency

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3Pharmacist of Kajuruhan Hospital Malang, Indonesia

ABSTRACT

Kajuruhan Kepanjen Hospital Malang Regency is the only hospital possessed by Malang Regency. The competition among hospitals is getting tighter along with the appearance of private hospitals. The success of hospitals is caused mainly by the delivery of service, especially the service, tolls, and personals because hospitals as service industries have given good services for their patients so that the patients will be loyal.

Methodology/Technique – Data collecting method is by a field observation, i.e. distributing the questionnaires and interviewing 210 respondents (patients of Kajuruhan Kepanjen Hospital Malang Regency). Then the data was processed and analyzed by using Structural Equation Modeling (SEM) method, with AMOS software.

Findings – The result of data analysis shows that the delivery of service has positive and significant influence to the image of the hospital but it does not have significant influence to patient’s satisfaction. The image of Kajuruhan Kepanjen Hospital Malang Regency has positive and significant influence to patient’s satisfaction and loyalty. Patient’s satisfaction has positive and significant influence to patients loyalty.

Type of Paper: Empirical

Keyword: Delivery Of Service, Image, Satisfaction, Loyalty

Appendix A. 1. Introduction

Appendix B. 1.1. Background of the Problem

The industry of hospital service is basically socioeconomic, i.e. in addition to emphasizing the application of social values; it must also consider economic principles in carrying out its activities. This is clearly shown in in a private hospital in which the financial resources or the funding come from donors or investors who expect that their investment can be returned, and
possibly it is expected to gain profits. The success go a hospital is determined by the service provided mainly tools quality, means, and resources. When the quality of treatment and professional human resources is better, the hospital utilization tends to increase (Health Profile of Malang Regency, 2005-2007)

Appendix C. Preliminary results of a survey on patients who seek treatment in KanjuruhuanKepanjen Hospital Malang Regency, which is determined at the beginning of treatment, was received by the clerk at the front lines until completed and allowed to go home or otherwise to be hospitalized, show that only 50% of respondents stated that the hospital cares about the society. This means that patients/ the society perceive that the image of the hospital is not good. This shows that the service delivery system which includes physical support and contact personnel influence the company’s image. The quality of doctors, nursing facilities and technology, diagnostics facilities, the overall quality of care, interpersonal attention, awareness of staff to the personal needs of the patient and the hospital experience, location and cost, and also ease of location, influence the image of the hospital, the patient's satisfaction and loyalty.

Appendix D. 1.2. Limitations of The Problem

1. Does the delivery of service which consists of physical support and contact personnel influence the image of KajuruhanKepanjen Hospital Malang Regency?
2. Does the delivery of service which consists of physical support and contact personnel influence the patients satisfaction of KajuruhanKepanjen Hospital Malang Regency?
3. Does the image of the hospital influence the patients satisfaction of KajuruhanKepanjen Hospital Malang Regency?
4. Does the image of the hospital influence the patients loyalty of KajuruhanKepanjen Hospital Malang Regency?
5. Does the patients satisfaction influence the patients loyalty of KajuruhanKepanjen Hospital Malang Regency?

1.3. Study Objectives

The objectives of the study are to identify and review the influence of the delivery of service to the image of the hospital and patients satisfaction, the influence of the hospital image to patients satisfaction, and also the influence of the hospital image and patients loyalty of Kajuruhan Kepanjen Hospital Malang Regency.

2. Theoretical Review

2. 1. Service Delivery System

According to Lovelock and Wright (2007), a service business is viewed as a service operation system and a service delivery system. A service operation system is a component which is included in the whole service business system, where the inputs are processed and the service product elements are created by human resources component and physical component.

The important components of service marketing namely people, process, and physical evidence are important elements in delivering the service offered and play a significant role in doing “tangibilize in the intangible”. The service quality in a hospital service outside the related competences that forms the patients experience in health care is by giving service excellence, i.e. an attitude or a way of an employee or a health worker in serving the patients satisfactorily in line with the goals and benefits of service results i.e. Speed, accuracy, hospitality, and comfort.
2.2. Image

Keller (1993) defined a company image as a perception of a company as a company picture restrained in the customer’s memory. The image and awareness are directed to two components of image knowledge. The whole formed perception (the conclusion of the image/brand) in the customer’s mind are caused by brand physic, name, symbol, display, and reputation for bank service. The factors of company image variable according to Keller (1993) are three factors namely corporate image, user image, and product image.

2.3. Customer Satisfaction

Customer satisfaction depends on the estimate product performance in giving the grade, relatively to the customer expectation. The customer is satisfied when the performance meets the expectation. The customer is dissatisfied when the product performance is much lower than what is expected (Kotler and Armstrong, 2009). The satisfaction felt by the customer consists of satisfaction of the product and satisfaction to the information used to choose the product. Each form is called satisfaction indicator and information satisfaction that influence the customer loyalty (Spreng et al., 1996).

2.4. Loyalty

Customer loyalty is a concept that is studied more in customer behavior study. Customer loyalty has two elements namely behavior element and attitude. In the approach of behavior element, the definition of loyalty becomes shallow. Loyalty is is based on buying pattern only, and this approach defines loyalty in accordance with buying level of certain product or brand in a period. Moven and Minor (2007) defined brand loyalty as how far a customer shows a positive attitude toward a brand, has a commitment to a brand, and wants to keep buying in the future. Brand loyalty is influenced directly by the satisfaction or dissatisfaction to a product which is accumulated in a period as the perception of a product quality.

2.5. Study Model

The proposed study model is shown in Picture 1.

![Study Model](image_url)
2.6. Study Hypothesis

H1 : the delivery service system has significant influence to the hospital image of KanjuruhanKepanjen Hospital Malang Regency
H2 : the delivery service system has significant influence to patients satisfaction of KanjuruhanKepanjen Hospital Malang Regency
H3 : the hospital image has significant influence to patients satisfaction of KanjuruhanKepanjen Hospital Malang Regency
H4 : the hospital image has significant influence to patients loyalty of KanjuruhanKepanjen Hospital Malang Regency
H5 : the patients satisfaction has significant influence to patients loyalty of KanjuruhanKepanjen Hospital Malang Regency

3. Method

The population of this study is all patients of KanjuruhanKepanjen Malang Regency. The number of samples is based on Hair et al. (2010) who stated that the minimum data for multivariate analysis technique is at least 100 samples. Thus, the samples used in this study are 210 patients. The determination of samples in this study is purposive sampling i.e. The researcher uses his/her own consideration (using adequate knowledge of population) to choose the samples. The analysis data technique used is Structural Equation Modeling (SEM).

4. Analysis and Discussion

4.1. Model Analysis Result

This study applies Structural Equation Modeling (SEM) analysis. The analysis results are shown in Picture 1 and Table 1.
Table 1. Goodness of Fit Beginning Model Test

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Cut-of Value</th>
<th>Model Result</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>Expected low</td>
<td>299,207</td>
<td>Not accepted</td>
</tr>
<tr>
<td>Probability</td>
<td>≥0.05</td>
<td>0.000</td>
<td>Not accepted</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤0.08</td>
<td>0.079</td>
<td>Accepted</td>
</tr>
<tr>
<td>GFI</td>
<td>≥0.90</td>
<td>0.865</td>
<td>Not accepted</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥0.90</td>
<td>0.823</td>
<td>Not accepted</td>
</tr>
<tr>
<td>CFI</td>
<td>≥0.95</td>
<td>0.901</td>
<td>Not accepted</td>
</tr>
</tbody>
</table>

Source: analysis result SEM(2012)

The analysis result of SEM early step shows that the beginning model is proposed based on the unacceptable theory, because there is only one good requirement (not supported by empirical data in the field) so the result is not fit. Then, the beginning model is modified with a guidance of modification indices which must be supported by relevant theory. The result is shown in Picture 2 Table 2.

Picture 2. SEM Modification Step

Table 2. Goodness of Fit Modification Model Test

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Cut-of Value</th>
<th>Model Result</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>Expected low</td>
<td>179,651</td>
<td>Accepted</td>
</tr>
<tr>
<td>Probability</td>
<td>≥0.05</td>
<td>0.000</td>
<td>Not accepted</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤0.08</td>
<td>0.048</td>
<td>Accepted</td>
</tr>
<tr>
<td>GFI</td>
<td>≥0.90</td>
<td>0.917</td>
<td>Accepted</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥0.90</td>
<td>0.882</td>
<td>Quite Accepted</td>
</tr>
<tr>
<td>CFI</td>
<td>≥0.95</td>
<td>0.966</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: analysis result SEM(2012)
Table 2 shows that six criteria used to assess whether a model is fit or not, only one criteria that is quite adequate. This can be said that the model can be accepted, meaning that there is suitability between the model and the data.

4.2. Causal Relationship between Latent Variables

Table 3. Causal Relationship between Latents Variables

<table>
<thead>
<tr>
<th>Causal Relationship</th>
<th>P value</th>
<th>Loading Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Image &lt;--- Service Delivery</td>
<td>0.000</td>
<td>0.968</td>
</tr>
<tr>
<td>Patient Satisfaction &lt;--- Hospital Image</td>
<td>0.050</td>
<td>1.679</td>
</tr>
<tr>
<td>Patient Satisfaction &lt;--- Service Delivery</td>
<td>0.378</td>
<td>-0.732</td>
</tr>
<tr>
<td>Patient Loyalty &lt;--- Hospital Image</td>
<td>0.047</td>
<td>1.379</td>
</tr>
<tr>
<td>Patient Loyalty &lt;--- Patient Satisfaction</td>
<td>0.004</td>
<td>2.148</td>
</tr>
</tbody>
</table>

Source: Analysis Result SEM(2012)

4.3. Hypothesis Test Result

The hypothesis test is done by comparing probability grade (p) of each latent variable with 0.05 (α = significant) in which it is stated as significant if pv latent variable is smaller or the same with 0.05 (p ≤ 0.05). Table 3 shows:

1. Service delivery system variable (X) has positive and significant influence to hospital image (Y1), with PV grade = 0.000 < 0.05 (α), and has a path coefficient 0.968.
2. Service delivery system variable (X) has positive but not significant influence to patients satisfaction (Y2), with PV grade = 0.378 > 0.05 (α), and has a path coefficient -0.732.
3. Hospital Image variable (Y1) has positive and significant influence to patients satisfaction (Y2), with PV grade = 0.05 ≤ 0.05 (α), and has a regression coefficient 1.679.
4. Hospital image variable (Y1) has positive and significant influence to patients loyalty (Y3), with PV grade = 0.047 < 0.05 (α), and has a regression coefficient 1.379.
5. Patients satisfaction variable (Y2) has positive and significant influence to patients loyalty (Y3), with PV grade 0.004 < 0.05 (α), and has a regression coefficient 2.148.

4.4. Indirect Influence Analysis

Table 4. Indirect Influence of Latent Variables

<table>
<thead>
<tr>
<th>Latent Variable</th>
<th>Patients Satisfaction (Y2)</th>
<th>Patients Loyalty (Y3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. X • Y2(via Y1)</td>
<td>0.968 x 1.679 = 1.625 (S)</td>
<td>-</td>
</tr>
<tr>
<td>2. X • Y3(via Y1)</td>
<td>-</td>
<td>0.968 x 1.379 = 1.335 (S)</td>
</tr>
<tr>
<td>3. X • Y3(via Y1 &amp; Y2)</td>
<td>-</td>
<td>0.968 x 1.679 x 2.148 = 3.491 (S)</td>
</tr>
</tbody>
</table>

The explanation of indirect influence of latent variables are as follows:

1. The indirect effect of service delivery system (X) to patients satisfaction (Y2) via hospital image (Y1) has indirect positive and significant influence 1, 625 (0.968 x 1,697). This shows that the service delivery system variable (X) indirectly (via hospital image) has significant influence to patients satisfaction of KanjuruhantKepanjen Hospital Malang Regency (Y2) whereas the direct influence is not significant.
2. The indirect effect of service delivery system (X) to patients loyalty (Y3) via hospital image (Y1) has indirectly positive and significant influence that is 1, 335 (0, 968 x 1, 379)

3. The indirect effect of service delivery system (X) to patients loyalty (Y3) via hospital image (Y1) and patients satisfaction (Y2) has indirectly positive and significant influence that is 3, 491 (0, 968 x 1, 679 x 2, 148)

5. Discussion

1. The Influence of Service Delivery to Hospital Image (H1)

The first hypothesis is proven that the service delivery system with room design, waiting room comfort, ease of being informed, service tools, other supporting means (public telephone, ATM, Bank) indicators, and the availability of parking area, timeliness of service, patient acceptance procedure, and the communication between the health workers and the patients has significant influence to hospital image of KanjuruhanKepanjen Hospital Malang Regency. This conclusion is based on the grade of \( PV = 0,000 < 0,05 \) (significant level \( \alpha = 0,05 \)), with path coefficient 0, 968.

This is in accordance with Nguyen and Leblanc (2002) that the service delivery system which includes physical support and contact personnel has influence to company image. In addition, this is also in line with Cooper (1994), where doctor quality, care and technology facilities, diagnostics facilities, whole care qualities, interpersonal attention, staff awareness to patients personal needs and hospital experience, location, costs, ease of patient location influence the hospital image.

The service delivery system is a communication system formed by physical support dimension and contact personnel dimension. Both physical support and contact personnel become very important in supporting the formation of hospital image. The service quality of hospital service outside the related competences that forms the patient experience in health care is by giving service excellence, i.e. an attitude or way of an employee in giving service to patients satisfactorily, according to the goals and benefits of the service results namely speed, accuracy, hospitality, and comfort. The four basic elements are a unit of integrated service, meaning that a service becomes imperfect if there is one of elements that is ignored.

2. The Influence of Service Delivery to Patients Satisfaction (H2)

The second hypothesis is not proven that the service delivery system does not have significant influence to patients satisfaction of KanjuruhanKepanjen Hospital Malang Regency. This conclusion is based on the grade of \( PV = 0,378 > 0,05 \) (significant level \( \alpha = 0,05 \)), with path coefficient -0,732. This result is not in line with Shamdasani and Balakrishnan (2000), who concluded that physical support and contact personnel influence the customer satisfaction. In this study, physical support owned by the hospital less influence the forming of hospital service delivery system, meaning that the patients think that reliability is more important than facilities and infrastructures owned by the hospital. The same opinion is also put forward by Lupiyoadi (2006) that in hospital service, the reliability and responsiveness of the health workers are much more dominant that the hospital interiors.

3. The Influence of Hospital Image to Patients Satisfaction (H3)

The third hypothesis is proven that the hospital image- with the indicators of patients impressions to the hospital, the patients trust to the hospital, and the health workers ability - has significant influence to the satisfaction of patients of KanjuruhanKepanjen Hospital Malang Regency. This conclusion is based on the grade of \( PV = 0,050 \leq 0,50 \) (significant level \( \alpha = 0,05 \)), with path coefficient 1,679. The study result is in line with the result of the research done by Selnes (1993) and Bloemer et al. (2002).
Selnes (1993) concluded that a company image influences the customer satisfaction and loyalty. Bloemer et al. (2002) stated that an image influences customer satisfaction. Besides, this study also supports Mc Daniel et al. (2007) who stated that the purchase of a brand results in satisfaction for a customer, that is compared to the expectation of a brand strength potential. Also the expectation becomes the foundation which underlies the first decision made by a customer.

4. The Influence of Hospital Image to Patients Loyalty (H4)

The fourth hypothesis is proven that hospital image has significant influence to patients loyalty of Kanjuruhan Kepanjen Hospital Malang Regency. This conclusion is based on the grade of \( PV = 0.047 \leq 0.50 \) (significant level \( \alpha = 0.05 \)), with path coefficient 1.379. The study result is in line with the result of the research done by Selnes (1993) and Bloemer et al. (2002). Selnes (1993) showed that a company image influences the customers satisfaction and loyalty, meaning that the company (Kanjuruhan Kepanjen Hospital Malang Regency) influences the patients loyalty.

This study result indicates the support to the theories which stated that there is a significant influence of image to patients loyalty. Patients will be loyal if the patients view a hospital as a good hospital. The influence of company image to the patients which is shown in Bloemer et al. (2002) who concluded that an image does not have direct influence to customers loyalty, but it is only a moderator variable between quality and customers.

This study shows that a company image has direct influence to customers loyalty and also acts as a moderator variable between service delivery system and customers loyalty, meaning that image variable can be either endogenous variable or exogenous variable. This study is also in line with Nguyen and Leblanc (2002) who stated that a company image has positive influence to customers loyalty in three sectors (telecommunication, retail, and education).

5. The Influence of Patients Satisfaction to Patients Loyalty (H5)

The fifth hypothesis is proven that patients satisfaction has significant influence to patients loyalty of Kanjuruhan Kepanjen Hospital Malang Regency. This conclusion is based on the grade of \( PV = 0.004 \leq 0.50 \) (significant level \( \alpha = 0.05 \)), with path coefficient 2.148. This study is in line with Bloemer et al. (2002) and Sprenger et al. (1996).

Bloemer et al. (2002) concluded that image influences customers satisfaction, satisfaction influences trust, and trust influences customers commitment (loyalty). Sprenger et al. (1996) stated that overall customers satisfaction consists of the satisfaction to the product itself and the satisfaction to the information used to choose the product. Each form is named satisfaction indicator and information satisfaction which influence customers loyalty.

Customer satisfaction is a key for business profit and customers loyalty is a key for continuing satisfaction. The satisfied customers tend to be loyal. This is also applied in health agency. The patients who are satisfied with the hospital service will tend to be loyal to the hospital. Based on the result of this study, patients loyalty is much influenced by patients satisfaction. Besides the direct influence of patients satisfaction, patients loyalty is also influenced directly by image and indirectly by service delivery system through image as a moderator variable. Patients loyalty is a point which is expected by service company because customers loyalty is a benchmark of the success of service delivery system and company image.

References


By : Prof., Dr. Armanu Toyib SE.,MM
The Influence of Strategic Orientation and Absorptive Capability on Value Creation of Courier Service Industry in Indonesia

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ABSTRACT

Objective – Explore the data and information on strategic orientation and absorptive capability on value creation of courier service industry in Indonesia.

Methodology/Technique – The nature of this research is descriptive and verification. The unit of analysis is the courier service industry, and a sample of 50 courier service companies operates in various regions in Indonesia. The time horizon is cross-sectional, where the research is done at a certain time. Primary data were collected by a questionnaire and interviews with companies executives and stakeholders. The analysis is done by using the model verification Partial Least Square (PLS).

Findings – Strategic Orientation and Absorptive Capability simultaneously influence Value Creation. Strategic Orientation has a greater influence than Absorptive Capability on Value Creation.

Type of Paper: Empirical

Keywords: Strategic Orientation, Absorptive Capability, Value Creation

1. Introduction

Indonesia has great opportunities for logistics service providers because most business segments have shown significant revenue growth in recent years. In addition, the growth of exports of goods and services in Indonesia, which had increased approximately 9.7 to 10.8 in 2011, was also considered to be one of the factors driving the growth of the logistics and transportation industry in Indonesia.

SWA Edition September 2011 stated that one type of logistics services that most needed are Express and Courier Service, as many as 90% , compared to other logistics services, namely: air shipments of 60%, 55% ground shipping, shipping by sea 55%, freight forwarding 45% and warehousing and distribution as of 45%.

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From the data Booz & Co. in 2010, in 2009 the market size of couriers detected as much as USD 10.4 trillion, which was contested by the courier players, namely Tiki by 14.4%, PT Pos Indonesia by 13.5%, and 6% JNE the other players take control of 66.1%. Thus, the market share of courier contested by local, regional and even global comparatively very large.

But the observation results show the weakness of value creation in the courier industry, because the products tend to not fully referring to the demands of the market, the creation of unique products that are more competitive when compared to competitors' products is not optimal, and it is still difficult to create innovative products that are difficult to duplicate by the competitor. The companies also yet not have a good cooperation with various stakeholders, and also they are still weak in anticipating the changes in the business environment. Meanwhile, according to Kotler and Keller (2012: 58) the creation of value has three important steps that are the creation of benefits for customers, have a business domain and the creation of appropriate partnerships with various stakeholders.

The uncover problem is the development of absorptive capability that not optimal yet, which the general ability of the company to evaluate, assimilate, and utilize external knowledge for commercial purposes, relatively not optimal. It caused by the tendency of management that has not been able to optimally take into consideration the conditions and circumstances of the company's business. In addition, the company has not been fully able to consider the strategic orientation as a basis for the development of absorptive capability. Meanwhile Tsai; Chuang; Chen (2008: 98) adopted Cohen & Levinthal, 1990) stated “A widely accepted definition of absorptive capability proposed by Cohen and Levinthal (1990) equate it with a firm’s general ability to evaluate, assimilate, and utilize outside knowledge for commercial ends”.

In addition, the weak value creation also due to the weakness of the strategic orientation, where, according to Toften, Kjell; Hammervoll, Trond (2010:109) “Strategic orientation is here understood as the strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance (Gatignon and Xuereb, 1997; Grinstein, 2008; Hitt et al., 1997). The managers are required to continuously strategic oriented with efforts such as: improvement of business performance, increased revenue, operational cost efficiency, innovation in overcoming the limitations, and the development of integrated business. Based on the statements above, it is important to investigate about the strategic orientation and absorptive capability in enhancing value creation of Indonesian courier services industry.

2. Literature Review

Toften and Hammervoll (2010:109) Strategic orientation is here understood as the strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance (Gatignon and Xuereb, 1997; Grinstein, 2008; Hitt et al., 1997). Weinzimmer, Robin, Michel (2012:82)” Strategic orientation has been defined as the inclination of a firm to focus on strategic direction and proper strategic fit to ensure superior firm performance (Barney, 1986; Gatignon & Xuereb, 1997; Pleshko & Nickerson 2008). It has also been conceptualized as a continuous and iterative process that must focus on the different effects of rational, economic, political, and subjective aspects of strategic change on competitive performance, (Porter, 1980; Whipp, Rosenfeld, & Pettigrew, 1989; Zhou, Gao, & Zhou, 2005). Liu & Fu (2011:109) from Narver and Slater (1990) strategic orientation reflected the direction of the strategy implemented by a company to produce the proper behaviour to generate superior business performance continuously.

Based on the description above, the concept of strategic orientation in this research is the business perspective that makes the customer as the center of attention in the services of the company, which the company must monitor the movement of market demands, changes in market behaviour and increase innovation in the service process to achieve competitive advantage and create superior value for the consumer.
According to Tsai (2006:160) “Absorptive capability refers to the capability of a business to manage knowledge for customers, that is, the ability to acquire, transfer, update, renew, and apply customer knowledge. Absorptive capability is extremely helpful for innovation (Wong, 1995), Cohen Levinthal (1990) defined Absorptive capability as the capability of a business to understand external information value, and to apply it for business innovation”.

Rhay-Hung Weng And Ching-Yuan Huang (2012: 609) “Absorptive capability refers to one of a firm’s fundamental learning processes: its ability to identify, assimilate, and exploit knowledge from the environment (Cohen & Levinthal, 1990). Four different but complementary capabilities that compose an organizational absorptive capability include acquisition, assimilation, transformation, and exploitation (Zahra & George, 2002)”.

Tsai; Chuang; Chen (2008: 98) adapted Cohen & Levinthal, 1990) stated that “A widely accepted definition of absorptive capability proposed by Cohen and Levinthal (1990) equates it with a firm’s general ability to evaluate, assimilate, and utilize outside knowledge for commercial ends”. Based on the above, the concept of absorption capability (absorptive capability) in this study refers to Tsai; Chuang; Chen (2008) which is the general ability of the company to evaluate, assimilate, and utilize external knowledge for commercial purposes.

Kotler and Keller (2009:79) have an illustration of value creation as follows: “to exploit a valuable opportunity, the company needs value-creation skills. Marketers need to: identify new customer benefits from the customer’s view; utilize core competencies from its business domain; and select and manage business partners from its collaborative networks. To craft new customer benefits, marketers must understand what the customer thinks about, wants, does, and worries about. Marketers must also observe who customers admire, who they interact with and who influences them”

According to Kotter and Keller (2009:79), customer value creation focus is customer (customer focus), its core competency is business domain, and its collaborative network is business partners

The Research Objectives is to uncover the influence of strategic orientation and absorptive capability on value creation of Indonesia courier service industry.

3. Research Methods

3.1 Methods

The methods used in this paper were descriptive and explanatory survey. The objective of descriptive survey was to acquire an overview of the characteristics of each variable, while in the explanatory survey, basically was used to test the truth of a hypothesis that has been conducted through data collection in the field.

The units of analysis were 50 courier service providers in Indonesia. Time horizon was cross-sectional, where the study was conducted in a single period of time simultaneously

3.2 Sample Determination Technique

The sampling method used stratified random sampling that is a sampling method which divide the population into groups that is in this case divided by geographic area. The sample taken is 50 courier service provider company operated in some region in Indonesia.

3.3 Hypothesis Testing Design

Due to the research objectives and the limitation of sample amount, then, analysis design use PLS (Partial Least Square) that show whether the strategic orientation and absorptive capability influencing the value creation in the courier service industry, can be shown from the structural model equation component or variance (PLS).
4. Discussion

This study uses the Second order Measurement Model. Appendix A describes the analysis of the measurement model of indicators on dimensions and dimensions on constructing (its latent variable).

The results of the measurement model of dimensions on each variable research show all indicators are valid with a loading factor value greater than 0.50. In addition, all indicators have concluded high reliability with composite reliability values greater than 0.700.

All dimensions in Appendix B, that used to measure these variables has a value of loading factor greater than 0.50 so it can be concluded as valid. Each dimension generates Composite reliability values greater than 0.700 so that the four dimensions can be concluded as reliable.

The result of measurement analysis showed that strategic orientation variable is most dominant measured by the dimensions of Competitor Orientation with loading factor 0.972, followed by Customer Orientation. While the measurement analysis of Absorptive Capability variables is most dominant measured by dimensions Application with loading factor 0.940, followed by evaluation. Furthermore, the results of measurement analysis shows that Value Creation variable is most dominant measured by Business partner dimensions with loading factor 0.978, followed by Business domain and Customer Benefit.

4.1 Analysis of Structural Model (Inner Model)

After the Outer Model is valid and reliable, subsequently do the testing of structural models (Inner model). Here is the value of R-Square on the construct: Structural Model on PLS evaluated using Goodness of Fit model, which shows the difference between the observed values and the values predicted by the model in Table 1.

<table>
<thead>
<tr>
<th>Latent Variables</th>
<th>AVE</th>
<th>Cronbachs Alpha</th>
<th>Communality</th>
<th>R Square</th>
<th>GOF</th>
</tr>
</thead>
<tbody>
<tr>
<td>SO</td>
<td>0.807</td>
<td>0.988</td>
<td>0.807</td>
<td></td>
<td>0.916</td>
</tr>
<tr>
<td>ACAP</td>
<td>0.767</td>
<td>0.956</td>
<td>0.767</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VC</td>
<td>0.755</td>
<td>0.984</td>
<td>0.755</td>
<td>0.916</td>
<td></td>
</tr>
</tbody>
</table>

The methods used to see the discriminant validity is the value of the square root of the average variance extracted (AVE). The recommended value is above 0.5. The table above gives AVE value above 0.5 for all constructs contained in the research model.

Reliability test is reinforced by Cronbach's Alpha (suggested value is above 0.6). Reliability results will indicate if a satisfactory score above 0.7. From the table above it is known that Cronbachs Alpha for all variables > 0.7. Thereby reinforcing the test results, that the measurement model to the above variables have been consistency and accuracy in measuring the construct.

Test R-squared (R2) aims to determine how well the inner workings of the model (structural model) were formed. According Ghozali (2011:27), the mean of R2 value of 0.67 (good), 0.33 (moderate) and 0.19 (weak) to endogenous latent variables in the model inner. This study has a value of R-squared (R2) of 0.916. This suggests that this study has inner good model, as well as GoF value of 0.916 so that it can be concluded that the model of research supported by the empirical or model fit.
4.2 Hypothesis Testing

The hypothesis being tested is Strategic Orientation and Absorptive capability influences the Value Creation in the courier service industry in Indonesia. The test results showed at Table 2 that a significant effect simultaneously of Strategic Orientation and Absorptive capability on Value Creation in the courier service industry in Indonesia (F count > F table) with R2 of 0.916.

Figure 1. Statistics of Research Model
Table 2. Partially Hypothesis Testing

| Inner Model   | γ    | Standard Error (STERR) | T Statistics (|γ| /STERR) | The Model Equation |
|---------------|------|------------------------|----------------|-------------------|
| SO -> VC      | 0.582| 0.109                  | 5.330*         | VC = 0.582SO + 0.387 AC + ζ1 |
| ACAP -> VC    | 0.387| 0.115                  | 3.347*         |                   |

Source: OUTPUT SmartPLS
*Signifikann atα=005

The partially testing show that both exogenous variables significantly influence the value creation (t statistics > 2.01) in which the influence of strategic orientation (SO) is greater than the influence of Absorptive capability (ACAP) on value creation (VC).

It is pointed out that in order to create superior value, courier service companies should increase its strategic orientation, which is supported by the high absorption capability. The results show that to improve superior value, primarily the company should increase the customer orientation, followed by inter functional coordination, entrepreneurial orientation and competitor orientation.

Results of these studies showed the dominant influence of the strategic orientation towards value creation, in line with the results of a study on strategic outsourcing process as a mixture of three perspectives shared values, namely outsourcing service-provider value, the value of the client company, and the value of the relationship, which merges toward bringing into common synergies labelled as "TVO" of business systems; thus explaining how outsourcing has moved from a comfortable economic costs and optimize business decisions transactions only to more strategic initiatives driven by governance and joint decision-making. Integrated framework of this value assessment of completeness assists company in determining the effectiveness of the outsourcing decision.

The test results reveal that customer orientation has a greater influence in reflecting the strategic orientation, followed by inter functional coordination, entrepreneurial orientation and competitor orientation. Customer orientation includes the ability of management to meet consumer expectations for on time delivery, to meet consumer expectations about the guarantee of delivery and their goods, competitive price and prompt delivery. Inter functional coordination includes the ability of management to develop a network or interconnection between branches spread all over Indonesia and between internal unit in the office, and an integrated information system that allows the tracking of goods throughout Indonesia. Entrepreneurial orientation includes the ability of management in searching for new opportunities in related freight forwarding services, adapting new services to customers, the coordination of corporate resources, make decisions in force majeure situations, the ability of employees to adopt new ideas and methods of shipment. Meanwhile, competitor orientation, include the ability of management to understand the strengths and weaknesses of competitors’ human resources, the strengths and weaknesses of competitors’s transport means, the strengths and weaknesses of competitors’s physical assets, the strengths and weaknesses competitors's partnership, the strengths and weaknesses of competitors corporate image, the strengths and weaknesses of competitors’ service product.

Nevertheless, there is an influence of absorptive capability on value creation, so that to improve the implementation of strategic orientation needs to be accompanied by an increase in absorptive capability in order to increase value creation in the courier service industry in Indonesia. It shows the need for aspects of the application of knowledge to further improve service to customers. This can be done by improving the ability of the company in the implementation of the development of knowledge-oriented business processes and goal-oriented. The application of knowledge needs to be supported by the increased knowledge evaluation that can be done by improving the company's ability to develop employee conceptual and operational knowledge evaluation program. Then supported by an improve the acquisition of knowledge: by increasing the ability of the company to enrich the knowledge that comes from the internet, newspapers, magazines, and internal sources. And further supported by an improve with the application of knowledge transfer, which can be
done by increasing the ability of the company to develop education and training programs for the employee and to socialize informally knowledge development.

The results of these studies showed the dominant influence on the strategic orientation towards value creation, in line with Ngo & O’Cass’s (2008:500) stated that “The alignment between strategic postures and business orientations forms the value creation architecture of value creation processes. The value creation architecture is a strategic space that consists of strategic postures and business orientations, which refers to “the right things to do” in creating value for the customer”.

5. Conclusion and Suggestion

Strategic Orientation and Absorptive capability simultaneously influence Value Creation in the courier service industry in Indonesia. Partially shown that the influence of the Strategic Orientation is greater than the Absorptive capability on value creation. Based on the findings of this study, expected to be a reference for academics to conduct a research development by using these findings as part of the premise in developing the framework. This research topic is interesting and to be reviewed by the same unit of analysis, but different research variables, as well as the specificity in the field of strategic management, in order to be better able to assess the business aspects of a more integrated manner.

References

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## Appendix

### Appendix A. Measurement Model of Indicators on Dimensions

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Indicator</th>
<th>Loading Factor (λ)</th>
<th>Standard Error (STERR)</th>
<th>T Statistics (λ /STERR)</th>
<th>AVE</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Orient.</strong></td>
<td>X1</td>
<td>0.982</td>
<td>0.004</td>
<td>271.301</td>
<td>0.931</td>
<td>0.985</td>
</tr>
<tr>
<td></td>
<td>X2</td>
<td>0.983</td>
<td>0.003</td>
<td>364.270</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X3</td>
<td>0.916</td>
<td>0.026</td>
<td>34.869</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X4</td>
<td>0.980</td>
<td>0.005</td>
<td>187.732</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X5</td>
<td>0.961</td>
<td>0.010</td>
<td>94.341</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Competitor orient.</strong></td>
<td>X6</td>
<td>0.897</td>
<td>0.026</td>
<td>33.943</td>
<td>0.795</td>
<td>0.969</td>
</tr>
<tr>
<td></td>
<td>X7</td>
<td>0.933</td>
<td>0.017</td>
<td>56.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X8</td>
<td>0.890</td>
<td>0.022</td>
<td>40.086</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X9</td>
<td>0.871</td>
<td>0.025</td>
<td>34.914</td>
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<tr>
<td></td>
<td>X10</td>
<td>0.888</td>
<td>0.027</td>
<td>32.923</td>
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</tr>
<tr>
<td></td>
<td>X11</td>
<td>0.867</td>
<td>0.041</td>
<td>21.017</td>
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<tr>
<td></td>
<td>X12</td>
<td>0.871</td>
<td>0.036</td>
<td>23.932</td>
<td></td>
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<tr>
<td></td>
<td>X13</td>
<td>0.913</td>
<td>0.023</td>
<td>39.095</td>
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<tr>
<td><strong>Interfunctional Orient.</strong></td>
<td>X14</td>
<td>0.979</td>
<td>0.007</td>
<td>140.907</td>
<td>0.946</td>
<td>0.981</td>
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<tr>
<td></td>
<td>X15</td>
<td>0.965</td>
<td>0.009</td>
<td>106.222</td>
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<td></td>
<td>X16</td>
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<td>142.027</td>
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<tr>
<td><strong>Entrepreneurial Orient.</strong></td>
<td>X17</td>
<td>0.916</td>
<td>0.022</td>
<td>41.577</td>
<td>0.892</td>
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<td>0.944</td>
<td>0.017</td>
<td>56.711</td>
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<td></td>
<td>X19</td>
<td>0.940</td>
<td>0.015</td>
<td>61.470</td>
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<td></td>
<td>X20</td>
<td>0.962</td>
<td>0.010</td>
<td>99.896</td>
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<td></td>
<td>X21</td>
<td>0.958</td>
<td>0.014</td>
<td>69.176</td>
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<tr>
<td></td>
<td>X22</td>
<td>0.947</td>
<td>0.012</td>
<td>77.225</td>
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<td><strong>Management of knowledge</strong></td>
<td>X23</td>
<td>0.895</td>
<td>0.027</td>
<td>33.247</td>
<td>0.824</td>
<td>0.904</td>
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<tr>
<td></td>
<td>X24</td>
<td>0.921</td>
<td>0.014</td>
<td>67.637</td>
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<tr>
<td><strong>Evaluation of knowledge</strong></td>
<td>X25</td>
<td>0.976</td>
<td>0.005</td>
<td>213.550</td>
<td>0.951</td>
<td>0.975</td>
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<td></td>
<td>X26</td>
<td>0.975</td>
<td>0.006</td>
<td>172.003</td>
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<tr>
<td><strong>Transfer of knowledge</strong></td>
<td>X27</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
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<tr>
<td><strong>Application of knowledge</strong></td>
<td>X28</td>
<td>0.963</td>
<td>0.010</td>
<td>93.002</td>
<td>0.927</td>
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<td></td>
<td>X29</td>
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<td>0.012</td>
<td>80.057</td>
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<tr>
<td><strong>Customer Benefit</strong></td>
<td>Y1</td>
<td>0.922</td>
<td>0.024</td>
<td>39.154</td>
<td>0.841</td>
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<td></td>
<td>Y2</td>
<td>0.942</td>
<td>0.011</td>
<td>83.671</td>
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<td></td>
<td>T3</td>
<td>0.917</td>
<td>0.015</td>
<td>60.500</td>
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<td></td>
<td>Y4</td>
<td>0.943</td>
<td>0.013</td>
<td>75.379</td>
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<tr>
<td>Dimensions</td>
<td>Indicator</td>
<td>Loading Factor ($\lambda$)</td>
<td>Standard Error (STERR)</td>
<td>T Statistics ($</td>
<td>\lambda$/STERR)</td>
<td>AVE</td>
</tr>
<tr>
<td>---------------------</td>
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<td>------------------------</td>
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<tr>
<td>Business Domain</td>
<td>Y5</td>
<td>0.857</td>
<td>0.031</td>
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<td></td>
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<td>0.013</td>
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<td>Business Partner</td>
<td>Y13</td>
<td>0.827</td>
<td>0.034</td>
<td>24.691</td>
<td>0.742</td>
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<td>0.800</td>
<td>0.053</td>
<td>15.160</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y15</td>
<td>0.795</td>
<td>0.049</td>
<td>16.095</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y16</td>
<td>0.852</td>
<td>0.028</td>
<td>30.317</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y17</td>
<td>0.855</td>
<td>0.026</td>
<td>32.410</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y18</td>
<td>0.930</td>
<td>0.017</td>
<td>56.226</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y19</td>
<td>0.898</td>
<td>0.025</td>
<td>35.612</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y20</td>
<td>0.848</td>
<td>0.030</td>
<td>28.589</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y21</td>
<td>0.916</td>
<td>0.026</td>
<td>35.743</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y22</td>
<td>0.883</td>
<td>0.037</td>
<td>23.996</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: OUTPUT SmartPLS

Appendix B. The Measurement Model of Dimensions on Variables

| Dimensions          | Loading Factor ($\lambda$) | Standard Error (STERR) | T Statistics ($|\lambda$/STERR) | AVE   | Composite Reliability |
|---------------------|-----------------------------|------------------------|-----------------------------|-------|------------------------|
| SO -> Interfunctional | 0.959                       | 0.012                  | 78.937                      | 0.807 | 0.989                  |
| SO -> Customer Orient. | 0.972                       | 0.008                  | 123.991                     |       |                        |
| SO -> Enterpreneural | 0.957                       | 0.013                  | 76.389                      |       |                        |
| SO -> Orientasi Pesaing | 0.960                       | 0.013                  | 76.535                      |       |                        |
| ACAP -> Evaluation  | 0.919                       | 0.021                  | 44.242                      | 0.767 | 0.963                  |
| ACAP -> Application | 0.940                       | 0.014                  | 67.715                      |       |                        |
| ACAP -> Management  | 0.913                       | 0.028                  | 32.471                      |       |                        |
| ACAP -> Transfer    | 0.844                       | 0.038                  | 22.246                      |       |                        |
| VC -> Business Domain | 0.968                       | 0.007                  | 139.238                     | 0.755 | 0.985                  |
| VC -> Business Partner | 0.978                       | 0.005                  | 193.083                     |       |                        |
| VC -> Customer Benefit | 0.955                       | 0.011                  | 85.512                      |       |                        |

Sumber: OUTPUT SmartPLS
The issue of Assessment Tax Arrears: A Case Study of the Melaka Historic City Council, Malaysia

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ABSTRACT

Objective – The purpose of this paper is to evaluate the relationship between the assessment tax system and tax arrears in Melaka Historic City Council, Malacca, Malaysia. (Local Government)

Methodology/Technique – Method used is quantitative method. With population sample of 484 885 residents (N=484,885) and a sample size of 384 residents (n=384), the instrument used to collect primary data is questionnaire. The data were analysed using Statistical Package for Social Sciences (SPSS) version 21.

Findings – With accuracy \(r= .141, p< .001\), showed that the relationship was moderate and highly significant. This tells us that the inadequacies in the tax system are one of the contributing factors towards high assessment tax arrears in Melaka Historic City Council.

Novelty – Although the issue of tax arrears in Malaysia is not a new phenomenon. However this paper specifically focuses on the issues of assessment tax at the local level, which in this case refers to the Melaka Historic City Council.

Type of Paper: Empirical

Keywords: Assessment Tax; Arrears; Local Government; Local Autonomy; Malaysia.

Local government in Malaysia is battling with several challenges pertaining to arrears in assessing assessment tax for the past few decades. This situation has weakened the management of local councils leading to increasing loss of revenue, which inevitably results in poor delivery of services.

Increasing demands imposed on local councils by citizens has increased the desire of councils to mobilize more revenues to meet the cost of providing those needs. The challenge that most local councils in Malaysia encounter is the small size of local revenue bases in addition to huge arrears in tax collection. Study findings reveal that assessment tax generates very low levels of revenue when measured against the potential. Assessment tax coverage is low as large proportions of the property tax base are not valued and less revenue is collected from rateable properties captured in the property

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tax database. The observed deficiencies with the property taxation practice call for the urgent attention of the relevant municipal authorities if the property tax is to achieve its full potential.

This study will thus evaluate the issues relating to assessment tax arrears in Melaka Historic City Council, Malaysia and to evaluate the relationship between the tax system and tax arrears.

1. Introduction

Local government is viewed as a ‘system of local administration under local communities that are organized to maintain law and order, provide a limited range of social amenities and encourage cooperation and participation (Emezi, 1984).

In many countries, local government can be seen as an important level of government. This is because local governments worldwide is a huge service provider. They provide social care, education, environment and housing (Pemberton, S. Et al, 2010). Local government derives its revenue mainly from assessment tax. The assessment tax is a compulsory contribution to be paid by the taxpayer to the local government. Taxpayers refer to the person that resides in one particular area and holds property such as houses, shops, hotels and factories (Kuppusamy, 2008). Assessment tax or property tax is generally practiced by countries around the world. Almost all the governments around the world rely to some extent on property taxes for their survival (Dzulkarnain, 2011). For instance, the property tax is the main sources of revenue for municipalities in Canada, United States and Australia (Enick Slack, 2002).

Local government occupies the lowest level in the Malaysian government hierarchy. It is a government institution that gives authority to administrate, plan and enforce its assigned responsibilities in a local area. These functions are stated in the Local Government Act 1976 (Act 171), The Town & Country Planning Act, 1976 (Act 172) and The Street, Drainage and Building Act, 1974(Act 133). Under item 4 in List II of the Ninth Schedule, the Federal Constitution stipulates local government as a subject under the State List. Hence, all local governments fall under the exclusive jurisdiction of the state government (UNESCAP). As stated in the Local Government Act 1976 (Act 171), local government could be referred to as City Council, Municipal Council or District Council.

Local government in Malaysia is to a certain extent vested with the power to create its own revenue sources. Local government’s financial autonomy is thus important since it will determine whether local government is able to provide services and development to the residents. In order to provide these services, local government depends heavily on their main income which is the assessment tax. According to part 5, section 39 of the Local Government Act 1976, the assessed tax is the main revenue of local government. Tax assessment is normally used by local government to finance its services such as in providing and building public toilets, drainage, and roads and street lightings. Therefore, the local governments must have enough revenue in order to deliver the services to the community. However, the amount of revenues that is collected by local government is decreasing due to the problem of assessment tax arrears (Pawi, S. et al, 2011).

In a situation where a local government is unable to collect its assessment tax adequately, it may affect its ability to provide the necessary facilities and infrastructure to its residents and thus they may fail to perform their functions effectively. The local government assessment tax rate is determined by the state government. However, the tax rate can vary from one local government to another.

2. Problem statement

In Malaysia, there has been limited research on the reasons why councils have a huge amount of arrears and the factors that determine delay in the assessment tax payment by the tax
payers. Even though there are a number of research done on assessment tax arrears in Malaysia, but there are limited study done in Melaka and no study has been done on the Melaka Historic City Council. With regard to the problem of assessment tax arrears in Melaka City Council (MBMB), the records showed that the value of the tax arrears from 1987 until September 2010 amounts to RM 35 million (Utusan online, 2010).

The property tax revenue has declined greatly as a share of all taxes collected in the U.S. It has also declined as a share of U.S. GDP (Hoxby et al., 2012). As in Malaysia, a report by the Inland Revenue Board of Malaysia in 2005 (IRB) showed that the non-compliance behaviour is ‘alarming’. This main problem is due to the taxpayers’ negative response on tax compliance behaviour (Saad, N, 2010).

Financial management determines the effectiveness and efficiency of local government operations. Local governments provide a wide range of services to the Community, such as waste disposal, recreation parks, sewerage and town planning. In most parts of the world, these functions may only be offered when a proper administration of assessment tax is observed. According to Lowery 1985; MacManus 1995b (as stated in Mark et al (2003), local governments worldwide are particularly concerned about the growing resistance to pay tax. Pawi, S. (2011) found that the collection of assessment tax is decreasing across the board in many types of councils in Malaysia and this has affected the quality of services provided by local government.

Kuppusamy and Mangaleswari (2006) in their study showed that the arrears in assessment tax proved to be one of the main issues faced by many local authorities. They found that in between 1996 and 2000 about 15 percent to 25 percent of the tax revenue of municipal and district councils remained uncollected. Lack of enforcement in collection of taxes was also an issue. Research done by Asmah and Emelin (2003) cited in Norli and Asmah (2006) also found that uncollected revenue such as tax arrears was one of the problems faced by many local councils. This is supported by Pawi,S. et al (2011) where they found that the property tax collection in Malaysia is unsatisfactory and the amount of revenue collected is decreasing due to the serious problem of assessment tax arrears.


Even though the local government receives grants from Federal and State government as stated in Article 156 of the Federal Constitution and is able to collect revenue from its activities such as imposing fine, rental and fees, however local government still faces financial difficulties in providing its services. Many services have been found to be inadequately performed or not carried at all (PhangSiewNooi, 1997). Mohamad Shafori Isamil et al (2006) suggested that local councils have to innovate their modes of collecting payment from taxpayers in order to ensure effectiveness of tax collection.

Henceforth, the purpose of this study is to look at the issues of assessment tax arrears in Malaysian local authorities specifically Melaka Historic City Council. This study will also evaluate the relationship between the tax system and tax arrears.

3. The importance of assessment tax collection

Property taxation is becoming increasingly important in local government as more and more responsibilities are being devolved from central to local government units. This is because taxes on property are the single most important source of locally raised revenue in many parts of the world and often seen as reliable revenue for local governments (McGuire, 2001; Sullivan, et al, 1995; Dillinger, 1992). The tax is also an important source of locally raised revenue in developing countries because the other major revenue sources such as sales and
income tax bases are being exploited by the central government, leaving local governments to rely on property tax (Bahl, 1979).

In recent years McCluskey (2000) has observed an international trend of increasing demand for public services and specifically those provided by local governments. Subsequently the growing need for revenue to finance local services has resulted in an increase in the number of countries that levy taxes on real property (Sullivan, et al., 1995). It is also argued that the increased interest in property tax is due to a growing interest in local autonomy (Sullivan, et al., 1995). Thus property tax has the potential to yield large sums that can promote efficient fiscal decision making (Oates, 2011), and subsequently enhance local autonomy.

Taxation is crucial fiscal tools to govern the country. Property taxes have a long history in the U.S. and have traditionally been used by local governments to fund local public goods, such as schools, policing, fire protection services, recreational facilities, and local roads and transportation (Hoxby et al, 2012). As in Malaysia, the property tax or assessment tax is a local tax levied on all property holdings, including shops, factories, residential, agriculture situated within the Council’s area of jurisdiction (www.malaysia.gov.my).

Taxes are an important revenue source for any government. Assessment tax is the main sources of revenue for municipalities in Canada, United States and Australia (Enick Slack, 2002). In China, they do not depend much on the financial grant of the Federal government, but on local taxes. China derived its local taxes from income, license plates and real estates. In Japan, there is an interesting inverse relationship between revenue collection and expenditure with the strong belief that local government is the corner stone of democracy and the level of government closest to the people. Therefore, it should get greater shares of revenue to meet their needs. In Indonesia, the local government received its revenues from hotels, properties, restaurant bills and entertainment and enterprises owned by local government. In the U.S. over 95 percent of property taxes are collected by local government’s municipalities. However, the degree to which local governments depend on property taxes varies from state to state. In Alabama, the property taxes make up only 20 percent of local revenue while the New England states, property taxes make up more than 80 percent of local revenue (Hoxby et al, 2012). As for Malaysia, assessment tax is one of the main sources of revenue for local government accounting for 70 to 80 percent of its total revenue, with licenses, rentals, grants, parking compounds and development charges its other sources of finance (Dzulkarnain, 2011).

4. Discussions

This section presents the analysis of primary and secondary data. The primary data refers to the analysis of the questionnaires distributed to the residents in Melaka Historic City Council, Malaysia. While the secondary data present the results obtained from the Melaka Historic City Council.

4.1 An evaluation of Assessment tax arrears of local government in Malaysia

The problem of local tax arrears is not a new issue. According to the Mayor of the Alor Setar City Council, Datuk Mat Noh Ahmad, only 73 percent of the taxpayers settle their arrears in full or in instalments. Until July 2011, the council managed to collect an average of 67 percent, which is RM25000 after inventing seizure operation from April until Jun 2011 on 143 holdings, and a total of 87 businesses and 56 residential premises were fined. It shows that there are still a number of individuals who did not respond to the actions taken by the council. In the case of the Alor Setar council, strict enforcement on their part has helped to reduce the amount of arrears. Thus, it is a good approach taken by the council when they decided to take court action in accordance with Act 171 of the Local Government Act (1976) on the business that refused to pay taxes. Shah Alam City Council (MBSA) followed suit by seizure operations to those with arrears of more than RM2000 and exceeded five-year debt (BeritaHarian online, September 1st, 2011). In addition, according to the Mayor of Kuala Lumpur City Hall, Datuk Seri Ahmad Phesal Talib the private companies owed the bulk of the unpaid arrears, amounting to millions of Ringgit. In addition, delinquency is also
prevalent amongst GLCs (government-linked companies). A religious council also owes Kuala Lumpur City Hall some RM651,000 in unpaid taxes while a rail operator and utility company owe about RM433,000 and RM317,000 respectively.

The above shows that in order to deal with the attitude of the taxpayers, the local councils need to disseminate information regarding the urgency to pay assessment tax. The citizens should be equipped with the tax knowledge and should be able to understand why they need to pay the assessment tax. Other than that, the councils have suggested that there should be programs such as “Open day” for the customers. This is to increase citizen trust on the council. When the citizens have trust in the council they will be obliged to comply with the law and pay their assessed tax.

From the researcher’s personal observation, many of the councils now have their own website, and provide adequate information on assessment tax to the public. However, the council should know that not every citizen has access to the internet, therefore printed paraphernalia such as flyers, brochures that give information on assessment tax, the tax rate and methods of payment should also be distributed to the residents, so that they may see the councils to collect assessment tax.

Other than that, for the tax system / structure which refers to the tax administration of the local council, it is suggested that the councils should find some ways on how to reach their taxpayers. This is because there are several cases where the councils are unable to reach the residents, and the letter is not delivered to the homeowner on time or not at all. For an example, for those houses that are rented out to other parties, most tenants do not care about the assessment bills that are sent to the house. They do not pass the bills to the respective house’s owners. Thus the house owners do not pay on time. There are also some cases of transfers of ownership of property that are not reported to local authorities. The Valuation department sends out the assessment bills with the old property owner name. The new property’s owner refused to pay rates with the excuse that the bill does not state his or her name.

4.2 Results

Table 1. Respondent’s Profile

<table>
<thead>
<tr>
<th>Demography</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>117</td>
<td>35.5</td>
</tr>
<tr>
<td>Female</td>
<td>213</td>
<td>64.5</td>
</tr>
<tr>
<td><strong>Age (years old)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-28</td>
<td>45</td>
<td>12.5</td>
</tr>
<tr>
<td>29-39</td>
<td>110</td>
<td>33.3</td>
</tr>
<tr>
<td>40-50</td>
<td>87</td>
<td>26.4</td>
</tr>
<tr>
<td>51-61</td>
<td>46</td>
<td>13.9</td>
</tr>
<tr>
<td><strong>Race</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malays</td>
<td>182</td>
<td>55.2</td>
</tr>
<tr>
<td>Chinese</td>
<td>73</td>
<td>22.1</td>
</tr>
<tr>
<td>Indian</td>
<td>48</td>
<td>14.5</td>
</tr>
<tr>
<td>Others</td>
<td>27</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Table 1 shows the respondents’ frequency distribution according to gender, age and race. Most of the respondents are female that is 64.5% compared to 39.5% male respondents. The respondents are also from various age groups, most are from 29-39 years group which is at 33.3%, followed by 40-50 years at 26.4%, 51-61 years at 13.9% and 18-28 years at 12.5%. There are three major races involved in this study, which are the Malays, Chinese and Indian. The frequency is 55.2% are Malays, 22.1% are Chinese, 14.5 are Indian and 8.2% other races. The majority of the respondents was from the secondary school, which were 275 taxpayers or 83.3 percent of the total number of respondents, while the respondents from higher learning institution were 16.7%.

Table 2.APA style correlation table

<table>
<thead>
<tr>
<th>Construct variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax system/structure</td>
<td>.379**</td>
<td>1</td>
<td>.141**</td>
</tr>
<tr>
<td>Tax arrears</td>
<td>.181**</td>
<td>.141**</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2 shows the results for the tax system/ structure and tax arrears relationship, with accuracy r= .141, p< .001, which showed that the relationship was moderate and highly significant. The finding shows that the inadequacy in the tax system is a contributing factor towards arrears in assessing tax on Melaka Historic City Council. For instance, the council tax administration is inefficient to handle delinquent taxpayers. The enforcement on errant taxpayers is still not effectively carried out and there are a lack of rewards and incentives given to taxpayers. What the council needs to do after several initiatives have been offered to reward the taxpayers is to carry out the seizure of moveable assets from the properties of owners who refused to pay their assessment taxes. S.Azmi& Yee, (2003) also found the tax system as the main factor contributing to assessment tax arrears. They stated that the poor tax administration resulted in poor monitoring, delayed revenue collection and substantial revenue arrears. Kuppusamy S. &Mangaleswari S. (2006) found similar results whereby the local government was seen to have poor administrative and enforcement systems that resulted in poor monitoring and delay in revenue collection.

The findings were also supported by other researchers in Malaysia such as Pawi S. et al (2011) who found that the property tax arrears crisis in Malaysia is due to weaknesses in local government financial management. The weaknesses in its financial management also contribute to local government’s poor performance and lackadaisical attitude in collecting taxes. Moreover, findings in Melaka Historic City Council also are concurrent with the findings by Aziz, A.A. & Talib,N.A (2006). In their study they found out that the management of assessment tax collection for other states such as Selangor and Perak is weak. The same situation was faced by local government in Tanzania, where political intervention and weak management led to the problem of tax valuation and tax enforcement (Fjeldstad, H.O. 2004). In America, the citizens expect the government to be more responsive. In Ghana, the issue of property records are not up to date (Elias, D.K 2010). Therefore, it can be concluded that the tax system has a positive relationship with assessment tax arrears.
Furthermore, this study found that the tax system is weak in the council studied above. It is further suggested that the councils need to find various avenues on how to reach their taxpayers. Other issues are the attitudes of the taxpayers themselves who either resist paying their taxes or avoid contact with the local authority.

From the study, it showed that the councils should be utterly concerned with the tax arrear issues because this issue is not a new phenomenon. Until recently, even though the Melaka Historic City Council has taken many initiatives and efforts to collect the arrears but their efforts were not fruitful. Therefore, it is now time for the councils come out with initiatives to attract taxpayers to pay their taxes and the same time identify and implement more effective approaches to increase the compliance behaviour. It is, therefore, suggested that the issue of assessment tax arrears can be resolved by the Melaka Historic City Council by determining the best means to reach the public, to inform them and to attract them to pay their assessment tax. The Melaka Historic City Council also can use the rewards method to attract the taxpayers to pay their assessment tax.

5. Conclusion

Study findings reveal that property tax generates very low levels of revenue when measured against the potential. This is a result of inadequacies in the administration of the tax. Property tax coverage is low as large proportions of the property tax base are not valued and less revenue is collected from rateable properties captured in the property tax database.

The findings also show that the property tax administrators are trying hard to work within the difficult conditions, as the support of the Municipal authorities is not sufficient enough to facilitate the whole property tax administration undertaking. For instance, lack of or inadequate property information is a critical problem confronting property tax systems in the Melaka case study above.

The study further observes inadequacies of non-supportive relationship among the key actors in property taxation. Property taxpayers express resistance to paying their tax bills on account of not receiving their bills on time or not receiving them at all. The observed deficiencies with the property taxation system call for the urgent attention of the relevant municipal authorities if the property tax is to achieve its full potential.

Acknowledgements

The researchers would like to thank the Faculty of Administrative Science and Policy Studies, Universiti Teknologi MARA, Malaysia and also the staff at the Melaka Historic City Council for their cooperation towards the success of this project.

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Proud day for Malacca (Thursday, October 21, 2010) The Star online


Decentralization and Local Autonomy in South Korea: Lessons for Malaysia

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ABSTRACT

Objective – The purpose of this paper is to outline some experiences faced by South Korea in the transformation towards local election and might as well become as guideline for countries that yet to experience decentralization, such as Malaysia

Methodology/Technique – The paper offers and discusses a qualitative framework for analysis of the actors, decisions and issues involved in a local election

Findings – It considers all-embracing experience by South Korea in local election as well as some brief highlights on other countries as well. The issues are grounded in the reality of practice democracy through local election that presented mixed results of successes and failures.

Novelty – This paper adds to the literature by the illustration that most countries faced similar issues and these have been exacerbated by the current political climate uprising of strong opposition. The authors suggest for local election to be implemented in segmentation instead of full-scale operation.

Type of Paper: Conceptual

Keywords: Decentralization; Public trust; South Korea; Malaysia; Local government.

1. Introduction

The famous saying of democracy as “The government of the people, by the people and for the people” by Abraham Lincoln continues to hold grounds for the existence of democratic government. Nowadays, people are very much aware of this notion, thus, voices of dissatisfaction, frustration, critiques of the present government have become stronger. Vocal expressions and aggressions are more frequently heard from every part of the world and some countries have started to react to change and to regain public trust.

As such, “good” democratic government is the one that practically “real” representation of people. This can be reflected through election for representatives in the central, state and regional levels. With this saying, decentralization is one of the practices in democracy by the transfer of administrative and financial powers from central government to the sub-national government. The attempt to transfer responsibility of the higher tier of government to the...
lower tier has been done by more than 75 countries around the world in the last quarter century (Ahmad et al., 2005). There have been initiatives to enhance accountability and delegate greater level autonomy at the local level (Haque, 2008). Ahmad et al. (2005) concludes that decentralization establishes a new relationship of accountability amid national and local policy makers and between citizens and elected representatives. This, authority and responsibility are devolved, resources and services are transferred to various levels of local governance (Haque, 2008).

As shown in Table 1 below, it can be derived that the implementation of decentralization is sensitive to distorted and have mixed outcomes due to the design of the decentralization policy itself, deadlocks in implementation, and cultural restrain (White, 2011; Ghuman & Singh, 2013). Ramesh (2013) concluded that most of the findings on the impact of decentralization are largely negative.

Table 1. Expected outcomes from decentralization

<table>
<thead>
<tr>
<th>No.</th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Limit the size of the public sector</td>
<td>Does not limit the size of public sector</td>
</tr>
<tr>
<td>2</td>
<td>Negative effect on corruption</td>
<td>Does not mitigate local-level corruption</td>
</tr>
<tr>
<td>3</td>
<td>More responsive to citizen preferences</td>
<td>Inherently destabilizing (especially when lower levels of government is expected to respond to the needs of ethnically or culturally heterogeneous population)</td>
</tr>
<tr>
<td>4</td>
<td>Can limit conflict and protect minority rights</td>
<td>Inefficient due to multiple intergovernmental transfers</td>
</tr>
<tr>
<td>5</td>
<td>Forces intergovernmental competition</td>
<td>Associated with slower economic growth and lower foreign direct investment</td>
</tr>
<tr>
<td>6</td>
<td>Improved the access and quality of public service delivery</td>
<td>Unsatisfactory access to service</td>
</tr>
<tr>
<td>7</td>
<td>Improved efficiency of service delivery</td>
<td>Deterioration in quality and not improve efficiency</td>
</tr>
<tr>
<td>8</td>
<td>Improved administrative innovation</td>
<td>Reverse decentralization or re-centralization</td>
</tr>
</tbody>
</table>

Source: Reorganized from White (2011), and Ghuman and Singh (2013)

Although, the plea for decentralization is seen in several effort to urge the government for decentralization, scientific studies on the effect of decentralization has not been explored and justified. This paper focuses on qualitative assessment of the decentralization process as experienced by South Korea and what/how Malaysia can gain from South Korea. This paper hopes to answer some issues regarding local election that is, (1) why local election persists although the outcomes were not encouraging? (2) Is there a need for local election? (3) Can decentralization increase public trust and accountability? Both countries possessed several similar characteristics, especially in political dimension and economic matters, although South Korea accelerated faster in its economy compared to Malaysia. As such, South Korea’s experience in local election is a valuable lesson for Malaysia.

2. Yes or no to a local election

The road for local self-governance by Malaysia’s local government is a long and winding journey. British occupation in Malaysia is reflected in every segment of government administration. Local government is a state matter. However, federal dominance succeeded in withdrawing local election through the law that governs local government. The last local election witnessed in Malaysia was in 1965 for Kuala Lumpur City Hall (DBKL).
The call for local election has never diminished in the Malaysian scenario. This was evident and become prominent with the formation of Pakatan Rakyat, a group of opposition parties. Pakatan Rakyat took over several states in the general election of 2008 and 2013 (five states in 2008 and three states in the 2013 general election respectively). In these elections, the opposition manifesto included reintroducing local election. Beginning with the victory in several constituencies the opposition states ruling government demanded for local election to be held in Selangor and Penang. However, the effort to bring back local election in Malaysian local government faced a downturn when the demand was turned down by the court in 2014 based on Section 15 of Local Government Act 1976 which clearly forbids any local authorities to hold their own local election. There are two aspects in local government election in Malaysia, which is whether to concede to public demands to have local election, or, continue with the status quo.

The present political turbulence in Malaysia is mostly contributed by the prosecution of the former Deputy Prime Minister, Datuk Seri Anwar Ibrahim in 1998. Since then, there has been an outcry for “just” Malaysia, and this call has never been recorded. Demonstration in the name of BERSIH 1, BERSIH 2 and BERSIH 3 provides evidence of public dissatisfaction towards the ruling government. One of the main calls in the series of BERSIH is to have elections that are free from manipulation, and to introduce local elections. As in South Korea, the introduction of local election has opened up the local political arena for greater local participation. Several improvements and disclosure in local government has been exercised despite progressing slowly. For example, beginning 1996 local citizen can request for a disclosure of public information, can present a petition to revise or abolish local ordinances bylaws from 2000, local government to present local budgeting process from 2004 and local government expels incompetent local executives from 2006 (Bae, 2009). Every local government in Korea maintains the same mechanism and election was done for the mayor and councilors whereas the rest of local officials are appointed based on merit (Chong-Min, 2006).

The ill-side of decentralization, if Malaysia is to adopt local election, centers around some imminent issues related to the opposition parties. It will not be a surprise if the local election is introduced by Malaysian third tier government for the political party affiliated candidates to dominate the candidacy for mayor and councilors as in South Korea. People are unhappy that candidates are mostly party-based. Then displeasure is shown through low voter turn-out and this issue is still unsettled in Korean local government. Voter turn-out for sub-national election decreased subsequently for the last eleven years. The rates were 68% in 1995, 53% in 1998, and 49% in 2002, before rising slightly to 51% in 2006 local elections (Chong-Min, 2006). Politicization of local election for the mayor and the councilors was largely criticized and downgraded the spirit of local accountability in Korean local government. Since the introduction of a local election, a majority of the mayoral candidates has been from political parties dominating the respective regions (Chong-Min, 2006; Hermanns, 2009). As an example, the Yeongnam region is one of the strongholds of the Grand National Party (GNP). In this region the GNP contributed 50% of the mayoral candidate in 1995, 68% in 1998, 87% in 2002 and 86% in 2006 (Chong-Min, 2006). Thus, effective competition was hardly evidenced in a local election. Local issues have also not been given due attention during local election, which were instead dominated by the national issues (Chong-Min, 2006; Hermanns, 2009). In a study of five major cities in Korea, results showed general disappointment of the citizen by the politicization of a local election. A survey done in 1999 showed 56% respondents disagree with political party nomination of mayoral candidates, and this increased to 60% in 2001 before declining to 52% in 2005 (Chong-Min, 2006).

Malaysia’s local election may affect accountability and public distrust. Politicization of local election has happened in most of the countries that practiced local election. Corruption, scandals, mismanagement, eroded accountability were among the issues that clouded Korean local government and Malaysia may experience the worse if political parties decide to dominate the local election. Bribery, scandals of officials and elected councilors and violation of election laws have also caused erosion of trust in the Korean government agencies. It is reported that only a quarter of Koreans trust local government and 40% consider local government officials to be corrupted (Hermanns, 2009). The Korean local government
practice strong mayor, weak council system. Since the introduction of local election, the mayor has had more power, has authority to appoint local bureaucrats, submit a budget of expenditures and revenue as well as veto power to overrule ordinances passed by local councils (Chong-Min, 2006). The mayor can outshine councilors and can offer councilors, some delegated authority in turn of their support (Chong-Min, 2006; Hermanns, 2009). In this sense, individual bureaucrats may also develop a personal exchange relationship with the mayor for individual favor (Chong-Min, 2006).

3. Discussion

Should local election been practiced in democratic countries? Can we say that the rhetoric behind the idea of local autonomy for most citizens, especially among the opposition parties are to have local election for local government, and, with this in mind, most of the idea is to get control of the government and not so much on the local level administration? The discussions on decentralization and local autonomy should not be centered on the idea of ruling party versus opposition party that in such a way may hinder the spirit of democracy and public participation. By saying this, several highlights need to be discussed and explores.

The idea of democracy is to have better representation of people in the government. Candidates for political offices are elected by the public. Countries around the globe, whether they are developed or less developed countries that practice democracy give the rights of election to the people in order to choose political leaders at central, state and regional governments. This forms one of the rights of the people. ‘Democratic deficit’ in Hong Kong after 1997 increase public distrust towards governance of the country (Cheung, 2013). The theory of human rights propounds that everyone has basic rights and these rights should be protected. Sen (2004), states that the human rights theory needs to be observed. In this sense, human rights relate to freedom, but it must qualify for some conditions of special importance and social influences. To name a few, Indonesia, Cuba, Uganda, India, Sri Langka and Bangladesh or Chile experience local election. In fact, Malawi has recently reintroduced local government election for councilors in 2014 after a short lapse since 2005 (Dulani & Dionne, 2014). However, Indonesia’s recent development sees the parliamentarians proposed the idea of reverting to indirect election for the provincial governors and district heads/mayors of local government (Arifianto, 2014) and the proposed bill for indirect election prevailed on September 25, 2014 voted 226 in agreement for indirect election and 135 against.

The principal of subsidiarity advocates that local people should manage and that the management should be at the local level or as close as possible to the community (Shah & Shah, 2006). Faguet (2011) argues introducing locally elected government will narrow the jurisdiction served by government and also taper with the scope of public activities at local level. Figure 1 (Bae, 2009) shows the contribution of decentralization and local democracy in South Korea. The practice of decentralization showed sharp improvement in delegation, local capacity building and citizen participation.

![Figure 1. Contribution of decentralization and local democracy in South Korea](image-url)
Can local election increase public trust in government? Studies showed that public trust fluctuates and mostly depend on the performance of government. The ruling government needs to gain and maintain public trust through several effective mechanisms and decentralization and local autonomy is one of the solution. Public choice theory presupposed that if there is value in politics, people will invest resources and effort to capture this value (Buchanan, 2003). The public is more knowledgeable nowadays, and is professed in the determination for self-governance and local autonomy. In her study, Burlacu (2014) concluded that economic growth and good governance are both important demands in deciding the election of the government. When both fail, opposition party seems a better option.

Distinct differences exist in the topic in Malaysia and Korea. Malaysia, as a new face in this local election experience (although there has been a history of local election until 1960s) need to be handled in order to prepare for a smooth implementation towards local self-governance.

First observation is the existence of federal dominance in Malaysian governance. This dominance can be seen during the drafting of federal constitution where the first suggestion was to maintain a strong central government and states will have some kind of autonomy. The minor role of states is shown by their restricted control over the amendments to the constitution, which can only be made by the Parliament and must command not less than two-third majority support in each house (Milne & Mauzy., 1978). These limitations were evidenced in almost every sphere of government administration and revenue distribution (Kuppusamy, 2008; Wah, 2010; Yeoh, 2012). Nevertheless, the Federal Constitution of Malaysia has mentioned that local government comes the jurisdiction of state government. The situation has become worse for local government and local election seems almost non-existent or impossible since 1965. Election matters have been shifted to The National Election Commission (SPR). When the state of Selangor and Penang requested for local election to be held in their respective local authorities, it was turn-down by The Election Commission stating that it was non-constitutional.

Thus, in order to have a local election, these backlogs need to be addressed first, that is, to win the confidence of the Members of Parliament for the amendment of Article 113-120 of the Federal Constitution. As experienced by South Korea, it is better to have local election for newly established councils in the first place before moving on to the existing councils. As for Malaysia, the first step maybe in terms of local election for city councils only. This can become a mirror on how to handle the same local election for other types of local authorities.

One of the important scenarios in Malaysian politics is the emergence of opposition political party of Pakatan Rakyat (PR), Democratic Action Party (DAP) and Parti Islam SeMalaysia (PAS) to deter the dominance of Barisan Nasional (BN) in government. The Pakatan Rakyat was able to win five states during the 2008 national election and three states in the 2013 election. Thus, among the manifesto of Pakatan Rakyat is to have local election for local government in order to have better representation at the lower level, but, due to the constitutional constraints, the local election never took place in their respective states. Moreover, the coalition of these three political parties did not exist on a stringer ground. Additionally, each political party in this alliance has prominent and strong political figures that attract their own supporters. Thus, clashes of opinion and disagreement on certain policy matters keep emerging and the latest conflict is on the issue of the Selangor Chief Minister. With unresolved and ongoing conflicts, it is quite impossible for the local election to take place.

4. Conclusion

Alexis de Tocqueville (1835) stressed that local democracy is “in the township as everywhere, the people are the source of social powers, but nowhere do they exercise their power more immediately” (Hermanns, 2009, 218). In order to exercise healthy democratic system, local government and civil society are integral parts in democracy and decentralization is the best practice to change the relationship between the state and society. In this sense, Europe, North America, Asian countries, China and some Islamic countries
faced pressure for political and administrative decentralization in the 1970s. For better representation and to encourage accountability, some countries have introduced certain forms of local democracy (Bae, 2009). Experiences of countries around the globe in decentralization and local autonomy should be a guideline for Malaysia in its move towards local election. Public outcry for better representation at the local level should not go unnoticed. Better precautions and strong leadership at the federal level can bring local election close to reality.

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References


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