



PROCEEDINGS

The 1st International Conference on Economics,
Business, and Management Research (ICEBMR 2017)

18-21 November 2017

Yogyakarta, Indonesia

SUSTAINABLE INNOVATION COLLABORATION IN ECONOMICS, BUSINESS, MANAGEMENT, AND INFORMATION TECHNOLOGY

Editors:

T. Handono Eko P., MBA., Ph.D.

Sudi Mungkasi, Ph.D.



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The 1st International Conference on Economics, Business, and Management Research (ICEBMR 2017)

Master of Management, Sanata Dharma University, Yogyakarta, Indonesia

PREFACE

Master of Management, Sanata Dharma University, Indonesia is pleased to host: The 1st International Conference on Economics, Business and Management Research (ICEBMR). ICEBMR 2017 theme is “**Sustainable Innovation Collaboration in Economics, Business, Management, and Information Technology**”. The conference is designed to discuss the importance of interdisciplinary research, innovation and its role in overall growth and sustainability of societies and countries. We invite scholars, researchers, practitioners, and students to join us and share new innovative studies and trends. Throughout the conference, the multiple impacts of the sharing economy will be discussed as to individual behaviors, industry and competition and public regulation. We expect to obtain various inputs and findings that can provide insights for policy makers and businesses to **serve** societies and countries in a better way.

Papers presenting research results as well as pedagogical, survey, business or community experiences on the following topics (but not limited to) are welcome:

1. Business Management, International Business and Legal Studies	8. Operation and Supply Chain Management
2. Social Business and Entrepreneurship	9. Behavioral and Management Accounting
3. Microfinance, Credit Union, Banking and Finance	10. Nonprofit and Tax Accounting,
4. Financial Management, Economics and Social Sciences	11. Corporate Governance and Forensic Accounting
5. Information Technology and System, E-Business	12. Strategic Management and Organizational Behavior,
6. Business Ethics and Social Responsibility Management	13. Human Resources Management and Leadership
7. Marketing and Green Business	14. Applied Economics and Management
	15. Tourism Management
	16. Other issues

All papers presented in the conference will be published in the proceedings e-book and printed with ISBN.

Yogyakarta, November 17, 2017

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BICOL BUSINESS BOOMERS: THE CONTEXT OF REGIONAL ENTERPRISE DEVELOPMENT PERSPECTIVES

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ABSTRACT

The purpose of this research is to anthologize six of the Bicol Region's outstanding entrepreneurs who were recognized as Halyao Awardees by the Metro Naga Chamber of Commerce and Industry in the Philippines between the years 2012 and 2013 for having attained the highest degree of entrepreneurial management excellence and strong corporate social responsibility in their respective business practices. The context of the study is anchored on regional enterprise development perspectives where narratives of experiences surrounding the life of the entrepreneur and their environment were analyzed through the lens of McKinsey's 7S Model. Based on the findings, the author proposes that participants in the study have developed advanced entrepreneurial worldviews that underlie their motivation and capacity for effective entrepreneurial leadership. In addition, implications for instruction are presented, particularly the inclusion of each narrative cases to instructional format in business curriculum to provide context for academic discussion among students of entrepreneurship and have them learn the wisdom from the best practices revealed in these entrepreneurs' individual life story.

Keywords: *Entrepreneurial management excellence; enterprise development; entrepreneurial leadership; entrepreneurial worldviews.*

1. INTRODUCTION

Entrepreneurs create new businesses in the form of goods and services. Notable increase of entrepreneurial activities in the most recent times has made observable business boom in the country-sides. These created a multiplier effect to the local economic development in the regions by generating local employment,

value-addition to gross domestic product and improvement in the quality of life.

Globalization in business has totally changed the face of how functional business enterprises operate. Companies have become more and more versatile in their approaches to strategizing management operations to achieve optimum profitability and sustainability. However, as competition draws slowly, the value-addition opportunity also has become inversely growing, forcing rival companies to divest or simply explore innovative efforts through entrepreneurship to survive. Entrepreneurship enables individuals to exercise full economic freedom to participate in the industry for value creation and wealth accumulation. Other effects of globalization include the rise of entrepreneurial companies and developing markets due to recent adoption of liberalized economic policies breaking up boundaries in global trade and investments.

In the context of the Philippines, entrepreneurial companies have learned the ways of the giants. Big companies became the leading source of benchmarks among small firms specifically, on strategic management operations. More and more entrepreneurs have considered these big companies as mentors, rather than as rivals. Prevalence in this context was showcased in the unique stories of the six outstanding Bicolano entrepreneurs who, despite the challenging grip of competition, their entrepreneurial businesses remained profitable and sustainable.

The purpose of this research was to investigate cases of outstanding entrepreneurs



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who had unique experiences and balanced perspectives on the practice of entrepreneurship. In an attempt to provide a lens that harmonizes the themes that unfold in each of the cases, the study reviewed the three dimensional aspects of enterprise development model proposed by Roberts (2003). In his Dynamic-Fit model, he proposed that at the developmental stages of the enterprise, the entrepreneur, being the man of all the actions, must have attained superior skill in integrating the three major drivers of the enterprise, namely; his vision and strategy, the people he is connecting with and his organizational processes. These three dimensions were proposed to drive positive impact on entrepreneurs in the movement of the economy while increasing varying levels of competition as more and more budding entrepreneurs join in the web of domestic markets. Likewise, the influx of informal enterprises born out of necessity or sheer desire to create wealth has also shrunk opportunities for success due to increasing levels of competition. Therefore, as the market attains saturation point, all entrepreneurs are forced to re-assess their operational capabilities, redefine their vision and re-orient on their enterprise strategy to fine-tune their desirable goals and objectives. Hence, the process would lead to enterprise integration, where all movements and decisions are geared towards cutting down costs to be more efficient in the utilization of resources. As enterprises evolve and grow, increasing propensity to formalize systems of operations follow. Standards and operating procedures would also begin to take shape. Similarly, specialization of skills among the workforce would become more increasingly necessary. However, there would be more and more talented people needed by the enterprise to get more things done. Workers' quality of life will significantly improve as their employment becomes more stabilized. As enterprises scale up and develop, so does the upswing of the local economy.

The study considered Bicol Region as the nexus of abstraction providing students regional entrepreneurial perspectives and alternative lenses to entrepreneurship education. Initially, there were twelve (12) qualified participants short-listed however, only six (6) have willingly provided relevant information for the case compositions. These six (6) participants were recognized as Halyao Awardees within the years 2012 and 2013 by the Metro Naga Chamber of Commerce and Industry for having attained the highest degree of management excellence and sound corporate social responsibility. In an attempt to anthologize the unique individual entrepreneurial experiences of each participant, stories reported were harmonized by following the McKinsey's 7S Model developed by Peters and Waterman (1980). The 7S model comprised of seven components categorized as *hard* and *soft* variables.

Having applied the model in each case composition, it became more evident that the components would reflect synergistic interaction among themselves such that, a significant change in one component would result to considerable change on another. In so doing, the cases reflected certain entrepreneurial worldviews offering direct challenges to practicing entrepreneurs who may find rich opportunities for reframing their individual mindsets instigating in them an enduring entrepreneurial behavior.

2. LITERATURE REVIEW

Much has been written about business playing a vital role in the development of society (Flanders, 1945). But, hampered by inadequate knowledge, management skills and the right attitude to engage in some form of business, only a few good aspiring individuals would eventually emerge as entrepreneurs who would have developed over time game-changing qualities, high risk-taking behavior and innovative approaches to decision-making. In particular, most entry-level entrepreneurs



would find it hard to advance and scale up to create the needed impact for their entrepreneurial ventures because obviously, they lack advanced skills to cross thresholds towards growth stages resulting from the changing nature of activities, functions, roles and enterprising initiative (Longenecker, Petty, Palich and Moore, 2012). To further explore and shed more light on how enterprises evolved over time, a review on enterprise development indicators could probably better address how growing business enterprises are able to hurdle obstacles and eventually gain sustainability level. The context can be best enlightened by Lawrence & Lorsch's (1967) integration theory which suggests that for the enterprise to achieve solid moorings, all efforts among major functional specialists in business must lead to excellence in performing the job. It includes resolving interdepartmental conflicts, facilitating decisions and setting up quality standards, to name a few. Such a model was modified in Roberts (2003) Dynamic-Fit Model providing blended dimension of managing growth in enterprise development perspective. These three major constructs served as the harmonizing themes of attempting to put together the life and character of the entrepreneur in a regional setting. These perspectives were in view of the *entrepreneur's role* to manage, create the *vision and strategy*, harmonize the *organization* through the use of his/her capital resources and the ability to deal with *people* to get things done ensuring that all delivery systems contribute to the attainment of organizational objectives.

2.1 Role of the Entrepreneur

Central to the theme of enterprise development is the role of the entrepreneur in every business undertaking to fulfill responsibilities and satisfy the needs and wants of society beyond profit maximization and wealth creation (Shum & Yam, 2011). Prevalent among these responsibilities is to

contribute positive effect to economic development and improvement in the quality of life through job creation. Handy (2002) acknowledged the fact that, "the purpose of a business is to make profit so that business can do something more or better to society". In a way, the entrepreneur drives business as having moral obligation to fulfill and, in support to such claim, Stoner (2015) asserted that "like any other organizations, business enterprises are intended to serve humanity and not simply shareholders' interest or other narrow interests of an entrepreneur."

But a more pervasive view could be traced to Sebastian's (2010) claim that the entrepreneur's passion and pragmatic approach to doing business in the process have proven that doing business even looks beyond its capacity to generate income and employment. It can also be an alternative approach to development. Motivated by this noble end, increasing number of individuals have enjoyed the freedom of exploring opportunities by taking innovation and change with ample flexibility over time within the continuously changing business environment.

Even before these claims, Williams (1999) noted that increasing interest in entrepreneurship as a new discipline has stimulated business community leaders' belief that it will be the defining trends of the 21st century. Manifestation of this trend was triggered by the recent changes in the global scene, where closed markets like China, India and Russia have reportedly liberalized and opened its doors to new opportunities in trade and investments. The huge challenge among new players reposed primarily on their lack of capacity to manage and put the business enterprise into scale. The lack of managerial competence, lack of access to cutting-edge technologies and lack of propensity to acquire new skills applied to business development have reduced significantly the entrepreneurs' chances of gaining sustainable position such



that the enterprise is always on the brink of survival.

2.2 Vision and Strategy

Traditional entrepreneurs trusted so much on their intuition when they make decisions and never kept some form of a plan. Others rely primarily on sheer chance of good fortune or luck. Planning was never an effort to consider not until Fayol (1949) defined planning in his maxims of management simply as “the manner of looking ahead.” In like manner, Porter (1954) emphasized that planned change for organizations provided strategic imperatives where entrepreneurs put premium on the analysis of environmental dynamics and take on the best position where the enterprise can build a source of competitive advantage. “When entrepreneurs’ and managers’ plan and design a strategy, they usually project themselves and their organizations into the future creating a path from where they are now to where they want to become years down the road (Luehrman, 1998).

In a more academic viewpoint, Drucker (1995) suggested planning as a way of asking the relevant question, “What is most likely to happen in the future?” It is an objective interpretation of a vision which expresses commitments embedded in the entire organizational strategy. In this case, strategy requires careful matching with the business environment. It involves knowing what requires to be understood in order to determine the organization’s role in it (Iansiti & Levien, 2004). Planning requires mind-sets of getting things done preferably in a collaborative manner with other people in the organization. Every entrepreneur who manages business has to combine two mindsets – that of action and of reflection. Finding ways to combine the two at some point will create managerial mode where reflective thinking meets up with practical doing (Gosling & Mintzberg, 2003).

In effect, this organizational strategy is

translated to collective pieces of decisions that when executed also commit to future resources of time and money for the attainment of desirable objectives. In most recent times, increasing number of entrepreneurs keep one just as short, or as long, as the distance to which their infused capital can take them. Yunus (2007), even cited that most business managers and entrepreneurial leaders were often pre-occupied with raising of funds and capital instead of setting organizational direction and strategies for the attainment of organizational goals. This ongoing challenge is oftentimes driven by a strong desire to let the business grow. But, such preoccupation must have solid moorings, providing clear foresight, wide-stretching and forward-looking direction.

2.3 On Organization

Relative to lack of vision and strategy, another challenge that entrepreneurs face in developing the enterprise is the emergence of a new way of life characterized by the proximity and dependency among those who have joined in the organization to perform specific roles and tasks. Scott (1961) suggested the notion that, the enterprise must evolve as a vehicle for accomplishing goals and objectives. “It must be viewed as an organization that increases stability in human relationships by reducing uncertainty regarding the nature of the system’s structure and the roles the members play.” Critical to such role is the selection of personnel who can handle the changing dynamics in size and growth of the organization (Day & Lord, 1988; Samuelson et al., 1985) Scott’s classical doctrine of organization is built around four founding principles, namely: division of labor, the scalar and functional processes, structure and span of control. The pioneering study of Gilbreth & Gilbreth (1924), reported profound discussion on classifying the elements of work resulting to division of labor in which organizational tasks and functions were arranged according to sub-divisions, distribution of power and



control and, cycles of motion to bring about positive effect to organizational performance (Pfeffer & Salancik, 1978). In relation to division of labor, Bennis (1966) explored the scalar and functional processes of the organization concerning vertical and horizontal growth requiring specialization and departmentalization of functions that defined chain of command, division of labor based on competence and a system of procedures and rules for dealing with all contingencies relating to work activities. Having articulated fully the extent of functional processes, Barnard (1966) proposed that authority comes from the willingness of subordinates to accept it and contribute to the affairs of the organization channeled either through line authority form of communication or staff authority. Mintzberg (1983) also suggested that organizations use structures to coordinate all members' activities and in the process exert controls to harmonize all elements in the organization. In support of this view, Longenecker, Petty, Palich and Moore (2012) advocated that structure defines relationships among all members of organization and arranges all functions efficiently into logical relationships to share the responsibility of accomplishing the objectives of the organization effectively. Responsibility sharing entails answering the question, "How many employees can a manager effectively and efficiently manage?" Determining the span of control is very important as it determines the number of levels and managers needed to run the organization. Sherwin (1956) claimed that span of control is about delegation of power and authority cascaded in all levels of management within the organization. In the context of a growing organization he proposed that the essence of control is action that adjusts operations to established standards and the basis of which are the information in the hand of the business owner serving as the basis for decision-making which, often times, is delegated to the managers.

2.4 People

Entrepreneurial business owners, managers and employees are people components in an organization. People in organization are the greatest sources of competitive advantage in accomplishing management tasks (Drucker, 2002). Entrepreneurs and managers alike must harness human energy to manage the organization and direct all efforts of employees by motivating them, controlling their actions, modifying their behavior to fit the needs of the organization to effectively attain its nature and intended purpose (McGregor, 1957). Recruitment and selection of the right people to join the organization establishes the foundation for healthy human relations. Entrepreneurial organizations usually move ahead with competition because they recognize that there is no getting around on hiring talented applicants. When entrepreneurial businesses are expanding, hiring and holding on to the right people can make or break a business (Longenecker, Petty, Palich and Moore, 2012). Oftentimes, employees' problems of coordination and customer relations are relatively simple at the start however, as the organization grows bigger, relationships become more complex and much more difficult to address (Whyte, 1949). In the beginning, only a few entrepreneurs probably imagine going public when they finally structured their business organization. Most business start-ups usually start out as sole proprietorships, others form partnerships and corporations as co-founding owners. From the start, the eventual growth and success of an evolving business hinge on overlapping strengths of its founders, the commitment they have to one another and their vow that the structure of the business should be handled professionally over time. Scholars such as Albrook (1967) noted that management style could influence employees' behavior which should be determined not so much by the nature of the particular business



operation but, by the personality traits they wear on themselves.

3. RESEARCH METHODS

The study used exploratory research method and descriptive qualitative survey (Creswell, 2009). Primary sources of information was solely generated from a 10-question interview schedule reinforced by semi-structured phone calls and face-to-face recorded conversation. Secondary data sources were also explored for documentary analysis pertaining to the business profile of each participants. These were provided by the Department of Trade and Industry (DTI) records apart from confirmatory interviews conducted applying the principles of naturalistic inquiry suggested by Lincoln & Guba (1985). The interviews lasted for an average of 45 to 60 minutes per participants and transcripts were made after the course of the interviews.

First, in order to classify, analyze and interpret the qualitative data, thematic analysis process (Braun & Clarke, 2006; Creswell, 2009) was utilized through the lens of McKinsey's 7S Model developed by Peters and Waterman (1982). McKinsey's 7S Model provided framework in the presentation of case narratives which were supported by diverse interview quotations serving as primary evidences in each cases. Each case starts on the premise that an enterprise as an organization is not merely a structure but formed according to two major components of *hard* and *soft* variables. Hard variables are composed of *strategy*, *structure* and *system*. These are visible indicators of the enterprise's internal strengths and weaknesses as they provided coherence of ideas, behavior and practices. It also defined the organizational dynamics providing alignment of all processes which enabled the entrepreneur to acquire capacity for entrepreneurial leadership, greater flexibility in preparing for future organizational changes and develop the ability

to integrate vision, strategy and resources. In contrast, *soft* variables are more difficult to change as they are anchored on cultural dimension of the enterprise and the most challenging components in the change-management strategy as these are considered evolving, developing and constantly changing. These are *styles*, *skills*, *staff* and *shared values*. It is important to note that certain depth in understanding is required on the real dynamics of the organization's soft components as these underlie values that drive organizations impacting on decision-making of all management levels.

Finally, the narratives in the cases presented were synthesized to draw collective findings and implications of results in view of Roberts' (2003) Dynamic-Fit Model. The three components of the model served as the major themes of harmonizing empirical results depicting a regional enterprise development perspective which breathed life to the cases as reported.

4. RESEARCH FINDINGS AND DISCUSSION

This exploration was based on theoretical insights from several entrepreneurial worldviews related to innovation, enterprise development, job creation, opening of new markets and organizational integration through the lens of McKinsey's 7's Model. At the intersection of these viewpoints lies a phenomenon known as *entrepreneurship* that drives the engine of an economy to prosperity and good life to the people. Crucial to this development is a wider understanding on the role of the entrepreneur towards his enterprise, the people he is connecting with and his strategic policies and decisions in moving the organization forward. The individual accounts of outstanding entrepreneurs interviewed in the study provided perspectives of their own version of management excellence and sound corporate social responsibility, charting their way towards sustainability.



4.1 Innovation Perspective

Among the most enduring characteristics common to the six Bicol entrepreneurs is that they all possess creativity and a strong sense of flexibility to adapt to change. They are adept to new market trends as influenced by modern technologies such as the use of the multi-media and web-based applications. These enterprises were able to find suitable market niche which allowed them to withstand competition. This particular adaptability is tapered by their strong adherence to the local tastes and preferences of their clients where most of their business activities draw profit from. They have also learned to develop the ability to produce suitable products or services that enjoy the local brand space in their respective region making it more difficult for national brands to gain market space. Irrespective of which situation led these individuals to become entrepreneurs, it is clear that innovative character permeates in each one of them, and this is the driving factor for contributing huge impact on the local economy.

4.2 Enterprise Development Perspective

Notably, the six entrepreneurs started their enterprises with no signs of formal beginnings. Guided by the unseen hand leading them to opportunities, just like any other informal enterprises, the early beginnings were always rough and very challenging. Yet, motivated by sheer desire to create wealth, the process oftentimes would always either hit or miss the target. But, common to their early practices, the ability to respond to opportunities were always focused on serving their customers better. Substantially, their desire to improve the service delivery areas were apparently customer-centered and were anchored on advanced practices in pursuing continuous improvement involving internal operational capabilities, re-orientation of the enterprise strategy in attaining their goal, that is,

desirable value addition. Surprisingly, as activities become more complex and diverse, it became apparent that the participating entrepreneurs developed new skills-sets of managing their enterprises. They have learned to rationalize specific roles of jobs, have become more cost-conscious and were able to integrate enterprise activities, where all movements and decisions positively contributed to attaining higher level of management efficiency. As enterprises evolve and scale up, increasing propensity to formalize systems of operations follow. Standards and operating procedures also take shape. Likewise, specialization of skills among the workforce become more increasingly necessary. However, there are more and more talented people needed by the enterprise to get things done. In effect, workers' quality of life significantly improve. As their employment become more and more stabilized, so, does the economy that brings in good life.

4.3 Job Creation Perspective

One of the more evident reasons why the participating entrepreneurs decided to stay as they are now, is the fact that, as they would unanimously claim, they were unable to find suitable jobs for themselves. But by being extremely passionate and creative enough to find out what works and what does not, they are always able to land on a market niche that generate desirable income. It is on this behavioral cycle that they are able to create employment opportunities for individuals. This is the power that entrepreneurs contribute to the local economy – creating jobs and helping in reducing unemployment.

4.4 Opening of New Markets Perspective

One of the major impacts of globalization is the establishment of new entry-pots strategically located in major cities around the world. As integration of economies continue to



shape the destiny of global trade, entrepreneurs often tend to look for new markets that are outside of their domestic sphere to generate foreign revenue, thereby increasing the impact in the economy as a whole. In the context of the study, the entrepreneurs had limited windows for expansion. One of the more basic reasons is attributed to the very nature by which the enterprise was founded. Common to these enterprises is being family-oriented, except for one participant that pursued social value creation through cooperativism. Two of the six participants revealed that the most effective entry to new markets is through franchising. One has established 24 outlets in less than 20 years and the other with 14 outlets in the same period. Franchising, as a business model, revealed significant impact in terms of scale to new market access. The other four remaining participants had simply used the more traditional avenue of expanding the business through establishing satellite branches in nearby cities and preferred locations. But for franchising, as it is crucial to the management of this enterprise, the entrepreneurs would undergo tedious process of standardization and refinement of the business model to create the franchise package. This franchise package is a handy and replicable method of expanding, creating a new market presence but, requiring a more capital-intensive scheme at low risk, and with an assumed higher rate of success. In effect, these forms of expansions like opening of new markets may also have direct effect on employment generation, growing competition, significant increase in consumer power spending and productivity in the community. This condition was noted to have an influence in making the local economy more prosperous. In effect, a number from among the population are drawn out of poverty as ultimately, the quality of their life improve.

4.5 Organizational Integration Perspective

In the process of organizational integration, internal management dynamics was observed from among the six participants and findings revealed emerging themes characterized by the 7 S's of McKinsey's Model which consisted of *system, strategy, structure, skills, style, staff and shared-values*. The 7 S's were used as reflective lenses of experiences observed from the six Halyao awardees from which the six cases were developed, namely; *Biggs, Inc., E.V. Ayo Enterprises, Graceland Foods, Inc., Enjoy Realty Corporation, Sunshine International School, and Baao Parish Multi-purpose Cooperative*.

4.6 System

Based on thematic analysis of the interview narratives generated from six participants, the first major theme that stood out is the personal experiences that established the profile of the participants, shaping their entrepreneurial worldview. These personal experiences were explicitly narrated as (1) their family background and origin including accounts of childhood; (2) vicarious experiences acquired from parental formation, favorite teachers and mentors in schools, and; (3) their personal worldviews of enterprise development as a vehicle for poverty alleviation and sense of service to local economic development in the community. These experiences were described at length when the participants were asked about their motivations and backgrounds concerning the nature and purpose of their respective enterprises. In the course of the interview, all the participants have revealed applications of both formal and informal procedures that support and sustain their overall operational strategy and structure, except that only one participant, the Baao Parish Multipurpose Cooperative provided systems for financial planning and reporting.



4.7 Structure

The interview results show that only Graceland Food Industries and Bigg's, Inc. revealed strong adherence to work specialization. This quality was apparent because of the high level of coordination between and among established units in the organization in this industry, their operational strategy also being affected by the size and diversity of workforce. Generally, the six participants have common established structure as shown in the way they create business divisions and units organized according to special functions including who is accountable to whom. Three among the six enterprises, namely; Bigg's Inc, Enjoy Realty and Development Corporation and Baao Parish Multi-purpose Cooperative revealed strong evidence of having provided divisions of tasks and functions shown in their organizational charts. This provided strong basis of showing the flow of communication, authority and chain of command in carrying out orders. Strong evidence in the use of division structure has enabled these enterprises to facilitate their company operations more effectively even in other geographic locations in the region.

4.8 Strategy

One of the surprising findings in this study was that only one participant, the Baao Parish Multipurpose Cooperative revealed evidence of having to operate with some kind of a printed business plan. The rest of the five participants relied merely on the vision and commitment of the entrepreneur owning the business. The basis of actions moving the company forward in response to or in anticipation of changes within the organization was vested only on the owners of the enterprise including that of formulating decisions affecting the dynamics of the external environment. Out of the six participants, it is significant to note that

Graceland Food Industries exhibited dominant characteristics of keeping strong commitment to stay afloat in industry competition. This was manifested in the participant's attitude towards handling competition in a positive outlook where rivals are considered mentors and benchmarks for operational improvement and in upholding quality of market offering among their customers and clients.

4.9 Skills

Skills acquired by entrepreneurs create distinction between enterprises with excellent performance and those with less than excellent performance. Based on the interview of the six participants each one offered distinctive competences that are uniquely theirs.

In the case of *Bigg's, Inc.*, the enterprise has developed the skills of completely differentiating their products by offering sumptuous meals in big servings in their menus. This effective market positioning communicates to the customers and clients that this food business is being true to their name – every menu served is literally big.

For *Baao Parish Multipurpose Cooperative*, the shareholders which represent the general assembly showed very high participation rate especially in the governance mechanisms of the cooperative. The up-to-date records of past and current activities and programs of the cooperative revealed very dynamic interaction among individual members and the management, for which one proof could be seen in the way each of the members has committed and fulfilled her/his duties and responsibilities, be it in religiously depositing cash contribution for capital build-up or, in being able to pay his/her loan amortization promptly. This social and communal behavior of shareholders is of high level of competence in governance and participation, one extraordinary quality which is difficult to imitate.

The case of *Graceland Food Industries* also showcases unique skills worthy of



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admiration. It is the only enterprise in the region which has very strong family orientation where everyone in the family participates in the whole value chain of the business delivery. This characteristic owes primarily to the solid parental values-oriented performance instilled to the members of the entire family even while they were still at the very young age doing the business. As seen in the context of the interview, Graceland has specialized on the skill of being able to customize their food preparation – over time, according to their customers' specifications, while providing a merchandising ambiance with close affinity to the regional cultural accent.

On the part of *Sunshine International School*, the owner revealed very strong passionate commitment to the education of the young. Her passion-driven commitment to excellent education was a metamorphosis of her adoration and enthusiasm to landscaping, gardening and overflowing desire to fashion the school as the perfect environment and laboratory for facilitative learning. Such a combination of skills and competence is very difficult to duplicate, as rivals would find it, if education here is viewed as a business enterprise. *Sunshine International School* has attained a level of managerial competence that is rare to come by yet, very accessible to the community.

With *E.V. Ayo Enterprises*, the participant in the interview was unassumingly very humble in character. *E.V. Ayo Enterprises* is especially distinct from among all the other participants in the study in the sense that the business deals directly with the grassroots of the society, the farmers and rice field workers. The business is anchored on a social enterprise model which involve numerous stakeholders contributing to the value-addition generation into the business. The skill which evolved in the character of the enterprise was on the ability of being able to bank the un-bank-ables. Yet, reading from the participant's

experiences, her story revealed the many milestones of achievements and triumphs with social significance leading to the survival and improvement in the quality of lives among those for whom services were rendered and delivered. The participant's unwavering dedication, generosity and skill to provide hope to those who have less in economic goods have inspired numerous lives, like those of farmers who fill the ricebowls in this country.

Finally, *Enjoy Realty and Development Corporation*, as a participant in the interview, shows the distinct skill and ability to envision urban development landscape of the community and the surrounding environs. Creating a mental picture of the future is obviously a prophetic gift. Basically, the participant's experiences revealed ground-breaking ability that influenced change of lifestyles, home-making preferences and comfort, quality house dwellings, retirement havens and, showcasing of affluence.

4.10 Staff

On the account of the interview results, it seems that only one participant, the *Baao Parish Multipurpose Cooperative* has employed staff mandated by formal installation of duties and tasks specified in the job description of the cooperative code. The other five participants shared similar patterns of informal practices yet, very effective at the beginning of the business. When they were in the business start-up level, the owners themselves were the ones staffing the enterprise. As the enterprise slowly gained acceptance in the market, the owner-entrepreneurs still perform most of the operations such as cashiering, maintaining inventories and merchandising rolled into one particularly in the case of *Graceland*. As the enterprise continue to expand in size due to the establishment of new divisions, setting up of a new departmental units, or branching out in other locations, the recruitment and hiring of



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new employees was limited only to immediate family kinsfolk. This experience was revealed in E.V. Ayo Enterprises where most of those who were assigned in strategic and critical positions to handle supervisory and sensitive tasks were assigned to the immediate family relatives. Also, true to both Enjoy Realty and Development Corporation and Graceland Food Industries, these two enterprises are on a husband-and-wife team at the start-up. In the case of Biggs, Inc. and Baao Parish Multipurpose Cooperative, their business beginnings were largely inspired by the bond of friendship where staffing was never yet a problem among themselves since they shared mutual support in assigning and accomplishing specific tasks. This value of friendship has been the primary source of attraction within their circles of friends and acquaintances where values of mutual cooperation and sensitivity to innovative ways of creating something wanted abound. Later on, as the enterprise slowly grew in size and space, this ambiance of friendly working environment became a potent attraction to all who have joined in the team. Equally unique experiences were also revealed in the narratives of Sunshine International School. Triggered by the participant's desire to provide quality education to her only *special* child, she thought that streaming him to the regular classroom instruction would not bring him the quality education her son deserved. Having noticed her son's impaired stature, the participant devoted her entire self teaching her own son which later on attracted other families in the neighborhood to seek similar attention given to their schooling children too. The services simply started with baby minding, tutoring, pre-schooling and helping children to cope with assigned tasks by other teachers in nearby schools. Being alone in the job, the owner thought getting a formal training at a university on children's education was imminent. While attending her courses on odd schedules complementary to her husband's,

she was able to find new friends who were her classmates then. As she finished her masters in education, so did her desire to put up a school of her own was realized. Eventually, some of these classmates of hers were attracted to join her in teaching and they became the most valuable staff who then, were invaluable assets in the future expansion of the enterprise.

4.11 Style

Typical to all the experiences of the participants was the building of teams which practiced highly coordinated functions in the performance of their duties towards the attainment of the common goals. Likewise, the process of delegating power and authority to assigned key people was purely anchored on full trust and confidence to the person. Although the use of teams was pervasively practiced, the entrepreneurial influence of the owners of these enterprises served as propellants in the dynamics of performance, if not the nexus of the culture and behavior in the work patterns. One of the more noticeable findings was apparently practiced by the management of Biggs, Inc. The working environment at Biggs, Inc. projects western style of collegiality among the staff where power and authority is less emphasized and barely noticeable at some point. In a similar manner, at Graceland Food Industries, the working staff members are part of the dynamics of the entire family business where, to some extent, staff workers often joined the family dining table for a meal. Unlike the participant at Enjoy Realty and Development Corporation, family affairs are treated with certain exclusivity and the conduct of business was always treated with utmost level of formality and professionalism. Probably the most unique among all participants in the way teams are managed was revealed in the Baao Parish Multipurpose Cooperative, where there is a strong sense of communal bonding among members, of always being in the look out for everyone's material and economic needs to be



served well. The true *bayanihan* spirit is made alive by everyone – both in the management and in the shareholders. For Sunshine International School and E.V. Ayo Enterprises, common to the two enterprises were the experiences that revealed deep adherence to the enthusiasm and dedication of its founders towards their chosen vocation. One was totally immersed in the pursuit of excellent education and the other, to the selfless dedication to serving the needs of the poor rice farmers which inspired more farmers to continuously improve farming for a sustainable future.

4.12 Shared values

What is apparent in the experiences of all the participants is the cultivation of fundamental values of trust, honesty, friendship, mutual cooperation, respect and care among those who are part and parcel of the organizational make-shape of the enterprise. As in the case of Biggs, Inc., the value of friendship is projected in their respective service areas, where the ambience for reminiscing good old days carried by family traditions entice customers to make Biggs, Inc. as rendezvous for celebrations, a place to revisit the past through the music and visuals of a particular era of rock and roll.

5. CONCLUSION

The increasing number of enterprises established by modern day entrepreneurs of today is generally motivated by the end in mind of making money and creating wealth. This phenomenon has shown positive effects in serving humanity around the world largely on the domestic economy stimulating higher productivity, increase in consumption pattern and wealth distribution that has led to higher standard of living, creating alternative routes of development not only in national levels but also in the regional setting as shown in the rising trends of emerging entre-pots, competitive cities, emerging markets and

highly successful entrepreneurs (Williams, 1999; Handy, 2002; Sebastian, 2010; Stoner, 2015). However, by default, the assumption is that all entrepreneurs behind these growing enterprises manage with the same worldviews on entrepreneurship anchored on traditional business fundamentals. If the field of entrepreneurship is to advance beyond its boundaries, it is vital to understand how highly successful entrepreneurs think and behave, organize and manage innovations, create jobs and capture opportunities in newly established markets from simple to more complex activities forming an integrated system focused on developing strategic vision, skilled human resources and markets on how their entrepreneurial worldviews are formed and how these views influence their decisions, actions and effectiveness as excellent managers and game-changer agents (Lawrence & Lorsch, 1967; Peters & Waterman, 1983; Roberts, 2003; Sham & Yam, 2011). In conclusion, this study proposes that the participant-entrepreneurs have already learned advanced level of integrative skills as they were able to maintain organizational fitness and become more competitive to respond quickly to satisfying their respective customers, maintaining their current positions despite varying degrees of market competition and meeting management challenges in attaining entrepreneurial success. (Scott, 1961; Mintzberg, 1983; Day & Lord, 1998; Drucker, 2002; Longenecker et al., 2012). Findings from this study should be of interest to individuals who want to become one among wide range of entrepreneurs, small business mentors and teachers, business managers, corporate and social entrepreneurs. New learning insights can be integrated into certain entrepreneurial programs in a variety of developmental efforts and initiatives for the development of the next generation of young leaders in entrepreneurship education and practice.



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UNDERSTANDING TECHNOLOGICAL INNOVATION FROM ACTOR NETWORKING THEORY PERSPECTIVE

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ABSTRACT

Technological innovation is a complex activity, so it is not easy to understand. A simplified way to look comes from either technical determination, which suggests the determinants technological factors, or social determination, which sees social factors as a key to success. This paper offers the Actor Networking Theory as another approach to understanding technological innovation. In this theory, the results of technological innovation activities are seen as the result of a network involving both technical and social actors. Both types of actors are assumed to have the same contribution in network building. Whether the network will eventually develop and become effective depends on the strength of the relationships between actors that are heavily influenced by the advantages and disadvantages that actors will gain in the network. With the viewpoint of the Actor networking theory, the key to the success of technological innovation will be easier to recognize.

Keywords: Actor networking theory; technological innovation; technological determination; social determination.

1. BACKGROUND

The number of motor vehicles during Idul Fitri 2017 has increased compared to last year. At least 6.04 million vehicles were used in the last Idul Fitri and this was 20% higher compared to last year (Kompas.com, 5/7/2017). These numbers indicate the large number of vehicles in Indonesia. From the data, the concern is not only the number of accidents and casualties but the fact that none of the millions of vehicles are made in Indonesia.

Nevertheless, about five year ago we were disturbed by the news of the emergence of cars made by the nation with the name Esemka. Unfortunately the car is no longer heard now even though it has been utilized to become a 'political vehicle' by a number of political figures.

Esemka is a car brand made by students of SMK Surakarta. In reality, it was not only SMK Surakarta which were involved in making this car because there were several other SMKs involved. One unit of Esemka type of Rajawali car costs around Rp 170 million while the Bima type costs only Rp 75 million. The cheap price and its image as a car made by the nation's own young generation had earned Esemka fame and had given birth to the optimism that the Indonesian nation is able to make its own car. For example, Sukasno, Chairman of Parliament of Solo revealed that Indonesian people should be optimistic because Esemka car can become a national car because Esemka is not just a product of Solo people but becomes the trigger of Indonesian pride in the midst of the current nation's confidence crisis. "It is time we are independent in the field of economy, politics and other fields, as desired by the first president of Indonesia, Soekarno," he said further. Chairman of Parliament Solo also thinks that Esemka should get government support for example by requiring every government agency to use Esemka in order to foster a love of domestic products.

Esemka is now swallowed by the earth because it is not heard anymore and even covered by the news about the presence of



cheap cars made by foreign car manufacturers who have been operating in Indonesia. Meanwhile, more and more Esemka subscribers are resigning for various reasons ranging from the length of waiting time until the discovery of some technical problems in Esemka. In the scale of the global economy, it really is not easy to make a successful car market accepted. Recently we are also surprised by the news of the bankruptcy of the automotive industry in Detroit, United States whereas before the city was once the world's automotive giant.

The reality of Esemka is just one of millions of cases showing how complex a successful technological innovation is. The meaning of innovation here is an idea that is considered new to a particular party or by a particular group of people [21]. One of the problems faced by scientists is how to understand better the complexity of a technological innovation activity? This paper will offer the Actor Networking Theory (ANT) as a potential framework for better understanding of technological innovation activities.

2. LIMITATION OF APPROACH USED TO RESEARCH TECHNOLOGICAL INNOVATION

The common approach used in research on technological innovation is always centered on the technical aspects of the activity and its social aspect is considered only as its context in which the innovation takes place. This means that the technical aspects further determine the success or failure of an innovation activity [7]. This approach comes from the flow of technological determinism (technological determinism). At another extreme point, a theory known as social determinism, believes that the social aspect or factor determines the success/failure of a technological innovation [15]. In this school of thought, the search for various forms of social relations becomes the focus of this research and placed the technical

aspects merely as a context or into an entity that was considered to be so and then forgotten. This finished entity seems to have caused no problems and then enough to be one of the explanatory factors of a technological innovation. To that end, in short the two big schools of thought namely the determination of technology and social determination of each will be presented before the ANT will be forwarded as an alternative to overcome the problems that arise.

3. TECHNOLOGY DETERMINATION APPROACH

The term "technological determination" (here in after abbreviated as TD) was first introduced by American sociologist and economist Thorstein Veblen (1857-1929). In general, this term refers to a theory that believes that technology in general and information technology in particular, is the main cause / cause of change of society in the past, now and in the future. This understanding is embraced by many parties, especially when the technology in question is information technology, for example through statements such as "the web will provide better information to the community" [9] or "Change the manual process to an automated system and watch for the time, money and resources power" [6]. Even Mody ([18]) made the claim that technology has autonomy, develops in its own way and becomes the core of community structure and performance. To understand better about TD, some of its core properties will be briefly reviewed, among them reductive, reactive, and autonomous.

TD uses the principle of reduction to simplify the complexity of the overall factors that cause a situation. This principle is very well known and implemented using the concept of direct or indirect relationship between independent variables (independent) and dependent (dependent) [5]. Although the principle of reduction tends to simplify the



problem but it is very well known and very widely used in quantitative research.

The opposite of the principle of reduction is the holistic principle. In this principle there is no independent variable or single cause. Therefore, the reductive principle is incorrectly used in the understanding of usually complex social phenomena. In terms of methodology, the holistic principle encourages researchers to view a system not merely as a combination of the parts but also to look at the interactions and causal relationships of the parts.

The nature of the next TD is a reificative trait. The principle of reification will view a technology as a uniform undifferentiated. This we often do when using the word "technology" to refer many different things at once such as tools, machines, media, techniques, etc. Though these things are different from each other, especially in different contexts. Information technology is the most technological form of reification because when we use it, it often refers to different things at once.

Another very important feature of TD is what is called technological autonomy. This trait is related to the perception that technology seems to have independence in some degree from the surrounding context. Technology is seen to be beyond human control, changing according to its own momentum and even forming society [24]. In this view, technology is not regarded as an inseparable outcome of society but rather as self-controlling, self-declaring, self-evolving, and self-moving. It is therefore not surprising that large and complex systems such as the internet are understood to be "free-living actors" and in line with the growing and increasingly big and complex. For example, Enterprise Resource Planning (ERP) becomes "increasingly becoming a free actor" and "increasingly difficult to control" [22]. Of course this will be very frightening for the parties who feel helpless towards the development of technology. We may feel that powerlessness when witnessing the

development of robotic technology that precisely represents the nature of technological autonomy.

The concept of technological autonomy has a close relationship with the view that technology is "neutral" and "value-free" although only few researchers believe this concept. The idea of technological autonomy is not intended to make technology personal or even conscious and capable of raging but rather reflects that even if we control its development and have the freedom to use it or not, in reality we are increasingly powerless. What time is our life controlled by various gadgets that we set and control first?

The last trait of TD is its theoretical position. There are two theoretical views of which one is more violent and the other is softer. In the hard school of thought, technology is seen as a sufficient condition or at least as a necessary condition for the development of organization and society. For the softer school of thought, which is more widely embraced by researchers, technology is seen as the driving factor for change.

Back to Esemka's car innovations, the author argues that many parties around the development of Esemka cars adhere to this TD theory. The Esemka manufacturer assumes that the car will be automatically accepted by the public after technical issues such as emission levels, suspension quality, long-distance resistance, spare-part availability, etc. can be overcome. Despite encouragement to the government to intervene by making pro-Esemka regulations but to this day none has been materialized. Perhaps many people think, as Esemka becomes technically superior then it will automatically be accepted. The reality is not so. It is too naïve if we think that the network of interests in the development of Esemka is only about technical issues. Learning from the development of Proton cars in Malaysia that has fully gained government supported by requiring all official cars around the country to use Proton cars, in the end not so



this state-supported car company is never successful because its maintenance is much more expensive than Japanese cars. In addition, the public is more proud to use foreign-made cars. Thus TD is not sufficient to understand the complexity of technological innovations. Perhaps that is why at the beginning of the growth of its car industry, the Japanese government banned foreign investment in the automotive industry and restricted imports of cars [23].

4. SOCIAL CONSTRUCTION (SC)

One of the most frequently asked questions on the theory of technology determination is whether it makes sense to believe that technology is responsible for social change. Although there is a very popular belief that "computer has changed the world" but Mass ([17]) has shown that much of the computational evidence and practice are shaped by the environmental and cultural circumstances in which the technology is used. Further, Kling ([9]) argues that many writings on social change and information technology are often based on the simplification of the concept of the relationship between technology and social change. Therefore, those who strongly oppose the TD take the position that technology does not dictate the change of society but technology is produced and used within a particular social context and the process is intrinsically social rather than determined by technical logic [4]. Some research supports this view of social constructivism. Archer-Lean et al. ([1]) found that one source of failure in the use of ERP was the use of the TD approach to ignore its social aspects. Rodino-Colocino ([20]) concluded the same thing because of his findings that the program of technological capacity building and access was inadequate for the implementation of technology without other aspects such as payroll, security and pride/dignity.

Although there are many approaches in SC theory but they have some of the same traits.

First, SC believes that technological development is a constantly changing process and involves a myriad of factors. Therefore, technological change cannot be analyzed as follows a definite and unidirectional pattern, and cannot be explained merely through economic logic let alone the internal logic of the technology itself. SC adherents believe that technology development will be better understood as a result of controversy, debate and difficulties involving relevant parties or social groups and have similar framework SC and interests [19].

Secondly, SC uses the principle of symmetry method or relativist method [14] [19]. Using this method, the researcher must remain impartial to the true properties of the object being analyzed i.e. the technology under study. This means the researcher should not take the same attitude with the various social groups that make claims on the properties of the technology. This agnostic attitude is needed because the researcher is considered to have no independent access to the technology being studied. Consequently, the researcher should also not make claims about the true nature of the technology being studied, such as its operability, its efficiency, its rationality, the success of its technical modifications, and its intrinsic effects [12].

Thirdly, SC uses the concept of technology stabilization as an outcome of the controversial process that has always been part of its technical change. Technology stabilization makes technology like a black box that has not changed due to the various attractions that surround it. Nevertheless, SC argues that the stabilization of a technology is the result of agreement among various social groups that ultimately agree on a particular interpretation of a technology. For this reason, SC makes the claim that technology has the flexibility of interpretation [3]. It also means that technology has no fixed goals and traits but enables interpretations not even of its social function and role but also its way of working. Thus the



facts about technology are not objectively given by the technology itself but are determined by the interpretation of the related social group.

In summary, SC believes that many social aspects such as gender, ethnicity, politics, culture, economic factors and power relations affect the conception, design and use of technology. From here, SC views technology as something that is not as neutral as it is closely related to many social factors. In other words, both technology and culture are not value-free or neutral. Consequently, technology manifests as a result of sharing social influences and then gets re-formed as long as the technology is used [19]. The result then depends on how the community actually uses.

In the SC school of thought, Brey ([2]) categorizes existing approaches into three distinct groups. The first approach is called strong SC and within this group one of the famous theory is SCOT (Social Construction of Technology) initiated by H. M. Collins and Steve Woolgar. Within the SCOT, technological development is understood as a result of social practices especially through the process of interpretation, negotiation and closure by certain actors and social groups. The second group is called moderate SC. Another name for this approach is Social Shaping of Technology (SST). It holds the difference between social factors and technical factors. It does not reject the role of nonsocial factors in technological development although its nature and influence are always claimed relative to particular social contexts. The third group, which is seen as the most radical one, is the approach given by the Actor Networking Theory (ANT) which can be categorized as soft SC [8]. ANT understands technological development and scientific discovery activities as a result of a network involving both human and material entities. ANT uses the general principle of symmetry in which both human and human entities share a balanced role in determining the end result of a technological development [3], [11], [13], [14].

Another widely used theory for studying technological innovation is the Diffusion of Innovation (DoI) theory originating from Rogers ([21]). In this theory, there are three additional elements that must be recognized in addition to the technology itself. These are the channels of communication, the time span of innovation and the social system that surrounds it. Using this theory allows one to assess the success/failure of technological innovation in Esemka from the details of Esemka's car technology, how the roles of the parties involved, why people appreciate or reject it and when all of these things happen. Although it involves quite a lot of factors comprehensively but the theory of Innovation Diffusion takes the attitude as if each thing has its capacity autonomously so that less emphasis on the influence of relations or relationships that occur. In this theory, as if technology or parties involved are not so influential. Technology and people have their own existence.

5. Actor Network Theory

ANT is developed by scientists who are engaged in studying the development of science and technology. The concept of 'actors network' first initiated by Michel Callon, Bruno Latour, and John Law in the 1980s. Using the metaphor of actors' network, the ontological assumptions used by ANT are that reality (social, organizational, technological, etc.) are all merely the results of a relation between different kinds of entities in both material and human forms [13]. All entities involved in this network are hereinafter referred to as "actors". This network is only in the minds of researchers and in accordance with its interests which of course resulted in the entry or absence of certain actors.

Using this networking concept, ANT gives a different picture in understanding a reality. If in general reality is depicted as a flat expanse, ANT uses a fiber metaphor. So reality is no longer described as a two-dimensional or three-dimensional structure but a graph that can have



many dimensions. ANT makes the claim that reality cannot be comprehensively understood without imagining it as a network of interconnectedness in which its structure is not possible to be systemic and in a hierarchical order [10].

Some key points of ANT need to be mentioned here to provide a sufficient basis to be used as a framework for understanding technological innovation.

- a) ANT views social and technical realities as network of complex relations involving human and non-human entities [13].
- b) ANT uses the radical assumption that both human and nonhuman entities have no distinction to one another in determining the stability of a social reality.
- c) ANT rejects the view of essentialism and instead embraces a view of relationalism that believes both human and nonhuman entities are merely the result or outcome of a network and not something that exists because of itself.
- d) ANT refers all entities involved in this heterogeneous and complex network as actors or network [12].
- e) ANT treats a stable actor network as a 'black box' so that analysis of it can be done only through its input and output only. This black box can be opened and analyzed as an actor network by tracing all the actors and relationships involved in it [16].

To open a black box of reality, ANT uses the concept of translation [3] so it becomes clear why a social/technical reality ends up being stable/unstable for a certain period of time. Translation can be understood as a process in which an actor mobilizes a resource or some other network to form an alliance that results in a stable network of actors. The translation process will involve four stages, namely:

- a) **Problematization.** At this stage, one or more key actors formulate the problem and define

the role of other actors in solving the problem that he proposes. The settlement is proposed so that all involved actors are bound to a centralized control mechanism called the "obligatory passage point (OPP)."

- b) **Interessement.** At this stage all the actors identified in the first stage are given special roles and special identities so that they will be attracted to a program/activity offered. This program or activity is called an interesse program because the purpose is to attract them to engage in networking.
- c) **Enrolment.** The success of a program / activity to attract actors to engage in a resolution of this issue will result in the commitment of actors to be part of the network of the alliance. If many actors eventually merge into this network then it is said that the enrolment process has succeeded
- d) **Mobilization.** Once a solution gets support it will form a bigger and stronger alliance so that it involves other actors who do not need to appear directly because it is represented by other actors. If this happens then the process of mobilization has been going well.

6. USING ANT TO UNDERSTAND TECHNOLOGICAL INNOVATION

ANT offers a way of understanding innovation differently from what is offered by DoI. ANT has been used by some researchers to understand technological innovation but in Indonesia is still very limited, one of which is done by Priyatma ([26]). ANT uses the assumption that power or ability to act is not something that automatically becomes part of an agent/party because it has a certain competence or position. According to ANT, the ability to act on a party is more the result of a network involving the party. In other words ANT does not embrace the essentialism as DoI. Assuming this ANT understands innovation as an ongoing translation that takes place in a certain time and space. The journey of



innovation is more understood as the result or result of the pulling out of the interests of various different parties. These parties may modify, cancel, disrupt or even oppose it. As a result, the acceptance of a technological innovation is the result of the actions of multiple parties interacting within a complex network.

McMaster et al. ([25]) adds that innovation does not occur passively as a discovery but rather as a result of network both strong and weak and involving both human and material. Each of these actors contributes according to the resources it has in forming and producing something already established which can then be treated like a black box.

The following will particularly present ANT approach in the process of translation of the development of Esemka. The data used in this example of short analysis uses news obtained via the Internet only. Because ANT adheres to the principle of agnosticism, the actors involved are viewed as having the same power even between the human and the material.

a. Problematization

From the beginning it was not so clear what the purpose of Esemka car development was. What appears on the surface of Esemka's development reflects more mistrust because of our lack of technology development. Therefore when finally the vocational school students in Surakarta managed to make Esemka, the community greeted with enthusiasm. This enthusiasm is strengthened by the presence of political figures who are good at utilizing the situation. The emergence of Esemka was then coupled with the emergence of various similar technological innovations from various other equivalent schools with products from truck to model aircraft.

Because of the lack of clear direction of development Esemka, and compared to existing cars, Esemka was not the answer to the real problems of the automotive world. It was

unclear whether Esemka was set to overcome the problem of expensive fuel, high cost of production, environmental damage, especially air pollution or traffic congestion problems. This ambiguity brings some consequences especially in the identification of network and in the intersement stage. The following network (Figure 1.) should be imagined by Esemka's innovators. With this network it will become clearer what actors are involved and what factors might be the driving force behind the strengthening of this network.

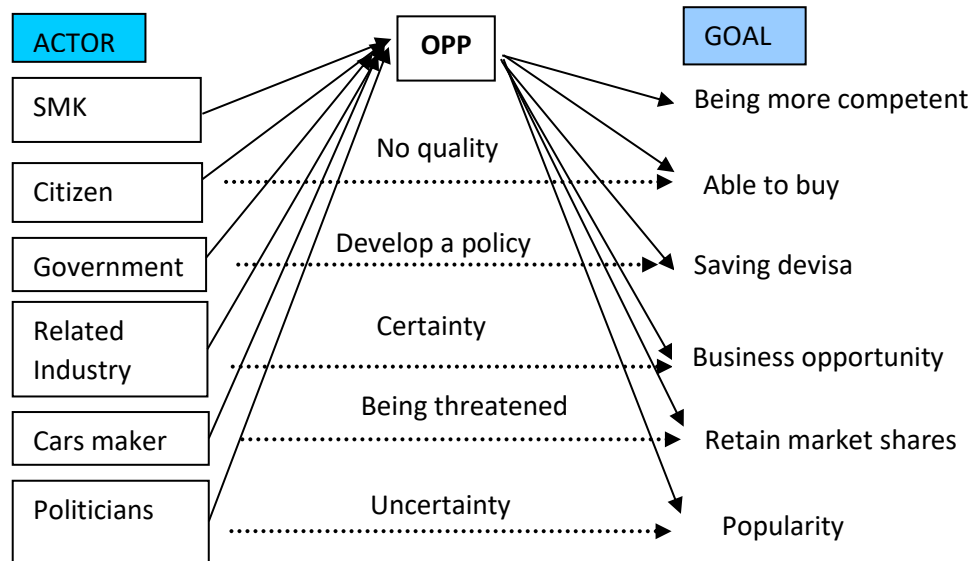


Figure 1: The Actor-Network of Esemka

At this stage of actor identification, it is very difficult to determine who is actually capable of becoming an OPP. Assuming that the SMK Surakarta would easily turn out to be OPP was merely a fancy imagination given the complexity of a network of reliable car manufacturers. To serve as an OPP, it has to build this production network in a well-organized company that gets support from both industry and government.

b. Interessement

Perhaps because of the uncertainty in the stage of problematization, what appears on the surface is the lack of policies or activities capable of effectively attracting the development stakeholders of Esemka to get involved further. One of the things that can be regarded as an interessement is a hope from the Chairman of Surakarta Parliament so that the government supports Esemka. Another interessement is the promise given by Esemka makers that the price will be much cheaper than that of similar cars. This limited interessement is not strong enough to ultimately attract the relevant actors to form an alliance for the

strengthening and development of the Esemka development network. Actors who actually plunge themselves are politicians. But since the politicians' interest is to gain popularity then after the popularity was obtained by these politicians, one by one withdrew their supports, especially upon realizing that Esemka still has some technical weaknesses. Nevertheless, symbolically Esemka has succeeded in being the vehicle that escorted to Jakarta successfully.

c. Enrolment

Due to the limited form and interessement strategy, it is not surprising that very few actors engage in Esemka development even in the early days of Esemka as if all parties supported both private agencies and government. This fact is actually the result of the previous stages. Due to the weakness of the problematization stage it brings the consequences of the absence of OPP capable of formulating the problem and offering a good interessement strategy. Actually, if there is a clear OPP or someone willing to become an OPP then easily Esemka is able to attract many parties/actors to enter the Esemka development network. The reality that



the Indonesian nation longs for a vehicle that can be the pride of the nation should be a starting point to formulate a stronger problematization. With strong problematization it will be easier to determine a suitable intersement strategy. Unfortunately this is not the case so it is arguably the enrolment stage in Esemka development is less successful.

d. Mobilization

Since the enrollment stage is less successful, it is very difficult to mobilize the actors who are the development stakeholders of Esemka. This makes early network begin to take shape and involve Pak Sukiyat, some vocational and politicians, eventually dispersed and unable to produce actors who can be spokespeople who can effectively mobilize the actors. Actually, the mayor of Solo can be an effective spokesman but he unfortunately cannot continue it due to his step towards Jakarta.

7. Conclusion

It has been shown that ANT is capable of explaining why Esemka is less successful. The findings are among others lack of clarity in the stage of problematization in the development of Esemka, so it brings the consequences of difficult identification of the right stakeholders. This matter further complicates the formulation of the intersement strategy. As a result few actors want to tie themselves into network development Esemka. This network is undeveloped and weak because even the most potential spokesperson for the cause withdrew from the arena. With these findings then ANT can be an alternative way to understand better technological innovation activities.

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INFLUENCE OF BRAND TOWARD PURCHASE INTENTION OF CORN SNACK PRODUCT IN GROBOGAN REGENCY CENTRAL JAVA INDONESIA

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ABSTRACT

This research was conducted in Grobogan Regency Central Java Province Indonesia. As the central of farming, it was well known of corn produce. This research wants to know if brand can affect people in choosing snack made by corn product. It wanted to know if there were influences of brand based on CBBE concept by Keller toward purchase intention. Samples were selected by purposive sampling of 90 students in Purwodadi Grobogan. Questionnaires were used and distributed. It was found that there were significantly influences of brand salience and brand resonance toward purchase intention. There were also significantly influences of brand elements namely brand salience, brand imagery and brand resonance toward purchase intention.

Keywords: brand; brand equity; CBBE (customer based brand equity).

1. INTRODUCTION

Brand equity becomes an important issue in business today and some researchers said that it becomes asset of the company (Chieng and Goi, 2011). People will look at their need and look for product with brand they know and trust. Instead of comparing product specifications, some people tend to trust brand in looking for product to fulfill their needs. Brand equity concepts were used by Aaker (1991), Kapferer (1992) and Keller (1993, 1998). This research wants to know if Keller concept of brand equity can be used to measure influence of brand toward purchase intention.

There are many commodities produced in Indonesia which tend to increase from the year before (Arifin, 2017), including Rice (6,42%),

Corn (3.18%) and Soybean (0.86%). Corn is one of Grobogan Regency farming production and becomes raw material of corn snack product. Grobogan Technopark located at Wirosari District helps farmers in producing corn snack product called *chiki*, but local farmers also produce fried corn called *marning*. There are many products of corn. It was interesting if consumers choose the product by its name of brand according to Keller concept known as Customer (Based Brand Equity CBBE)

2. LITERATURE REVIEW

Brand is a name, term, sign, symbol, or design, or a combination of them which can be used by consumer to differentiate a product by other products (Keller, 2013). Concept of brand equity by Keller based on the effort of business to attain brand resonance (Keller, 2013; Hedgcock, 2006). The effort looks like to build a pyramid.

There are stages in developing brand, namely identity, meaning, response and relationships. At the identity stage, customer build brand awareness and make brand salience which know the brand at the right place and the right time. In the meaning stage, customers understand which to choose because of point of parity and point of difference, which means there were brand performance and brand imagery. The response stage means customers have feeling in experiencing and judgment of credibility or trustworthiness about the brand, so there were brand judgment and brand feelings. In the relationship stage or brand resonance, the customers feel connection with the brand and miss it when



there is no brand. Studies on brand name found significantly by Mirabi et al (2015).

3. RESEARCH METHODS

Population of the research are the students of elementary, junior and senior high school at Grobogan Regency. Purposive sampling was taken by 90 students comprised of each grade in 30 students. Reliability test used was Cronbach's Alpha, and Pearson correlation were used to test validity. The students in the sample were the ones who were willingly and seriously answer the questionnaire, know the corn snack product and resided in Grobogan Regency. Data collected by surveyors with questionnaires answered by the students and SPSS software was used to count and analysis the regression coefficient and determinant coefficient. There were six independent variables in the model namely brand salience, brand imagery, brand performance, brand judgments, brand feeling and brand resonance.

Table 1: Result of Reliability Test

Variable	Cronbach's Alpha	Criteria	Result
Brand Salience	0,600	0,5	Reliable
Brand Imagery	0,535	0,5	Reliable
Brand Performance	0,455	0,5	Not reliable
Brand feelings	0,451	0,5	Not reliable
Brand jugments	0,384	0,5	Not reliable
Brand resonance	0,596	0,5	Reliable
Purchase Intention	0,679	0,5	Reliable

Only three independent variables were passed reliability test. Based on these variables, all item questionnaires were valid, passed 0.207.

4. RESEARCH FINDINGS AND DISCUSSION

Respondents said that they usually eat snack in the rest time during school time, or after school, like waiting for bus, or recreation time, or leisure time.

The snack could be light snack or heavy snack. Some would eat wet bread or dry bread.

Table 2: Types of Snack by Respondents

No.	Description	Freq	Percent
1.	Heavy snack (batagor, bakso etc)	20	22.2
2.	Light snack (citaso, ringgo, komo, etc)	35	38.9
3.	Wet bread (sari roti, roti in school canteen etc.)	10	11.1
4.	Dry bread (oreo, nabati, goodtime etc.)	10	11.1
5.	Nuts/beans (rasta, fullo, etc.)	7	7.8
6.	Candy	4	4.4
7.	Chocolate snack	2	2.2
8.	Cracker, chips etc.	2	2.2
	Total	90	100.0

After examining the regression model, it was found that all variables in the variable significantly influence purchase intention with R 0.588 and R² 0.346.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.588 ^a	0.346	0.323	2.62220

a. Predictors: (Constant), brand resonance, brand salience, brand imagery

According to significance test, there were two variables which significantly influence the purchase intention. The beta regression coefficient of brand salience was 0.306 and brand resonance was 0.399. Consumers tend to see the brand identity and its resonance of brand. If there were many consumer say about the brand and many sign about it then consumer will choose the product.



Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.364	1.443		3.717	0.000
(Constant)	5.364	1.443		3.717	0.000
brand salience	0.424	0.126	0.306	3.361	0.001
brand imagery	0.131	0.150	0.080	0.877	0.383
brand resonance	0.587	0.141	0.399	4.179	0.000

Dependent Variable: Purchase Intention

5. CONCLUSION

Brand salience and brand resonance become significant influence toward purchase intention. These could be a way to maintain brand so that customer always aware and recognize brand elements. The SMEs at Grobogan Regency should develop brand that easily known, maintain product quality and supply continuity. The future research should develop questionnaire which have higher reliability and larger sample who understand better about the corn snack product.

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INSTITUTIONALIZING VOLUNTEERISM IN CREDIT UNION: A STUDY CASE OF CU KRIDHA RAHARDJA

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ABSTRACT

Credit Union (CU), through sustainable financial services provision and community empowerment, is widely known as an effective vehicle to increase marginal people well-being. From time to time, many areas of CU operation largely depends on volunteers. Unfortunately, the recent fact shows that mobilise, develop, and retain qualified volunteer has becoming more difficult. Credit Union Kridha Rahardja (CUKR), who is aware about this situation and realize how important the roles of volunteer in supporting their operation, tries to restructure its volunteer management system. Using institutional economics approach and focusing on CUKR volunteer who works at local branch level called 'Sadulur', this study describes and analyzes the new proposed CUKR volunteer management system. The study gives more understanding on how to formulate an optimum model of volunteer management. The result shows that CUKR new proposed Sadulur management system provides a more comprehensive path that potentially enhances the effectiveness of CUKR Sadulur roles.

Keywords: *volunteer, sadulur, management, institutional economics*

1. INTRODUCTION

Credit Union Kridha Rahardja (CUKR) operates day to day as financial cooperative microfinance institutions. CUKR serves its members, both urban and rural citizens, with various professional background and age. Their operational area is in Central Java and Yogyakarta Special Provinces, Indonesia. As microfinance institution, CUKR applies an

integrated approach in their operation. CUKR provides financial services (through its savings, loans, and micro-insurance product), business intermediation services (through its business-related training and advocacy), social intermediation services (through various educational and community empowerment program), and social services (through its solidarity products) for its members.

There are some actors involve in the operation of CUKR. It employees in total 12 management staffs comprises 2 staffs in headquarter office (in Semarang City, Central Java), 4 staffs in first branch office (in Semarang City, Central Java), 3 staffs in second branch office (in Klaten Regency, Central Java), and 3 staffs in third branch (in Sleman Regency, Yogyakarta). In addition, there are some volunteers, e.g. the board members, advisory council, committee, and Sadulur who support operational process of CUKR.

Volunteers handle some important roles— from the top to bottom level of Credit Union operation— whether in the area of policy making, monitoring and controlling, or first line operation. The Board Members consists of eight members, in which five of them—policy board—have some tasks on formulating internal policies related to credit union operation then coordinate and control the implementation of the policies, while the other three ones—surveillance board— monitor the suitability of credit union policies and their implementation with mission, vision, and target of CUKR.¹ In their tasks, the board are

¹ Mission of CUKR is increasing quality of life of members through community-based empowerment and qualified financial services and vision of CUKR is becoming safe, reliable, sustainable people empowerment institution in Central Java and Yogyakarta.



also accompanied and advised by an advisory council, a group of respected figures who are the pioneer of CUKR or CUKR members who have specific competencies (e.g. religious, legal, economic, and empowerment consultant) that is needed to support CUKR development. All of them are volunteers. In addition, there are also some volunteers called Committee and 'Sadulur' that works in the development area of each branch of CUKR. The committee helps the board to monitor and makes reports related to the operation of CUKR at branch level, while the committee acts as representative of CUKR members at branch level to channel local aspiration to the boards. In addition, working together with branch management staffs, the branch committee coordinates with Sadulur. Sadulur is CUKR member who voluntarily helps management to do the operational activities of credit union, include: (1) loan arrears and charge-off treatment, (2) new member recruitment and loan product promotion, (3) education, training, and empowerment facilitation for members, (4) audit assistance, data collection and management.

The roles of CUKR volunteers are becoming more important regarding the recent condition of stagnant growth and high level of non performing loan.² Limited capacity of current management staffs to get closed to members and responsibility in handling too many works in their operation are becoming two main factors that constraint their development. The mounting of daily administrative financial matters and routine collecting tasks constrains the capacity of

staffs to provide business and social intermediation, evaluate their services, and implement business expansion strategy. To overcome the problems, CUKR advisory council and the boards agree to increase the role of members to help management by intensifying the involvement of 'Sadulur' in CUKR operation. They believe that the more Sadulurs involve, the more energy available to solve the two biggest CUKR problems today, non performing loans and stagnant growth.

The big hope that Sadulur involvement brings the solution for CUKR problems is not without problems. Finding members who want to be Sadulurs are not an easy matter.³ According to the interview with some management staff and board members of CUKR, time availability, and also low coordination of Sadulurs tasks and function are considered as the main constraints in Sadulur mobilisation.

Since some months ago, CUKR advisory council and board members has made some discussions about the guideline to manage the operation of CUKR Sadulur. Those discussions provides a guideline draft that will be the basis to build a Sadulur management system.

According to Kasper and Streit (1999) and North (1990), the success of an organization depends on the appropriateness of institutional arrangement exists in the organization, in which institutions significantly influence how well people achieve their objectives. Stapleton (2008) and Byrne in Mazaroll et al. (2014) also informs that Credit Unions succes to manages volunteers depends on its clear volunteer system and strategy. CUKR manual draft, which is the basis to build of Sadulur management system will be an early instrument to determine the appropriateness of institutional arrangement that exists to promote the flourishing of qualified CUKR 'Sadulur' volunteers. Thus, it is important to check whether the elements of the draft consists of some rules or mechanisms that facilitates effective filtering process of Sadulur

² Data informs that CUKR has a fairly big operational scale. However, it does not mean that it has a good record of performance. As of October 31, 2017, CUKR serves 2540 members, with total asset of 26.13 billion rupiah, net loan portfolio outstanding (loan portfolio that excluding non-performing loan) of 16.36 billion rupiah, and voluntary savings of 17.46 billion rupiah. The achievement shows the relative stagnant performance in comparison with October 31, 2016 in which the total number of CUKR served 2525 members while the total assets, net loan portfolio outstanding, and voluntary savings of CUKR valued 25.97 billion rupiah; 15.34 billion rupiah; and 19.82 billion rupiah. It is accompanied with the relatively high level of non-performing loan ratio, accounted by 19.62% as of October 31, 2017. This is far from the optimal recommended level of not more than 5%.

³ As researched by Credit Union Advisory Committee (2016), McKillop (2012), Stapleton (2008), the difficulty to recruit volunteer has also happened in other Credit Union.



while construct the behavior of the Sadulur to do their tasks optimally and become a loyal figures in supporting CUKR development. For this reason, using institutional economic approach, this study analyzes whether the new proposed Sadulur management system of CUKR—as reflected in volunteer guideline draft of CUKR—is strong enough to support, develop, and retain its volunteer.

This study comprises 5 section. The first section explains the background of this paper. The following section provides review of voluntarism in CU, management of volunteer, and institutional economics. The third section discusses the methodology used in this study. The next section describes new proposed management system of Sadulur CUKR, then analyzes it using institutional economic approach. In the final section, the discussion is concluded.

2. LITERATURE REVIEW

2.1 *Voluntarism in Credit Union*

McKillop and Wilson (2014) states that Credit unions have survived and grown over many years and in many countries, demonstrating what can be achieved by a volunteer-led not-for-profit movement. Indeed, Forke et al. (2016) informs that most small credit unions rely entirely on volunteer support for their operation, and all are governed by volunteer members for the benefit of the members.

Voluntarism activities play some important roles in Credit Union operation.⁴ According to Chapman *et al.* (2004), credit unions depend heavily on the competence, capabilities and potential of volunteers who are recruited to serve on credit union boards and committees. Volunteers also serve an

important role in the day-to-day running of the credit union, often supporting or taking the place of professional, paid staff in front line office duties or providing specialised or general office support. Williams (2010) argues that, as credit unions work to better reach out to and grow in their local markets, they must view their volunteers as an amazing source of untapped energy. They can be utilized to be advisory board for Credit Union, who receive product, business pipeline and marketing updates from Credit Union, and discuss new business opportunities, moves of competitors and what people are saying about the Credit Union in the market.

Volunterism activities in Credit Unions also bring some benefit, both for Credit Union and the volunteers. According to Alex et al. (2005), that volunteer activities facilitate credit union members to work together and becoming connected one another. When community people are more connected, they are likely more responsible, feel pride, and commit to their community. Moreover, volunteers can increase the ability of Credit Union to serve its clients and respond to the needs of the community while minimizing the cost of operation of credit union. The different professional background (e.g. medical doctors, engineers, financial planner, academician, politician, students, etc.) and wide array of talents of volunteers will increase the skill set of Credit Union (Alex et al., 2005). Moreover, according to Irish League Credit Union, involving in credit union movement bring various benefit for the volunteers, include: (1) skills and experience in a senior role of a professional financial service provider, (2) education and training, (3) personal development, (4) new people and networking, (5) participation on developmental and business projects, and (6) participation in social movement.

Although voluntary activities in Credit Union bring some promising benefits for Credit Union development, there are some problems that inhibit Credit Union to access the full benefit of voluntarism. McKillop (2012) states that attracting volunteers with key skills is the most serious internal

⁴ Each credit union has its own volunteers who give freely of their time, knowledge, and skills to lead and manage the operation of their credit union. McKillop (2012) states that volunteers can range from front-line delivery of services to participation at board level, from doing operational activities to policymaking and monitoring activities of Credit Union. What makes credit union volunteers different from non-credit union volunteers is the rule that volunteers must be sourced from the membership of the credit union, not from outside of the organization in (Forke et al., 2016).



constraint on CU development. A recent survey of Irish Credit Union conducted by Credit Union Advisory Committee (2016) also underlines three problems related to credit union volunteer development. They are qualifications for volunteers, how to encourage more members to volunteer, and training of volunteers.

Explaining the volunteer phenomenon above, Stapleton (2008) finds that that people today live in a society where voluntary co-operation is beginning to become less and less because of changing lifestyle, people working hours and other commitments. Stapleton also finds that there is an argument that paid permanent staff can handle relatively greater number of work in comparison with volunteers might do. In their study, Stapleton infer that the difficulty of recruiting volunteers probably happens because of the recruiting method and system that is ineffective to attract the new generation. Stapleton findings in line with the findings of Byrne (2004; 2012) in Mazaroll et al. (2014) that credit Unions which have developed clear volunteer strategy do not appear to have difficulty in sourcing volunteers and in some cases their approach has resulted in a waiting list. The problem of volunteering is not only about attracting volunteers, but also the limited volunteer policies and support in place to source or retain voluntary input.

McKillop (2012) also argue that the professionalisation trend tend to influence the involvement of volunteers in credit union. McKillop argue that the more complex and sophisticated day-to-day operations of credit unions of Credit Union come together with the increase of professionalisation trend of Credit Union diminish the uses of volunteers in both first line activities and controlling activities while increase the paid professional management and staff to do these responsibilities. In addition, Mc Killop (2012) according to some previous literatures states the further impact of professionalisation of volunteers often makes paid staff seeing volunteers as 'enthusiastic amateurs' committed to the traditions of the movement

and a diminishing of the highly personal nature of service.

2.2 *Institutional Economics Theory*

Institutional economics can be regarded as a family of theories that share the thesis that 'institutions matter' in the study of economics (Chavance, 2009). Kasper and Streit (1999), states that institutional economics concern about how institutions influence the economy and how economic experience influence institutional development. North (1994) defines institutions as the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behavior, conventions, self-imposed codes of conduct), and their enforcement characteristic. In a more straightforward language, Burky & Perry (1998) defines institutions as formal and informal rules and their enforcement mechanisms that shape the behavior of individuals and organizations in society.

Burky & Perry (1998) differentiates the definition of institutions from organization—which is defined as entities composed of people who act collectively in pursuit of shared objectives within an institutional structure defined by formal rules (constitutions, laws, regulations, contracts) and informal rules (ethics, trust, religious precepts, and other implicit codes of conduct. According to Burky & Perry, organizations has internal rules (i.e., institutions) deal with personnel, budgets, procurement, and reporting procedures, which constrain the behavior of their members, where institutions constitute the incentive structure.

Kasper & Streit (1999) states two general presumptions related to institutions: 1) that institutions significantly influence how well people achieve their objectives and 2) that people tend to choose institutions that facilitate freedom of choice and economic well-being. According to Kasper & Streit, institutions can be classified into internal institutions & external institutions. Internal institutions evolve from human experience and



incorporate solutions that have tended to serve people at the best (usually coupled with informal sanction for the violators), while external institutions are imposed and enforced from above, having been designed and established by agents who are authorized by a political process (usually coupled with formal sanction for the violators).

Williamson (2000) explains four level of social analysis that constitutes institutional economics analysis. The first or the top level is the social embeddedness level, where the norms, customs, morales, traditions, taboos and other codes of conduct) are located. This level is taken as given by most institutional economists. Institutions at this level change very slowly—on the order of centuries or millennia. The second level is referred to as the institutional environment. The structures observed here are partly the product of evolutionary processes, but design opportunities are also posed. Going beyond the informal constraints, there is ‘formal rules (constitutions, laws, property rights)’. The definition and enforcement of property rights and of contract laws are important features. Going beyond the rules of the game, the play of the game (contract) is needed. This brings to the third level, which is where the institutions of governance are located. Although property remains important, a perfectly functioning legal system for defining contract laws and enforcing contracts is not contemplated. Costless court ordering being a fiction, much of the contract management and dispute settlement action is dealt with directly by the parties—through private ordering. The need to come to terms with contract laws (plural), rather than an all-purpose law of contract (singular), is posed. So conceived, a governance structure obviously reshapes incentives. The fourth level, resource allocation and employment, is the level at which neoclassical analysis works. Optimality apparatus, often marginal analysis, is employed, and the firm, for these purposes, is typically described as a production function.

North (1990) states that institutions exist to reduce the uncertainties involved in human interaction. From North explanation,

uncertainties happened because of limited availability of information arises from: 1) various and less predictable people’s motivation and 2) limited capacity to decipher environment. Related to the first problem, it arises from incomplete information with respect to the behavior of other individuals in the process of human interaction (which will bring complex situation). In many cases, people are not simply of wealth-maximizing behavior, but of altruism and of self-imposed constraints, which radically change the outcomes with respect to the choices that people actually make. Related to the second problem, uncertainties arise when people has limited capacity to decipher the environment. The computational limitations of the individual are determined by the capacity of the mind to process, organize, and utilize information. From this capacity taken in conjunction with the uncertainties involved in deciphering the environment, rules and procedures evolve to simplify the process.

North (1990) states that theory of institutions is constructed from a theory of human behavior combined with a theory of the costs of transacting (transaction costs). Transaction costs, which consist of the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements. Indeed, North notes that transaction costs is part of production costs which consist of the costs in defining, protecting, and enforcing the property rights to goods (the right to use, the right to derive income from the use of, the right to exclude, and the right to exchange).⁵ The problem of measurement, monitoring, and enforcing property rights are two problems that determines transaction costs. It is because

⁵ Property rights are the rights individuals appropriate over their own labor and the goods and services they possess. Appropriation is a function of the institutional framework (North, 1990). Furubotn & Richter (2005) classified property rights into: (1) property right in the narrow sense, which defined as the rights (to use, to provide income, to manage) related only to physical or tangible objects, (2) property right in the wide sense, which defined as the rights related to both tangible and intangible objects (e.g. patents, copyrights, contract rights, membership, and social entitlements), (3) certain rights not covered by law but rather by conventions, social custom, or other non-legal instruments.



we do not know the attributes of a good or service or all the characteristics of the performance of agents and because we have to devote costly resources to try to measure and monitor them that enforcement issues do arise. Institutions provide the structure for exchange that (together with the technology employed) determines the cost of transacting and the costs of transformation. The institutions necessary to accomplish economic exchange vary in their complexity. The greater the specialization and the number and variability of valuable attributes, the more weight must be put on reliable institutions that allow individuals to engage in complex contracting with a minimum of uncertainty about whether the terms of the contract can be realized. Thus, it will increase coordination and decrease transaction cost.⁶

Institutions structure economic exchange in an enormous variety of forms that do, however, it must be consistent with the transactions cost model of exchange (North, 1990). The first model is personal exchange characterized with repeat dealing, cultural homogeneity (that is a common set of values), and a lack of third-party enforcement (and indeed little need for it). Under them transactions costs are low and the economies or collections of trading partners in this kind of exchange tend to be small. The second model is impersonal exchange in which the parties are constrained by kinship ties, bonding, exchanging hostages, or merchant codes of conduct. This happens when the variety and numbers of exchange are greater and the kinds of agreements that have to be made become more complex. The third form of exchange is impersonal exchange with third-party enforcement. Third-party enforcement is never ideal, never perfect, and the parties to exchange still devote immense resources to attempting to clientize exchange relationships. According North (1990), a coercive third party is essential. One cannot have the productivity

of a modern high income society with political anarchy. Indeed, effective third-party enforcement is best realized by creating a set of rules that then make a variety of informal constraints effective. Thus, it should be readily apparent that to develop a model of institutions, we must explore in depth the structural characteristics of informal constraints, formal rules, and enforcement and the way in which they evolve.

The important concern in institutional economics analysis is principal-agent problem (Kasper and Streit, 1999). It is a condition the agents tend to act on the things find agreeable for themselves, but does not serve the objectives or goals of the principals.

“The principal-agent problem arises whenever people act on behalf of others, whom we call principals, and when agents have better knowledge about the operation than principles (asymmetric information). It is then possible that agents may act in their own interests and neglect the interest of principals (opportunistic behavior). When people act opportunistically, we say that they fall prey to moral hazard” (Kasper and Streit, 1999:67).

Kasper and Streit (1999) explains that these problem happens when agents tempted to act opportunistically in the knowledge they can access because the knowledge problem—principals are not well-informed or remain rationally ignorant about the details of agent action (because of the high costs to monitor their agents) — and it is the consequence of the natural limits to solidarity with others.

To anticipate agency problem, Kasper and Streit (1999) states that we need to consider about how to motivate agents and ensure that agents works to their best capabilities. There are three types of motivation empowerment to agents: (1) agents can be inspired and educated in loyalty habits and solidarity in organization, (2) agents can be controlled by direct supervision, coercive commands, and penalties if they do not follow the rules—named direct control, (3) agents can follow general rules (e.g. incentives based performance, profit-sharing, competition etc.) which creates incentives for them to pursue the principles interests or objectives, not their self-interest —named indirect control. In addition,

⁶ How well institutions solve the problems of coordination and production is also determined by the motivation of the players (their utility function), the complexity of the environment, and the ability of the players to decipher and order the environment (measurement and enforcement) (North, 1990).



Kasper notes that direct control may cause high monitoring costs when the production become complex. To respond this situation, indirect control to the agents by rules and incentives that direct the agents will be more effective.

3. RESEARCH METHODS

This study is a case study to understand the institutional arrangement of volunteer ('Sadulur') management system of Credit Union Kridha Rahardja. According to Stake (1995), case study is a study about a specific system that stress the unity and comprehensiveness of the system, but focusing on relevant aspect of research question. According to Remenyi (1998), a study case can be used as an analysis to make a narrative description about a condition so that the narration, by itself, represent the research findings and add certain values to science.

Following Stake (1995), this study is classified as intrinsic case study—a study case conducted to better understand about a specific cases. In this study case, the aims of the researcher is not trying to test a theory or build a new theoretical explanation, but to understand the intrinsic aspects of the research object in depth. According to Remenyi, sometimes in depth observation becomes the only way to understand and explain the interaction between variables to analyze.

The data of this study is gathered from various sources. The first resources is organizational documentation of CUKR, especially the ones related to the activity of Sadulur management. The second one is observation of Sadulur activities of CUKR. The third one is the result of CUKR stakeholders interview, especially CUKR board members, management staffs, and representatives of Sadulurs in each CUKR branch. The data is analyzed descriptively using institutional economics approach.

4. RESEARCH FINDINGS AND DISCUSSION

This section comprises two parts. In the first part, the Sadulur management system of

CUKR will be presented. Later, in the following part, it will be analyzed using institutional economics approach.

4.1 Description of the new proposed Sadulur management system of CUKR

Sadulur of CUKR defined as members of CUKR who are legalized by CUKR policy board to help the works of branch management and committee in branch development area of CUKR. The activities of Sadulur can be classified into 4 division:

- i. Managing non performing borrowers. In this activity, Sadulur is obliged to visit CUKR borrowers whose loan are not well performed and dig the problems that makes them cannot make a payment. In addition, Sadulur also help branch management staffs to collect loan payment, especially to the non performing borrowers. Moreover, Sadulur also expected to give suggestion and recommendation to CUKR about how to anticipate and treat non performing borrowers.
- ii. Promoting CUKR and its products, while recruiting new members. In this activity, Sadulurs act as the promotional agent of CUKR. They informs people around them (family, working partners, or neighbors) about the organization of CUKR, products and activities of CUKR and the benefit of joining CUKR. Related to this activity, Sadulur is expected to mobilize new potential members and borrowers to support the achievement of member and loan growth target. Sadulurs is also expected to give suggestion and recommendation about how to increase the effectiveness of promotion, new member recruited, and loan outstanding.
- iii. Facilitating education, training, and empowerment activities to CUKR members. In this activity, Sadulurs can facilitate education and training to members such as motivation, primary, credit union values, financial literacy, and entrepreneurial education. In addition, Sadulur can also accompany CU members business through a regular visit or



discussion through basis community forum in order to support their business performance (growth) while minimizing the default risk of CUKR borrowers.⁷ Related to this activity, Sadulur are also expected to be the main actors that support the development of basis community. Sadulurs is also expected to give suggestion and recommendation to CUKR about how to increase the effectiveness of education and training activities.

- iv. Monitoring assistance, data collecting and analysis. In this activity, Sadulurs are obliged to help CUKR, especially branch committees or surveillance board, in doing their monitoring tasks. Related to this, Sadulurs collect data from members (e.g. through survey, interview, or observation) related to Credit Union operation, then analyze and process it so that it can be a valuable input to improve CUKR policies and services. Moreover, in this activity division, Sadulurs are expected to help management in updating and publicizing activities and development of CUKR through website, facebook, and other internal or external social media. Sadulurs are also expected to give suggestion and recommendation about how to increase the effectiveness of member based data analysis, utilization, and publication.

According to the Sadulur operation manual, there are five process related to the management of Sadulurs. They are: 1) planning, 2) recruitment, 3) training, 4) organization, and 5) assesment and recognition. These five process are explained below.

4.1.1 Planning

Planning process aims to identify what tasks that need help of volunteers, what are the criterion of volunteers needed, how many volunteers needed, and how much resources can be devoted to manage volunteers. This process is important to ensure that the

recruitment of volunteer is relevant with CUKR needs, target output to achieve, and the resources allocated. This process is conducted by gathering proposal for volunteers recruitment from each branch of CUKR, then the proposal are discussed in the management and board forum of CUKR. The result will be followed up and discussed (including how to train, develop and appreciate volunteers) in CUKR business planning process.

4.1.2 Recruitment

The process of recruitment is started with the socialization of volunteers recruitment. The socialization are conducted through various ways include: (1) Board members, management, committee, and existing Sadulur channel, formally (using instruction letter from the board members) and informally (mouth-by-mouth socialization); (2) internal communication media (whatsapp group, own website, facebook account, etc.); (3) announcement in organisational and basis community forum (e.g. annual members meeting, education and training event, regular basis community meeting); (4) Utilization of digital media (youtube channel, office branch television, etc.); (5) Utilization of brochure, poster, and the other promotional media.

The second phase of recruitment process is mobilization of Sadulur candidates. There are two channels used for mobilizing Sadulur candidates: through own initiative of a CUKR member or through proposal from each CUKR branch. Own initiatives channel means any CUKR members who have interest to volunteer in CUKR can be a Sadulur candidate. On the other hand, proposal channel means that the Sadulur candidates are proposed by branch management, committees, or basis community.

The following phase in recruitment process is screening and selection of Sadulur candidates. This phase is intended to assess whether the candidates are well-qualified to hold the responsibility as Sadulur. Screening and selection are conducted by analyzing the track record of members, doing board interview (first step), and applying training

⁷ Basis community is a group of CUKR members lives in same territory that facilitates sharing knowledge, cooperation, and empowerment activities between CU members involved.



period for Sadulur candidates that graduate the first step.⁸ After they finish the training period, CUKR policy board will evaluate the performance of the Sadulur candidates. If a Sadulur candidate complete all criterion required they will be legalized as CUKR Sadulur.⁹ The duration of the contract as Sadulur is 1 year. Each year (in December), the policy board will evaluate the performance of Sadulurs. If a Sadulur is considered performing their task well, the contract will be extended. Otherwise, if a Sadulur is considered not performing well or break the contract, the contract may be ended.

4.1.3 Training and education

Training and education is a process oriented to plant and embed the values and spirit of credit union in Sadulurs' life and increase the capability of Sadulur to do their tasks and bear their responsibility. Sadulur candidates or legalized Sadulur must join the training and education required. For sadulur candidates, they are required to participate in: (1) primary education for credit union; (2) financial literacy; (3) credit union values training, (4) credit management training; and (5) facilitator primary education. For legalized sadulurs, they are required to participate in: (1) basic accounting training; (2) entrepreneurial and business management (business planning, quality control, and business accounting); (3) leadership training; (4) personality plus training; and (5) team building training.

⁸ There are five qualifications to pass screening and selection phase: (1) having never been defaulter when accessing loan product; (2) having joined credit union primary education; (3) understanding and practicing the mission and values of credit union movement; (4) showing their contribution in supporting CUKR development; (5) agreeing to devote their time regularly by accompanying credit union members, especially in their branch territory, and also participate in education and training activities to support their responsibilities and tasks as Sadulur.

⁹ The criterion of Sadulur candidates to be legalized as Sadulur are: (1) having the ability to accompany members in managing their household finance and business; (2) understanding the operation of Credit Union, especially members recruitment and credit process (application, selection, disbursement, collection, and enforcement); (3) Joining at least 75% of educational and training activities required for Sadulur candidates; (4) Agreeing to recruit at least 10 new members each years; (5) Having CUKR savings balance amounted of at least as same as average balance of all members non-daily savings; and (6) Agreeing to join advanced education and training activities for Sadulur.

4.1.4 Job organization

Job organization aims to ensure that Sadulurs do their activities effectively through a coordinated system that gives priority on feedback mechanism. In doing their tasks, branch management staffs, committees, and Sadulurs must cooperate one another. Under the coordination and monitoring of branch management and comitees, at least, there are 4 step of Sadulurs activitis must be done integratedly. They are:

- i) Work planning and coordination. In this step, CUKR branch management arranges a scheduled regular (e.g. monthly) meeting forum between branch management staffs, commitees, and sadulurs. In this meeting, detailed tasks and agendas about what Sadulurs must do and also the strategies (and tactics) to achieve the optimum result is discussed. Moreover, the team and person in charge in each tasks are also determined.
- ii) Implementation. After work planning and coordination done, Sadulurs start doing their task according to the plan. For each task done, Sadulurs is expected to make a written report related to the task they've done. This report will be documented by branch management and will be the input for the next job organization step, evaluation and reflection. In addition, the written report will be an important basis for assessing the performance of Sadulurs and input for determining the appreciation them.
- iii) Evaluation and reflection of work implementation. In this step, branch management, commitees and sadulurs in each branch gather in a sharing forum. Each sadulur report the tasks that they have done and share their experiences. It also become an opportunity to discussi about how to increase the effectiveness of Sadulur tasks according to the most recent condition in the field. This forum gives the opportunities for the participants to learn about the difficulties, opprtunities, methods, and strategies that support Sadulur tasks and CUKR branch operation.

iv) Thereafter, the result of the evaluation and reflection will be the input for composing the better work planning.

The process of CUKR Sadulur job organization processes run continuously as illustrated in figure 1. While, the relationship (command, coordination, supervision, and reporting direction) of CUKR Sadulur and the other organizational elements for each CUKR branch is illustrated in figure 2.

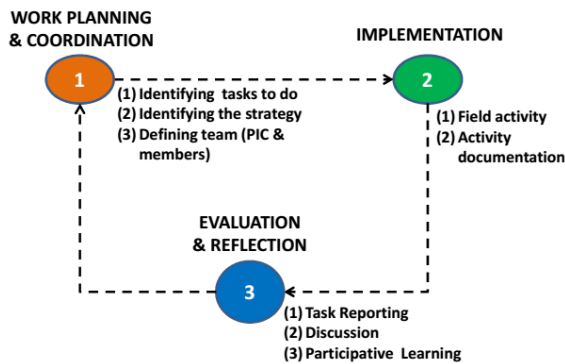
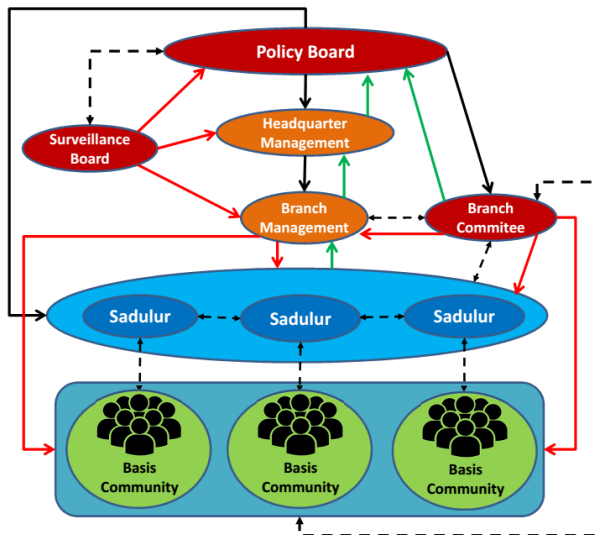


Figure 1.
CUKR Sadulur job organization



Note:
 — Command line
 - - - Coordination line
 — Supervision line
 — Reporting line

Figure 2.
CUKR Organizational Relationship

4.1.5 Assessment, recognition, and sanction

Assessment is a process to analyze how well the Sadulur in doing their tasks and responsibility according to the plan. The policy board is obliged to assess the performance of each Sadulur each year in December.¹⁰ The board will assess the performance of a Sadulurs according some objective criterion and also the consideration from branch management and committees. For Sadulurs that conduct activity of managing non-performing borrowers, the critrion are: (1) number of visit to collect non performing loan payment, (2) number of non performing loan collecting, (3) volume of non performing loan collected, (4) CUKR branch ratio of non performing loan on total loan outstanding achieved, (5) number of Sadulur meeting, education, and training joined. For Sadulurs that conduct the activity of promoting CUKR organization and its products, the criterion are: (1) new members recruited, (2) number of community visit to promote CUKR organization and products, (3) number of basis community meeting established to recruit new members and promote product, (4) number and volume of loan application because of members visit and basis community promotion meeting, (5) Ratio of loan to asset achieved, and (6) the number of sadulur meeting, education, and training joined. For Sadulurs that conduct activity of facilitating education, training, and empowerment activities to CUKR members, the criterion are: (1) number of education and training activities members facilitated by a sadulur, (2) number of basis community meeting that are facilitated (accompanied), (3) number of member empowerment visit, (4) number of education, training, and empowerment modules written, (5) education, training, community basis, and empowerment activities target achievement. For Sadulurs that conduct activity of audit asisstance, data collecting and analysis, the criterion are: (1) number of monitoring assisting activities (with committee or

¹⁰ A branch management prepares record of activities conducted by Sadulurs in its branch in the period of the contracts.



surveillance board) handled, (2) number of members based survey joined, (3) number of publication and communication media updating activities conducted.

CUKR gives appreciation in two ways, non-financial and financial appreciation. Non-financial appreciation is given in the form of: (1) annual ceremonial activity between Sadulurs; (2) reportation and publication of Sadulur activities in CUKR communication media; (3) identity gift that support the work of Sadulurs (e.g. Sadulur uniform, work notes, etc.); (4) Opportunity to join education, training activities, comparison study related to Credit Union movement; (5) Personal greeting for Sadulurs (or through CUKR communication media) in their special occasion; (6) Verbal appreciation for well-performed Sadulurs in strategic activities of CUKR; (7) Certificate and testimony of Sadulur works and; (8) Opportunity to work as CUKR a branch commitee, policy board, or surveillance board. Financial appreciation is determined based on work performance. It is given to the Sadulur in the form of fresh money given when they facilitates members educational or empowerment activities, achieving specific job target, joining a meeting or educational activities or Sadulur meeting. In addition, Sadulurs also receive the specific distribution of Credit Union annual profit that are transferred to their savings account. Moreover, Sadulurs also receives payment to compensate their transportation and consumption expenditure related to their tasks.

CUKR also establishes some punishment mechanism for Sadulurs. When the work of a Sadulur is not well-performed, their work contract is not extended. Moreover, when a Sadulur prohibit the rules¹¹, legally and ethically, as like as written in *Integrity Factsheet* signed by Sadulurs, he (she) must responsible for compensating the victim (members or institution) loss, his (her) Sadulur work contract will be ended, and probably he

(she) will called for a proposal for a legal process.

4.2 Analysis

As stated by North (1990) and Kasper & Streit (1999), institutional arrangement consists of formal rules, informal rules, and enforcement mechanisms. This section analyzes the elements of institutional arrangement Sadulur management system in CUKR according to the information documented in volunteer guideline draft of CUKR and collected from author observation. Later, how those institutional arrangement potentially influences the performance of CUKR Sadulur is analyzed.

Institutional arrangement comprises formal rules, informal rules, and mechanism that enforce the rules.

Related to the formal rules, the author finds that contract between CUKR and Sadulur, integrity factsheet, and also some organizational documents that contains CUKR operational target (such as strategic plan, business plan, and work plan) as the formal rules. Those are formally written documentation with strictly guidance and target. It should be followed or achieved by all Sadulurs. It also contains some specific information about the appreciation and sanctions that will be received by Sadulur if they follow or break the rules. These formal rules gives a legal basis of what is being the right and responsibility of a Sadulur.

Although some formal rules has been documented, it needed more operationalized guideline for a specific task handled by Sadulur. The author interview to sadulurs finds that they doesn't have an operational guidance related to their task. Today, most of Sadulur do their tasks just by observing then imitating their senior partners. There are no standard operating procedures or best practices for certain Sadulur task that they can refer. This can be not productive from two aspect. There is a possibility that the senior partner do not perform a standard practices, while the Sadulurs that observe the senior partners do not understand completely what they observe

¹¹ The rules are related with with the practices of corruption, collusion, nepotism and other form of abuses of power related with their position as Sadulur also unethically behavior that brings risk and (potential) loss of CUKR institution, e.g. cheating on loan collection, black campaign, artificial reporting, etc.



and imitate. This problems result in unoptimal or probably harmful output if this deviation grow over time.

Related to informal rules, at least, two most important informal rules is found by the author in Sadulur management system of CUKR. They are credit union principles and participative culture. Probably this rules do not explicitly stated ini CUKR Sadulur management system above. However, it is reflected from some process of Sadulur management. These informal rules is expected to influence and guide Sadulurs behavior in doing their tasks as Sadulurs.

Regarding the first informal rules, CUKR wants to ensure that Sadulur are aware and make Credit Union principles as the way of life. It is reflected from the recruitment process that gives stressing on the internalisation of Credit Union values, principles, and also some skills to support the actualization of the values and priciples. Central values of Credit Union are equality, equity, and mutual self-help.¹² These values becomes the philosophy of Credit Union operating principles that consists of democratic structure (open and voluntary membership, democratic control, and non discrimination), orientation to provide services that improve the socio-economic well being of members (financial inclusion, autonomy and independence, financial stability and sustainability, and maximization of member socioeconomic benefit), concern on social goals (ongoing education to promote financial literacy, network cooperation, community responsibility, and global vision).¹³ Internalisation of Credit Union values and principles is importance for Sadulurs because Sadulurs are mostly interact and communicate directly with members. In their tasks, they will also expected to provide learning to members about the values of Credit Union. Moreover, as credit union values are internalised in the daily

life of Sadulur, they will act responsibly to their tasks according to Credit Union values.

Regarding the second informal rules, participative spirit in Sadulur management guideline draft is confirmed from CUKR Sadulur working system that are not a strictly top-down approach in which all Sadulur activities are determined by CUKR board or headquarter management. Any tasks handled by Sadulurs is planned and evaluated participatively by all relevent stakeholders that related with Sadulur operation—local branch management, commites and sadulurs. For example, the formulation of detailed Sadulur agenda (tasks), evaluation of the agenda (tasks) are conducted through a participatively sharing process between Sadulurs—who knows the environmental context of CUKR targeted members, management—who knows the transaction records of targeted members, and the committee—who monitor the performance of Sadulur, management, and basis community while also have special access to the policy boards. Moreover, they also expected to have a continuous participative reflection and learning about their past achievement which is translated into better plan, action, achievement in the following time.

When the author observed the current practices today, it is found that the credit union values has not embedded in the actors that involved in Sadulur operation. In many occassion, management cannot work in harmony with commitees and Sadulurs. Moreover, both management, commitees, and Sadulurs have their own opinion about what is good to do, but rarely share their opinion in a round table meeting. In addition, management often ignore the suggestion from the commitees and Sadulurs so that management tend to be like a conceptor for what Sadulur must do and inhibit a participatively process.

Related to enforcement mechanism, it is important to note three concepts propose in CUKR Sadulur management guideline. The first one is regarding Sadulur monitoring system that combines the roles of management and committee to keep their eye on Sadulur performance. The second one is sharing-based

¹² International Credit Union Operating Principles (<http://www.coopmoneynz.org.nz/wp-content/uploads/2014/07/WOCCU-International-Credit-Union-Operating-Principles.pdf>)

¹³ <https://www.cuna.org/Footer/About-CUNA/Seven-Cooperative-Principles-for-Credit-Unions/> ; <https://www.woccu.org/documents/OperatingPrinciples>



Sadulur activities reporting and evaluation. The last one is the performance-based multi-layer incentives which taking forms of various financial, non-financial, appreciation and sanction.

Regarding the Sadulur monitoring system which combines the role of branch management and committee, it is very interesting. Branch management tends to focus on computing technical works accomplishment (number, work hours, and work types) of a Sadulur and monitoring whether Sadulur has followed the rules as written in Sadulur contract. On the other hand, the branch committees tend to collect information about the behavioral performance of Sadulur, e.g. how understand is a Sadulur about credit union values and its application in their daily activities, how Sadulur make a good interaction with members and cooperate with management, and how they shows their motivation and efforts for CUKR organizational development. Information from branch management and committee will supply the policy board, the assessor of Sadulur performance, a relatively complete information about the technical and behavioral capabilities of a Sadulur. This helps the board assesses Sadulurs performance and give them appreciation or sanction appropriately.

In addition, the obligation of Sadulur to make written documentation and reportation, then share it to branch management, committee, and Sadulur forum will ease the monitoring process held by CUKR branch management, committees, board. It also can be an authentic learning for the other Sadulurs. Moreover, the compilation of Sadulur activity reporting can be restructurized and reviewed to formulate a Standard Operating Procedures of Sadulur tasks. This system will improve the current practice in CUKR in which the report of Sadulur activities only covers a very limited information (the title of the activity, the general information about the activity such as the date or location, and the Sadulur signature) and has not talked about the process that Sadulur yet, the result they have got, and the response of target members.

Regarding the multi-layered enforcement

mechanism, it is also very interesting to observe that CUKR tend to emphasize on non-financial appreciation in various informal way and giving various facilitation to support Sadulur development. Probably, this is the appropriate way as many volunteers today does not really consider about financial matters for compensating their works, but they need actualisation and space to develop their knowledge and skills. Even though, the existence of financial compensation to support Sadulur basic operation includes transportation, consumption cost, and compensation for their time can brings a good image that CUKR is also concerned about the basic things needed for their tasks. By using multi-layered appreciation system, probably it will be more effective than CUKR today practices which compensate Sadulur efforts with financial remuneration. Moreover, it also potentially decrease the operational cost of CUKR.

Related to the form of appreciation for Sadulur, the criterion to determine Sadulur performance seems asking for a review. Probably, it is appropriate to formulate performance criterion that reflect the output or impact of the activities, not just the process. For example, for the Sadulurs that dedicate to facilitate education and empowerment activities, probably their performance criterion not only determined by some simple output indicators such as how many times they facilitate an education (training) activities or visit members. What is the impact of the education and empowerment activities? What change that actualized in members receive the empowerment activities (such as whether the member can increase their business system or sales)? Whether the member receive empowerment tend to have better performing loan? Whether knowledge and skills the members get from education, training or empowerment activities are applicated in their life?



5. CONCLUSION

This study describes and analyzes the new proposed CUKR volunteer management system. Using institutional economics approach and focusing on CUKR volunteer who works at local branch level called 'Sadulur', it is found that CUKR new proposed Sadulur management system provides a more comprehensive path that potentially enhances the effectiveness of CUKR Sadulur roles. First of all, it provides some formal rules related to the operational requirement for CUKR members who works as a Sadulurs (candidates) and also the job description and the target they have to done in each position. Even though this formal rules must be comprehend with some operational procedures that helps Sadulurs do their certain tasks. The second one, CUKR new proposed Sadulur management system provides informal rules in the form of credit union values and principles, also participative culture that is internalised and accomodated in the steps of Sadulur management system such as recruitment process, education, training, job organisation of Sadulur. This rules will helps Sadulur to works their tasks in credit union way, helps them to interact with CUKR members, while also promote sharing resources that enhances problem solution and mature learning process. The last one, CUKR new proposed Sadulur management system provides enforcement mechanism in terms of Sadulur monitoring system that combines the roles of management and commitee, Sadulur sharing-based activities reporting and evaluation, and the performance-based multi-layer incentives. These enforcement system which tends to use all relevant stakeholders in Sadulur operation will provide a comprehensive monitoring instrument with low cost budget. Meanwhile, the tendency of CUKR to use non-financial positive incentives, without totally leave financial appreciation, in its recognition system tend to attract members to be Sadulur and motivate Sadulur to improve their contribution to CUKR through the volunteer works. These three elements—formal rules, informal rules,

and enforcement mechanism that are reflected from the new proposed Sadulur management systems (the sadulur guideline draft) tends to support the Sadulur operational activities and development so that potentially increase of CUKR performance.

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MALAYSIAN CHINESE SHOPPERS' MOTIVATIONS-TO-SHOP: THE CASE OF LOCAL SHOPPING MALLS

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ABSTRACT

The present study aims in investigating and ascertaining amongst Malaysian Chinese shoppers' motivation-to-shop, and their behavioural intentions and intrinsic responses towards shopping malls in particular. In this study, shoppers' motivations-to-shop can be attributed based on three dimensions: which are perceived convenience, sense of exploration and aesthetics' dimension. The resulting findings extrapolated into this paper were based on questionnaires; which were distributed to 309 Chinese respondents irrespective of age and gender, who frequented the local shopping malls found within Kuching, Sarawak. The resulting data and findings from the study clearly shown that motivations-to-shop among Malaysian Chinese significantly influenced the behavioural and intrinsic intentions at local shopping malls. The findings provide strong empirical evidences on the effects of motivations-to-shop affecting Malaysian Chinese shoppers found shopping at local shopping malls throughout Kuching. Thus, this study; therefore, articulates and endorses the current present views of Malaysian Chinese consumers' responses towards motivations-to-shop at local shopping malls, and its implications to academia and business understandings.

Keywords: *Motivations-to-shop; behavioural intentions; local shopping malls; Malaysia*

1. INTRODUCTION

Motivations-to-shop have undergone extensive theoretical and empirical testing within consumers' behaviour contexts (Lesser & Kamal, 1991; Ng, 2013), particularly on the behavioural outcomes from such motivations (Ng, 2013). Over the last decade, there has been a considerable amount of progress from the literatures on identifying the various

behavioural dimensions of buying supplanted and supported by and with substantial amount of theories on the subject of buying behaviours as seen postulated on the effects of shopping motivations on both attitudinal and behavioural outcomes of shopping (Arnold & Reynolds, 2003; Jones, Reynolds, & Arnold, 2006). Nonetheless, not much is known or can be derived on the intrinsic and psychological determinants of shopping behaviours prevalent within the Chinese shoppers' contexts in a developing nation such as Malaysia (He & Mukherjee, 2007; Mokhlis, 2009).

Hence, the present study serves as a preliminary attempt to determine the relationship between motivations-to-shop and behavioural intentions towards local shopping malls among Chinese shoppers in Malaysia generally and particularly in Kuching Sarawak, Malaysia. It is hoped that such groundwork study and its expected contributions would become a precursor to future efforts in exploring and detailing motivations-to-shop; besides, in understanding behavioural intentions from ethnicity based identity perspectives in a more holistic and encompassing manner.

2. LITERATURE REVIEW

Consumers' motivations-to-shop vary widely over a vast spectrums. Motivations refer to those psychological processes that governed goals oriented stimulations, directions, and perseverance of voluntary actions (Mitchell, 1982; Oh & Choi, 2017). Past studies mainly documented motivation as a part of human psychological needs (Babin, Darden, & Griffin, 1994; Tauber, 1972); and, as such these psychological needs can be categorised into

various sub-categorical motivations which include; personal motivations such as role playing, diversion, and self-gratification; social motivations such as social experiences, communications with others, peer group attractions, status and authority, and pleasures of bargaining (Tauber, 1972).

Past studies on shoppers' motivations towards shopping malls further categorised motivations into seven dimensions namely: convenience, exploration, aesthetics, escape, flow, role enactment, and social dimensions (Ahmed, Ghingold, & Dahari, 2007). Out of these seven dimensions, based on past studies done indicated that: convenience, exploration, and aesthetic dimension significantly impacted and affected shoppers' behavioural intentions (Broekemier, Marquardt, & Gentry, 2008; Jarvenpaa & Todd, 1997; Keng, Huang, Zheng, & Hsu, 2007; Wang, Minor, & Wei, 2011).

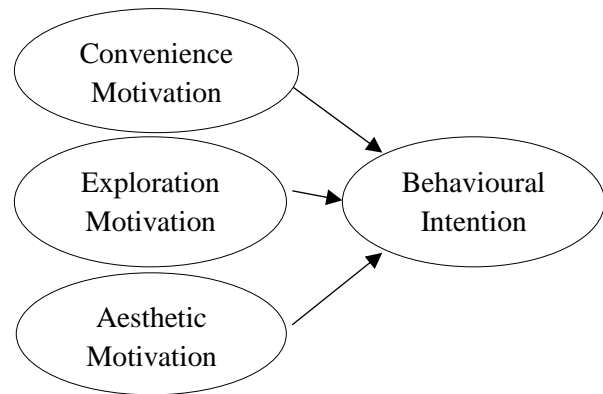
Based on the studies done by Jarveenpaa and Todd (1997), they found out that the role of easy access and convenience was perceived as one of the major motivating factors drawing Chinese' consumers towards shopping at shopping malls. These consumers who are driven mainly and solely by the need and necessity for convenience in their shopping activities are less likely to be found inconveniencing themselves to repeatedly searching for new products and services; hence, more than likely they exhibited higher levels of behavioural intentions gravitating towards one particular shopping mall than to other shopping malls (Keng et al., 2007).

Exploration being one of the motivations-to-shop on the other hand is synonymous with the concept and precept under the heading, travel motivation (Broekemier et al., 2008). Such exploration motivation can be further understood as intrinsically related innately within consumers shopping experiences, which are important sources of shoppers repeat purchases and behavioural intentions tendencies to shop (Brown, Pope, & Voges, 2003). The higher the levels of exploration motivations by consumers, the more likely the consumers be desirable to repeating purchases and thus ingraining their behavioural intentions to shopping at shopping malls.

Aesthetic motivation-to-shop on the other hand is functionally related to the functionality of a particular motivation dimension (Wang et al., 2011). Such functionality can be observed and ascertained from various physical external attributes within the shopping malls encompassing (but not limited to) lighting, artistic, musical, colours and odour displays. These functionalities have been found out to possess certain sublime levels of impacting shoppers to repeatedly make their purchases and transforming their behavioural intentions akin to behaviours depicted by shopaholics (Ha & Jang, 2012).

2.1 Conceptual Framework

The conceptual framework of this study proposes that the external variables, which are the independent variables in this study; namely, convenience, exploration and aesthetic motivations may or may not affect behavioural intentions. Based on the discussion from the literature review earlier, the following conceptual frameworks are proposed. Refer to Figure 1.



Source: Broekemier, Marquardt and Gentry (2008); Ha and Jang (2012); Keng, Huang, Zheng and Hsu (2007)

3. RESEARCH METHODS

This study is predominantly quantitative in nature, thus self-administered survey questionnaires are chosen for this study. A total of 309 respondents participated in this study. The criterion commonly recommended is a



minimum of 100 to 200 respondents for a meaningful analysis to be derived and explained (Hoyle, 1995). The samples selected for this study were gathered from various randomly chosen shopping malls within Kuching, Sarawak, Malaysia.

The survey questionnaire of this study consisting of 2 sections. Section 1 consisting of 2 items which includes the demographic data of respondents: gender and age. Section 2 consisting of 4 items related primarily to convenience motivation-to-shop, 4 items related to exploration motivation-to-shop, 5 items related to aesthetic motivation-to-shop, finally 4 items related to behavioural intentions. Respondents were asked to respond to likert-7 scales, where '1' corresponded to 'strongly disagree' and '7' corresponded to 'strongly agree'. Using Likert-type scale would also resulting in higher reliability and validity in the findings (Gliem & Gliem, 2003).

The analytical strategy chosen for this study is descriptive; Pearson correlation and linear regression analyses. Descriptive analysis is used in evaluating and tabulating respondents' demographic and psychographic data, such as gender and age groupings. This was followed by Pearson correlation and linear regression analyses to investigate the inter-relationships found between the various motivations-to-shop dimensions (convenience, exploration, and aesthetic) on behavioural intentions towards local shopping malls among Chinese shoppers in Malaysia.

4. RESEARCH FINDINGS AND DISCUSSION

A total of 400 copies of survey questionnaires were distributed randomly at various shopping malls in Kuching, Sarawak; concurrently by enumerators, and 309 usable copies (77.25% response rate) were collected back. Respondents were prior qualified based on their ethnicity (Chinese descendants, bearing Chinese names) by the enumerators and prior request to provide their responses for the survey questionnaire distributed. Given the numbers of questionnaire copies distributed and collected, a response rate of more than 60% is deemed

adequate in ensuring survey quality besides minimising minimal effect of responses' errors (Nulty, 2008). Table 1 below shows the demographic details of 309 respondents sampled in this study.

Table 1: Respondents Demographic Profiles

Variables	Frequency	Percentage (%)	
Gender	Male	125	40.5
	Female	184	59.5
Age	19 years old and below	31	10.0
	20 to 29 years old	80	25.9
	30 to 39 years old	55	17.8
	40 to 49 years old	59	19.1
	50 years and above	84	27.2

Table 2 below presents the descriptive findings for the various motivations-to-shop dimensions and behavioural intentions towards local shopping malls.

Table 2: Descriptive Findings

Variables	Mean	Std. Deviation
Near to my house, work place or study place	4.29	1.48
Easier parking facilities at reasonable parking rates	4.46	1.22
The mall operations hours are convenient	4.88	1.14
One-stop shopping destination	4.69	1.34
Convenience Motivation-to-Shop	4.70	1.09
Finding new things at certain shops	5.04	1.14
Some products that interest me to visit to a certain shop	5.28	1.00
Considered as learning experience	3.98	1.24
Enjoying shopping in the mall and trying on new things, products and services	4.50	1.25
Exploration Motivation-to-Shop	4.87	0.87
Interior design of the shops	4.28	1.31
Colour schemes used	3.98	1.36
Textures used	3.78	1.31
Environments of the mall (e.g. Lighting and decoration)	4.58	1.43
Feeling good factor when entering the mall	4.90	1.02



Aesthetic Motivation-to-Shop	4.36	1.10
Expecting to go to a mall once a week	4.03	1.29
Intending to go to a mall once a week	3.97	1.30
It is likely that I will go to a mall once a week	4.27	1.28
Planning to go to a mall once a week	4.04	1.33
Behavioural Intentions	4.14	1.20

Table 3 below presents the Pearson correlation and linear regression findings for the various motivations-to-shop dimensions on behavioural intentions towards local shopping malls.

Table 3: Pearson Correlation and Linear Regression Findings

Variables	Pearson Correlation	Linear Regression		
		Beta (β)	R ²	Adjusted R ²
Convenience Motivation-to-Shop	0.091	0.100	0.008	0.005
Exploration Motivation-to-Shop	0.314**	0.432**	0.099	0.096
Aesthetic Motivation-to-Shop	0.363**	0.396**	0.131	0.129

** $p \leq 0.01$, * $p \leq 0.05$

The findings in Table 3 indicated that there is a markedly significant relationship between exploration motivation-to-shop and behavioural intentions ($\beta = 0.432$, $p \leq 0.000$) and aesthetic motivation-to-shop with behavioural intention ($\beta = 0.396$, $p \leq 0.000$). The resulting findings from this study suggests that exploration motivation-to-shop and aesthetic motivation-to-shop significantly affecting the behavioural intentions of Chinese shoppers towards local shopping malls within Kuching. The findings also provide further quantitative and qualitative supporting evidences found in previous studies done; which extrapolated that exploration motivation-to-shop and aesthetic motivation-to-shop served as important contributing factors in influencing shoppers purchases' decisions (Broekemier et al., 2008; Wang et al., 2011).

Such findings are mainly due to the shifting demographic patterns of shopping for

necessities to recreational shopping (window shopping) by shoppers (Abaza, 2001; Grünhagen, Grove, & Gentry, 2003). At the same time, the overall retail/ shopping environments provided by shopping malls are seemingly to be attracting more customers gravitating and frequenting towards shopping malls. This inevitably and justifiably provide steady streams of frequent patrons or shoppers of such shopping malls; giving rise to opportunities to interact socially with the various shopping malls tenants, whilst enabling the shoppers to better assimilating themselves with the tenants and the general community they belonging to (Ahmed et al., 2007). Such findings further provide supports towards the collectivistic nature endemic of Malaysian Chinese in general (Chan, Edo, & Hussain, 2016; Chuah, Hoffmann, & Ramasamy, 2016; Kok, Goh, & Gan, 2015; Tan, Sheppard, & Stephen, 2015).

5. CONCLUSION

The present study focused mainly on Malaysian Chinese motivations-to-shop and behavioural intentions towards local shopping malls. Results show that exploration motivation-to-shop and aesthetic motivation-to-shop contributed dominantly in affecting the behavioural intentions towards the local shopping malls. This study suggested that exploration motivation-to-shop and aesthetic motivation-to-shop should become added competitive advantages for these local shopping malls to compete with traditional retailers and wholesalers found outside of the shopping malls compounds. Although exploration motivation-to-shop and aesthetic motivation-to-shop are found to be the main behavioural intentions to shopping towards local shopping malls by Malaysian Chinese communities, they are limited to provide the implications of contingency effects of other governing factors towards behavioural intentions. From the perspectives of managers and marketers, the findings managed to shed light on consumer's pre-purchasing behaviours. Such knowledge would further enhancing the communication and promotional processes in



generating more repurchasing activities amongst the patrons of local shopping malls in the future.

Since the present study is a preliminary attempt to understand motivations-to-shop and behavioural intentions, this study is limited in its scopes to the relationship between the two motivations. At the same time, the unavailability of certain products or services specifically found within shopping malls might provide interesting insightful knowledge in understanding motivation-to-shop and behavioural intentions for further research and study. Moreover, the samples derived from this study are limited to Malaysian Chinese; consequently, the findings cannot be extrapolated to other ethnic's motivations-to-shop and behavioural intentions to shopping in Malaysia. It is therefore imperative to act upon this study to further explore and explain other ethnics' motivations-to-shop and behavioural intentions towards shopping malls, or even local supermarkets, mini-markets, out weekend markets in Malaysia.

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THE INFLUENCE OF HEADMASTERS' LEADERSHIP AND INFRASTRUCTURE FACILITATES TOWARDS TEACHERS' PERFORMANCE

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ABSTRACT

This research aimed to investigate (1) the influence of headmaster's leadership towards teachers' performance, (2) the influence of infrastructure facilitates towards teachers' performance, (3) the influence of headmaster leadership and infrastructure facilitates towards teachers' performance. This research belonged to an explanatory research with the use of quantitative approach. The subject of this research was all teachers from three schools namely Canossa Kindergarten Kupang-NTT, Canossa Nurobo Kindergarten Atambua-NTT and Canossa Elementary School Kupang-NTT under the Canossa Educational Foundation, with the total of 45 respondents. The researcher used purposive sampling as the sample technique. The data analysis method was descriptive analysis and multiple linear regression analysis with the help of Statistical Package for the Social Sciences (SPSS) v.22. The results of this research showed that (1) there was a positive and significant influence of headmasters' leadership towards teachers' performance with the *t* test score of 3.587. It is indicated that the better leadership skill the headmasters have, it is correlated with the high improvement of teachers' performance. (2) there was a positive and significant influence of infrastructure facilitates towards teachers' performance with the *t* test score of 2,801. This means that the more complete the school infrastructure facilities, the teachers' performance will also increase. (3) there was a positive and significant influence of headmaster leadership and infrastructure facilitates towards teachers' performance with the *F* test 29,620. This means that the headmasters' leadership and infrastructure facilities work together in harmony to create teachers' higher performance. There were some recommendations based on the result of this research. First, headmasters as a role model and central figure have to strengthen the improvement

of school's quality. Second, the infrastructure facilities need to be maintained and improved. Third, teachers need to improve their quality in order to have a competitive advantage so that they are ready to face competition in educational institutions.

Keywords: Headmaster's leadership, Infrastructure facilitates, Teachers' performance.

1. INTRODUCTION

In the era of globalization, the challenges faced by the Indonesian nation increase heavily. In order to create qualified human resources, it is important to improve the quality and skills of teachers' performance. Teachers as one of the resources in schools have an important role in improving the quality of learners. They are in charge to guide and direct the students in learning to achieve optimal results. Therefore, educational institutions have a special attention in improving teachers' performance. With the improvement of teachers' performance, it is expected that the quality of education in the future will be qualified and better.

In order to achieve these objectives, by Government Regulation number 19 of 2005 on National Education Standards (PP No. 19 Year 2005) sets eight Standards to be fulfilled in implementing education. The eight mentioned standards include: content standards, process standards, graduate competency standards,



educators and educational staff standards, infrastructure facilitates standards, management standards, financing standards and educational assessment standards. One of the standards which relate directly to graduates' quality and competence is the educators and educational staff standards. This means that in order to achieve the desired quality of graduates, the quality of educators (teachers) and educational staff (headmasters, supervisors, librarians, administrative staff) must be improved.

One of the main requirements that must be considered in improving education in order to develop qualified human resources is the teachers' performance. In this case, leadership problems always give a certain impression because an organization will succeed or fail is partly determined by the quality of the leader. Leadership is one of the managerial aspects of organizational life which is a key position. It is because the leadership of a leader acts as an alignment in the process of cooperation between people in the organization (in this research, refers to school).

In terms of headmaster's leadership, Suharsaputra (2016) revealed that the leadership of the headmaster is the ability to influence members of the school organization to perform activities in achieving the goals of school's education. Headmaster's leadership is an important factor that can give meaning and unity of purpose between leaders, staff, students, parents and the whole community.

In addition to the headmaster's leadership, teachers' performance cannot be separated from the influence of existing infrastructure facilitates. Teachers' ability in mastering the science and technology will not be fulfilled without the support of adequate infrastructure

facilitates. In addition, learning media and other teaching tools are used as an effort to eliminate verbalism in teaching and learning situations towards the objectives of teaching itself

In connection with the provision of infrastructure facilitates, it is intended to support school activities in order to achieve optimal results. The optimal result would be an achievement for the school including the teachers. The complete learning resources are not guaranteed that the teaching and learning process would be optimal. The headmaster needs to manage the learning resources with effective leadership, so that the learning resources could support the teachers in performing their duties.

Based on the researcher's observation, the schools under the Canossa Educational Foundation showed that some teachers had not performed well in performing their duties and functions as teachers, such as: planning the teaching activities programs, carrying out learning activities, doing assessment, making daily test, organizing and implementing improvement programs, and developing their teaching and learning process. Some of the teachers' performance are still low. The teaching is taught monotonously and without proper preparation. The teaching and learning preparation was very simply, have not shown their creativity. The impacts of the teachers' lack of skills and ability in managing students are 1) students are bored in teaching and learning process, 2) not concentration during the lesson, 3) noisy in the classroom and 4) disturb other friends.

The infrastructure facilities owned by the Canossa schools in supporting the teaching and learning process are incomplete. Teachers



teach with the experience they have known, so that the knowledge and skills of the students are not well-developed. Infrastructure facilities at certain schools do not support teachers in the teaching and learning process. It was found that teachers who teach only on the basis of past experience from time to time, less initiative in learning new methods that can develop the students' mindset and creativity. It is understandable that the teachers' skills' development is limited due to some reasons such as limited resources (there is no comparative study which can open the teachers' insight), lack of evaluation, lack of teachers' supervision, do not want to read books to develop their skills and less familiar and creative in using technology in teaching, such as computers.

Therefore, the headmasters as an organizational leader is required to pay attention to the competencies and skills development of teachers' performance in order to develop their students. The success of school management is determined by the utilization of human resources. Consequently, as a leader in a school organization, the headmaster should be aware and master certain techniques in order to empower teachers to be successful in teaching at school.

Referring to these conditions, the researcher is interested in conducting the research entitled "The Influence of Headmaster's Leadership and Infrastructure Facilities towards Teachers' Performance in Canossa Educational Foundation".

2. RESEARCH METHOD

This research belonged to an explanatory research with the use of quantitative approach.

The population was all teachers from three schools under the Canossa Educational Foundation namely Canossa Kindergarten Kupang-NTT, Canossa Nurobo Kindergarten Atambua-NTT and Canossa Elementary School Kupang-NTT in the academic year 2017/2018.

The researcher used purposive sampling as the sample technique. Purposive sampling is the use of the researcher's judgment to select the respondents that s/he believes, based on previous information, will provide the data needed by the researcher. Therefore, the researcher chose 45 respondents determined by quota sampling taken from all teachers from the three schools.

The data in this research were collected using questionnaire based on indicators of research variables proposed by Peariso (2011). The research questionnaire included 10 headmasters' leadership variable statements, 10 infrastructure facilities variables, and 10 teachers' performance variables statements. All respondents' answers are scored according to the range of predetermined score, and then summarized in a data tabulation to create the unit of analysis about teachers' perceptions of headmasters' leadership and infrastructure facilities towards teachers' performance.

The researcher provided the agreement scales which were in the form of Likert Scale in the questionnaire. The researcher provided the statements with the degree of agreement: strongly disagree (SD) score 1, disagree (D) score 2, agree (A) score 4, and strongly agree (SA) score 5. The respondents had to choose one of the degrees of agreement.

Data analysis technique in this research was technical analysis of multiple regression data with help of SPSS.v.22. The



implementation phase of analysis include: (1) descriptive analysis, (2) test requirement analysis which are normality test, linearity test and heteroscedasticity test, and then (3) hypothesis test.

3. RESEARCH FINDINGS AND DISCUSSION

3.1 Data Description

The results of descriptive statistics of teachers' performance, headmasters' leadership and infrastructure facilities can be seen in the following table 1:

Table 1: The Result of Descriptive Statistics Analysis of Research Variables

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Headmasters' leadership	45	27,00	46,00	37,200	6,155
Infrastructure facilities	45	28,00	50,00	40,466	7,095
Teachers' performance	45	28,00	48,00	38,133	5,647
Valid N (listwise)	45				

Source: Data Processed (2017)

Based on Table 1 it is shown that teachers' performance variables have a minimum value of 28.00, a maximum value of 48.00 and an average score of 38.13 with standard deviation of 5.64. The headmasters' leadership variables have a minimum value of 27.00, a maximum value of 46.00 and an average score of 37.20 with a standard deviation of 6.15. The infrastructure facilities variables have a minimum value of 28.00, a maximum value of 50.00 and an average value of 40.46 with standard deviation of 7.09.

The detailed description will be described as follows:

3.1.1 Description of Teachers' Performance Variables

Table 2: Description of Teachers' Performance under Canossa Educational Foundation

No	Interval	Category	Frequency	Percentage
1	43-50	Very high	10	22,2
2	35-42	High	23	51,1
3	27-34	Medium	12	26,7
4	19-26	Low	0	0,0
5	11-18	Very low	0	0,0
Total			45	100

Source: Data Processed (2017)

It is shown from table 2 that 23 respondents (51,1%) stated that teachers' performance under Canossa Educational Foundation were categorized to be high.

3.1.2 Description of Headmasters' Leadership Variables

Table 3: Description of Headmasters' Leadership

No	Interval	Category	Frequency	Percentage
1	43-50	Very high	11	24,4
2	35-42	High	18	40,0
3	27-34	Medium	16	35,6
4	19-26	Low	0	0,0
5	11-18	Very low	0	0,0
Total			45	100

Source: Data Processed (2017)

It is shown from table 3 that 18 respondents (40,0%) stated that the headmasters' leadership under Canossa Educational Foundation were categorized to be high.



3.1.3 Description of Infrastructure Facilities Variables

Table 4: Description of Infrastructure Facilities under Canossa Educational Foundation

No	Interval	Category	Frequency	Percentage
1	43-50	Very high	22	48,9
2	35-42	High	14	31,1
3	27-39	Medium	9	20,0
4	19-26	Low	0	0
5	11-18	Very low	0	0
Total			45	100

Source: Data Processed (2017)

Based on table 4, it is shown that 22 respondents (48,9%) stated that infrastructure facilities under Canossa Educational Foundation were categorized to be very high.

3.2 Results of Test Requirement Analysis

Before conducting the regression analysis, firstly the researcher needs to do test requirements of the variables. The test requirements are listed as follows:

3.2.1 Normality Test

In this research, the researcher used Kolmogorov-Smirnov test to test the normal distribution of the variables. The test is used to compare the observed frequency distribution and the expected frequency distribution. If the probability is larger than $\alpha = 0.05$, it can be said that the variable distribution is normal. The results of the test can be seen in table 5 as follows:

Table 5: Normality Test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		45
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	,36373185
Most Extreme Differences	Absolute	,109
	Positive	,070
	Negative	-,109
Kolmogorov-Smirnov Z		,729
Asymp. Sig. (2-tailed)		,662

a. Test distribution is Normal.

b. Calculated from data.

Source: Data Processed (2017)

In this research, the probability value was larger than α which was 0,0662. Therefore, the variable distribution of the research data was normal.

3.2.2 Linearity Test

Linearity test is conducted to determine whether the relationship between dependent variable and independent variable is linear or not. The test was using SPSS program. If the probability is larger than 0.05, it can be said that the variable distribution is linear.

Table 6: Linearity Test of Teachers' Performance Variables and Headmasters' Leadership

ANOVA Table			F	Sig.
Teachers' performance* Headmasters' leadership	Between Groups	(Combined)	5,811	,000
		Linearity	61,418	,000
		Deviation from Linearity	1,104	,243
Total				

Source: Data Processed (2017)

Table 6 indicated that the linearity significance value of the emotional intelligence variable of $0.00 < 0.05$. This means that the headmasters' leadership variables and teachers' performance have a linear relationship.

Table 7: Linearity Test of Teachers' Performance Variables and Infrastructure Facilities

ANOVA Table			F	Sig.
Teachers' performance* Infrastructure facilities	Between Groups	(Combined)	4,011	,001
		Linearity	40,841	,000
		Deviation from Linearity	1,380	,224
Within Groups				
Total				

Source: Data Processed (2017)

Table 7 indicated that the value of linearity significance with pedagogic competence variables of $0.00 < 0.05$. This means that result of the relationship between the two variables can be said was linear.

3.2.3 Heteroscedasticity Test

Heteroscedasticity test is aimed to test the regression model of variance inequality of the residuals. The heteroscedasticity test was determined using Scatter Plot as illustrated in Figure 1 below:

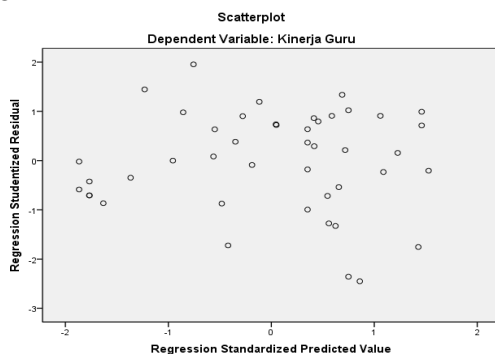


Figure 1: Heteroscedasticity test

Based on Figure 1 above the points are scattered above and below the number 0 on the vertical axis (Y axis) and do not form a specific pattern or look random. It can be concluded that the regression model does not contain heteroscedasticity. So that the assumption of heteroscedasticity tests requirements are fulfilled.

3.3 Hypothesis Test

There were independent variable (headmasters' leadership and infrastructure facilities) and dependent variable (teachers' performance) which were analysed by using double regression analysis SPSS program for Windows 22. The results can be seen in the following table 8:

Table 8: Regression t test results with Teachers' Performance Variables as Dependent Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
	(Constant)	1,018	,367		
Headmasters' leadership	,433	,121	,472	3,587	,001
Infrastructure Facilities	,293	,105	,368	2,801	,008

a. Dependent Variable: Kinerja Guru

Sourcer: Data Processed (2017)

Based on Table 8 the regression equation can be arranged as follows:

$$Y = 1,018 + 0,433 X_1 + 0,293 X_2$$



Table 9: F test result of Regression F test results with Teachers' Performance Variables as Dependent Variable

ANOVA ^b						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8,211	2	4,105	29,620	,000 ^a
	Residual	5,821	42	,139		
	Total	14,032	44			

a. Predictors: (Constant), Infrastructure Facilities, Headmasters' Performance

b. Dependent Variable: Teachers' Performance

Source: Data Processed (2017)

3.3.1 The Influence of Headmasters' Leadership (X₁) towards Teachers' Performance (Y) :

Ha₁ : There is a positive and significant influence of headmasters' leadership towards teachers' performance.

Ho : There is no positive and significant influence of headmasters' leadership towards teachers' performance.

Based on the calculation of SPSS in Table 8, it was obtained that the score of t test (3,587) is greater when compared with t table alpha 0.05 (df = 45) of 1.679. Therefore, it could be concluded that headmasters' leadership affects teachers' performance.

The value of regression coefficient for headmasters' leadership variable is 0.433. It means that the headmasters' leadership variable has a positive influence towards teachers' performance, if there is an increase of 1 unit of headmasters' leadership, it will increase the value of teachers' performance variable by 0,433 unit. It can also be interpreted that the better leadership skill the headmasters have, it is correlated with the high

improvement of teachers' performance. Based on the analysis, it can be concluded that hypothesis 1 is accepted, that headmasters' leadership has a significant positive influence towards teachers' performance.

3.3.2 The Influence of Infrastructure Facilities (X₂) towards Teachers' Performance (Y)

Ha₂ : There is a positive and significant influence of infrastructure facilities towards teachers' performance.

Ho: There is no positive and significant influence of infrastructure facilities towards teachers' performance.

Based on the calculation of SPSS in Table 8, it was obtained that the score of t test (2.801) is greater when compared with t table alpha 0.05 (df = 45) of 1.679. Therefore, it could be concluded that the infrastructure facilities affect the teachers' performance.

The value of regression coefficient for infrastructure facilities variable is 0,293. It means that infrastructure facilities variable have positive influence towards teachers' performance, if there is an increase of 1 unit of infrastructure facilities, it will increase the teachers' performance variable value by 0.293 unit. It can also be interpreted that the more complete the school infrastructure facilities, the teachers' performance will also increase. Based on the analysis, it can be concluded that hypothesis 2 is accepted, that means the infrastructure facilities have a significant positive influence towards teachers' performance.



3.3.3 The Influence of Headmasters' Leadership (X_1) and Infrastructure Facilities (X_2) towards Teachers' Performance (Y)

H_{a3} : There is a positive and significant influence of headmasters' leadership and infrastructure facilities towards teachers' performance.

H_o : There is no positive and significant influence of headmasters' leadership and infrastructure facilities towards teachers' performance.

Based on the calculation of SPSS in Table 8, it is obtained that the value of F test (29,620) is greater when compared with F alpha table 0.05 ($df_1 = k-1 = 2$, $df_2 = n - k = 42$) of 2.43. So it can be concluded that the hadmasters' leadership and infrastructure facilities together (simultaneously) influence teachers' performance. So it can be concluded hypothesis 3 is accepted, namely headmasters' leadership and infrastructure facilities influence towards teachers' performance.

Table 10 Results Coefficient of Regression Determination with Teachers' Performance Variables as Dependent Variables

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765 ^a	.585	.565	.37229

a. Predictors: (Constant), Infrastructure Facilities, Headmasters' leadership

Source: Data Processed (2017)

Table 10 shows that the R square value is 0,585. It means the coefficient value of determination is 58,5%. It is indicated that there is magnitude influence of headmasters'

leadership and infrastructure facilities is 58.5%, and the remaining 41.5% influenced by other variables which not examined in this study

4. RESEARCH FINDINGS AND DISCUSSION

4.1 *The Influence of Headmasters' Leadership towards Teachers' Performance*

Based on the result of data analysis, it was found that there was a positive and significant influence between headmasters' leadership and teachers' performance. Headmasters' leadership has positive influence to improve the teachers' performance. It is indicated that the better leadership skill the headmasters have, it is correlated with the high improvement of teachers' performance and vice versa.

The result of this research is in line with Septiana, Ngadiman, Ivada's research (2013), entitled "*The Influence of Headmasters' Leadership and Work Motivation towards Teachers' Performance in SMP Negeri Wonosari*". The result of their research showed that the headmasters' leadership p has a significant influence towards teachers' performance. According to Sharma and Jain (2013) leadership is the process where someone influences other people to achieve the goals and to direct the organization cohesively and coherently. In addition, Murni (2010) defines headmaster as a manager whose function is to manage all school activities, among others, be responsible and accountable, as well as become the decision maker.

Headmasters have an important role to achieve the vision, mission, and goals of the schools (Coleman and Bush, 2012). Supported



by Mulyasa (2012), who stated that the headmasters' ability to manage every aspect in school will determine the success of education and learning process. In this case, the headmasters participate actively in developing teachers' performance with certain knowledge and skills, for example as a leader who can guide, encourage, move and influence the teachers in achieving satisfactory performance. Therefore, the headmasters are required to get the teachers involve in formulating school vision, mission and objectives.

The result of this research is also supported by Eko Djatmiko's research (2006) entitled *"The Influence of Headmasters' Leadership and Infrastructure Facilities towards Teachers' Performance in SMP Negeri Kota Semarang"*, the result indicated that the headmasters' leadership has an effect towards teachers' performance. It was proven by the t value of 9,376. The research in Canossa Educational Foundation indicated some forms of headmasters' leadership that supports teachers' performance improvement: the headmasters pointed someone to be responsible for coordinating the school curriculum (whether the headmaster himself, the vice headmaster or one of the teachers).

Other examples of headmasters' leadership are involving teachers in making annual school targets and the headmasters give trust to the teachers to manage the class with responsibilities. Such leadership will improve teachers' performance at Canossa Educational Foundation. It is expected from the headmasters that they must be a good role model. Therefore, they should give good examples for both teachers and students.

4.2 *The Influence of Infrastructure Facilities (X2) towards Teachers' Performance (Y)*

There was a positive and significant influence of infrastructure facilitates towards teachers' performance. This means that the more complete the school infrastructure facilities, the teachers' performance will also increase.

The results of this research are in line with Adrijanti's research (2015) entitled *"The Influence of Leadership and Infrastructure Facilities Management towards Teachers' Performance"*. The results of this study indicated that infrastructure management variables affect the teachers' performance with a significance level of 0.00. <0.05 According to Rosiva (2014), every educational unit must have adequate facilities for the smoothness of teaching and learning process. the infrastructure facilities are useful to support the teaching and learning process either directly or indirectly.

The results of this study indicated that infrastructure facilities affect teachers' performance. Therefore, it is important to complete the school infrastructure facilities in order to improve teachers' performance. This is supported by Eko Djatmiko's research (2006) entitled *"The influence of headmasters' leadership and infrastructure facilities towards teachers' performance in SMP Negeri Kota Semarang"*, the result indicated that the infrastructure facilities have an effect towards teachers' performance. It was proven by the t arithmetic of 10,357.

Research results at Canossa Educational Foundation demonstrate several facilities that support the teachers' improvement such as books as well as a complete library and props



which are effective tools to convey teaching materials. The infrastructure facilities will be helpful to assist the learning process.

4.3 The Influence of Headmasters' Leadership (X_1) and Infrastructure Facilities (X_2) towards Teachers' Performance (Y)

There was a positive and significant influence of headmaster' leadership and infrastructure facilitates towards teachers' performance. With good leadership and complete infrastructure facilities, teachers' performance will improve. The value of R square is 0.585, this means that teachers' performance is influenced by principal's leadership and infrastructure facilities.

The result of this research is in line with Eko Djatmiko's research (2006) entitled "*The influence of headmasters' leadership and infrastructure facilities towards teachers' performance in SMP Negeri Kota Semarang*", the results indicated that headmasters' leadership and infrastructure facilities simultaneously affect teachers' performance. It was proven by the F value of 73.871. According to Rachmawati (2013), teachers' performance is the ability and effort to carry out learning task as well as possible. Such as in planning of teaching program, implementing the learning activity and evaluating the learning result. Teachers' achievement must be based on professional standart while carrying their duties as teachers.

The results of this research indicated that the headmasters' leadership and infrastructure facilities are synergized to improve teachers' performance. Therefore, the headmasters' leadership is needed to empower teachers in carrying out their duties. According Nurhayati (2012), leadership requires the ability to

influence other parties in achieving organizational goals that have been established. This is supported by adequate infrastructure facilities to improve the tecahers' knowledge and skills. An educational institution will succeed if the headmasters able to encourage, direct and motivate the teacher to carry out teaching tasks suitable with educational goals, the availability of infrastructure facilities will support the teaching and learning process for both teachers and students.

The results of this study are also supported by Adrijanti's research (2015) entitled "*The Influence of Leadership and Infrastructure Facilities Management towards Teachers' Performance*". The results of the research showed that the headmasters' leadership and infrastructure facilities management affect the teachers' performance. It was proven F arithmetic 12,582. With headmasters' good leadership and also supported by complete infrastructure facillites at school, it will be easier for teachers to carry out their duties. Research results at Canossa Educational Foundation showed some forms of teachers' performance that have been implemented successfully such as making a teaching plan based on existing strategies and resources, developing a teaching plan with curriculum and school vision and mission, and communicating with the headmasters about the students' issues.

5. CONCLUSION

5.1 Conclusion

Based on data analysis and discussion, ther researcher made some conclusions as follows:



1. There was a positive and significant influence of headmasters' leadership towards teachers' performance. It is indicated that the better leadership skill the headmasters have, it is correlated with the high improvement of teachers' performance.
 2. There was a positive and significant influence of infrastructure facilitates towards teachers' performance. This means that the more complete the school infrastructure facilities, the teachers' performance will also increase.
 3. There was a positive and significant influence of headmaster' leadership and infrastructure facilitates towards teachers' performance. The influence variables of the headmasters' leadership and infrastructure facilities towards teachers' performance was 58.5%. This means that the headmasters' leadership and infrastructure facilities work together in harmony to create teachers' higher performance.
2. Infrastructure facilities that have been provided should be maintained regularly. Infrastructure facilities need to be equipped to improve the teachers' performance for example the library with nice organization, the availability of laboratories, and complete facilities in the classroom to improve the quality of teachers and students at Canossa Educational Foundation.
 3. Teachers need to learn and develop themselves continuously. They need to make some efforts to improve their performance such as making the follow up of the learning outcomes, making targets to improve their skills, and giving assignment to the students so that they will have better understanding about the material that has been taught. In addition, teachers can improve their quality by continuing their study, following seminars, and training held by the foundation and other educational department.

5.2 Recommendations

In connection with the research results, there are some recommendations as follows:

1. The headmasters must create a work environment in which teachers are empowered. It will keep the teachers' performance well and eager in carrying out their tasks. It is expected from the headmasters that they must be a good role model. Therefore, they should give good examples for both teachers and students. The efforts to improve teachers' performance are closely related to the headmasters' leadership in which the headmasters need to announce the goals that have been formulated to teachers and students by attaching to the notice board, evaluating teachers on students' progress, and holding joint meetings to determine students' graduation by the end of the year.
4. For future researchers, based on the research results in which indicated the magnitude influence of headmasters' leadership and infrastructure facilities variables are 58.5%. The remaining 41.5% are caused by other variables which not examined in this research. Other variables which also expected to influence teachers' performance are variables of motivation, discipline, compensation, facilities,



communication among teachers, opportunities for further studies, environmental conditions, and so on. The other variables could be investigated further through research.

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THE IMPLEMENTATION OF FINANCIAL INCLUSION ON THE LOW INCOME GROUP

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ABSTRACT

Finance inclusion becomes one of the most important agendas in the economic development and poverty alleviation. Internationally financial inclusion has been discussed in the G20 forum, OECD, AFI, APEC, and ASEAN. Nationally, Indonesia's government has stated the commitment to develop the financial inclusion. However, there are still people who cannot access formal financial services. Data shows that 60 percent of 52 percent of Indonesia's population who live in rural areas tend to have no access to formal financial services. The lack of access to financial services, of course, restricts a person's ability to increase their living standard. This study aims to measure how far financial inclusion has been implemented towards low income of society. 320 unit sample of households that have expenditure up to Rp2 million per month were used to perform this research. By using primary and secondary data that analyzed with the descriptive qualitative method, the study found that financial inclusion has been well implemented on the low income of society in the mean of banking account possessed and fundraising, but low implemented in the mean of credit. The ability to meet the requirements is the main barrier to access credit facility.

Keywords: *financial inclusion; poverty; low income; banking.*

1. INTRODUCTION

Finance inclusion becomes one of the most important agendas in the context economics development and poverty alleviation. Internationally financial inclusion has been discussed in the G20 forum, OECD, AFI, APEC, and ASEAN. Nationally, the commitment to develop the financial inclusion has stated by Indonesia's government.

Indonesia's government also already have a National Strategy to reach it. There are six pillars in the national strategy for financial inclusion. Those are financial education, public finance facilities, financial information mapping, policy/regulatory support, intermediation and distribution of facilities, as well as consumer protection (BI; Financial Inclusion booklet, 2014).

Though it cannot be denied that social welfare is generally increased, there are still people who cannot access development outcomes and also formal financial services. Data shows that 60 percent of 52 percent of Indonesia's population who live in rural areas tend to have no access towards formal financial services. The lack of access to financial services sometimes restricts a person's ability to increase their living standard. For example, an entrepreneur at home industry might be lost their opportunity since he is not interlinked to financial services, they forced to reject the potential buyers that can only pay by transfer or non-cash payment. Financial inclusion enabling people, especially the low-income group interlinked with economic opportunity. So that the financial inclusion is an integral part of poverty alleviation. The purpose of this study is to measure implementation of financial inclusion in the low-income group. There are three components of financial inclusion analyzed in this study, namely access, quality, and usage. The result of this study is used to determine policies that meet the need to financial inclusion objectives, so as the formal financial services and development outcome can be accessed by all people with no exception in the frame of poverty alleviation.



2. LITERATURE REVIEW

2.1 Financial Institution and Financial Inclusion

The financial institution is an institution that provides financial services (financial management) for its customers. Financial institutions bring together the owners of funds to those who need such as, distributes of funds from investors to companies that need. This mean, financial institutions play a role as financial intermediary in making the transfer of assets, liquidity, income allocations and transactions. There are various financial institutions that can be classified into banks and nonbank (cooperatives, credit unions, venture capital, insurance, pension and pawn shops). According to the Law of the Republic of Indonesia Number 10 of 1998 dated 10 November 1998, a bank is a business entity that raises funds from the public in the form of savings and channels it into the public in the form of credit or other forms in order to improve the standard of living. Indonesia's banking structure consists of commercial banks and rural banks (BPR). BPR doesn't create demand deposit, as well as a limited range of operational activities. Meanwhile, nonbank financial institution refers to all entities that carry out activities in the financial sector, which directly or indirectly raise funds notably by issuing commercial paper and distribute to people, especially to finance the company's investment.

Concerning with definition of financial inclusion, there is no standard definition ye., However, there are institutions tried to define it, as follows: (1) **CGAP-GPFI**: "*State in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. Effective access involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options*", (2) **(FATF)**. "*Financial inclusion involves providing access to an adequate range of safe, convenient and affordable financial*

services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector", and **RBI/Reserve Bank of India** "*process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players*". There are four components of financial inclusion, namely Access (Ability to use formal financial services), quality (product attributes match the needs of the customer), usage (Actual usage of financial services) and welfare (effect on livelihoods of customers).

2.2 Information Technologies and Banking Services

The development of technology, especially information technology has changed the rules of life including economic rules. Today's economy has shifted from the old economic that tend to be analog and based on natural resources towards the new economy that based on science and technology or often referred to a digital economy. The technology especially information technology changes lead to a change in the patterns of production, consumption, and distribution.

Banking is business entities that cannot be spared from the technological changes. Nowadays, some of the financial institutions have taken advantages of the advances of information technology. As already known, information technology and electronic transaction promise some advantages over traditional services such as ease and speed transaction, convenience, efficiency, and flexibility. For example, bank's services that are commonly known as e-banking. By using e-banking consumers can access bank services 24 hours a day through automated teller machine (ATM), the internet and mobile phones. Consumers are also able to avoid the long queues and the possibility of congestion. Electronic fund transfer (EFT) also enables the



consumer to access their own account. EFT can be obtained by using an ATM or debit card and Personal Identification Numbers (PIN) by shortly scan cards or put his signature. Here are some examples of electronic services:

- 1) Automated Teller Machines (ATM) or 24-hour teller. ATM allows individuals to trade at any time, either for withdrawal, save, transfer the books of, or payment. Transactions carried out simply by inserting the ATM card and enter the PIN.
- 2) Phone banking. Phone banking is a type of service that allows customers to make transactions such as carry out the payment order and the transfer by phone.
- 3) Internet banking. Internet banking is a service that uses the internet. The bank's services can be accessed anytime and anywhere as long as there is an Internet connection.
- 4) Mobile banking. Mobile banking is transaction/account that can be accessed by mobile phones (cell phones).

3. RESEARCH METHODS

3.1 Object, Location, and Sampling

The object of this research is financial inclusion implementation in Semarang district. The population of this study is the low-income group who became the main target of financial inclusion. The unit sample of the research is household. There are 16 subdistricts in Semarang, for every sub-district are taken by 20 people or 320 respondents in total. The criterion for the selected respondent is a household that has expenditure up to Rp2 million per month. The sampling method used in the study is convenience sampling.

3.2 Data

This study used primary and secondary data. The primary data used this study are the ownership of banking products, the purpose of banking products ownership, knowledge of accounts they possessed, the ability to access formal financial institutions and accounts usage. Primary data were obtained by questionnaire method. Secondary data are

obtained from various sources, especially statistics Indonesia and Bank Indonesia reports.

3.3 Method of Analysis

This study uses descriptive qualitative analysis method. Secondary data that relevant are processed and analyzed to find the role of financial sector towards the economy of Semarang. The primary data obtained is processed and analyzed to capture how far financial inclusion has been implemented. The analysis is conducted on the three dimensions of financial inclusion, access (Ability to use formal financial services), quality (product attributes match the needs of the customer), and usage (Actual usage of financial services).

4. RESEARCH FINDINGS AND DISCUSSION

As mentioned previously, there are four components of financial inclusion, namely Access (Ability to use formal financial services), quality (product attributes match the needs of the customer), usage (Actual usage of financial services) and welfare (effect on livelihoods of customers). However, in this section will be discussed the implementation of financial inclusion only by three elements that are based on the data obtained, Access (Ability to use formal financial services), quality (product attributes match the needs of the customer), and usage (Actual usage of financial services). This study didn't explore the welfare element. The discussion will be preceded by overviewing Semarang city and followed by product knowledge that shows how people or bank customer know their account and followed by four components of financial inclusion.

4.1 Overview of Semarang city

Semarang City is one of 35 districts/municipals in Central Java Province. The topography of Semarang City lies in 6^o50' – 7^o10' South Latitude and 109^o35' – 110^o50' East Longitude with a land altitude of ± 0,75 to ± 348,00 m above sea. Administratively, Semarang that consists 16 sub districts have an area of 373,70 or 2.74 percent of Central Java



Province. As the capital of Central Java province, Semarang has a relatively high density of population (4,269 people per KM²). The sub-districts with the highest population density are South Semarang sub-districts with a density of 13,431 people per KM², Candisari sub-district with the density of 12,119 people per KM² and the next sequence is Gayamsari sub-district with Density of 12,009 people per KM². Meanwhile, the districts with the lowest density are Tugu sub-district with a density of 1,005 people per KM², followed by Mijen with a density of 1,067 people per KM².

Economically, the Gross Domestic Regional Product (GDRP) at the constant price of Semarang grows by 6.09 percent per year in 2011-2015. The growth of GDRP at constant prices reflects that there are increasing in the amount of goods and services produced in the economy. That is, availability of goods and services for the society become more. The increase in availability of goods and services can be expected to compensate the rise of purchasing power of the people. Thus, although there is an increase in the demand side, it does not become trigger the occurrence of high inflation. The three biggest contributing sectors of GDRB of Semarang City are Manufacturing, Construction and wholesale and retail, Repair, and Maintenance of Automobile and Motorcycle sector.

4.2. The Profile of Respondents

As mentioned previously, this study aims to how far financial inclusion has been implemented in the middle to lower society (with monthly expenditure up to Rp2 million). The study that was conducted in Semarang and used 300 households as respondents. In more detail, figure 1 shows the profile of respondents that classified by sex, education and family member. By sex, there are 68.29 percent male respondents and 31.71 percent female. Meanwhile, based on education that has ever pursued, it is seen that most of the respondents have had a minimum of senior high school grade, and 34.15 percent of them are Bachelor. Seen by the number of family members, most of them are living in a family with a

membership of more than 4 people (number of member 4 is 34.15 percent and number of member 5 is 24.39 percent).

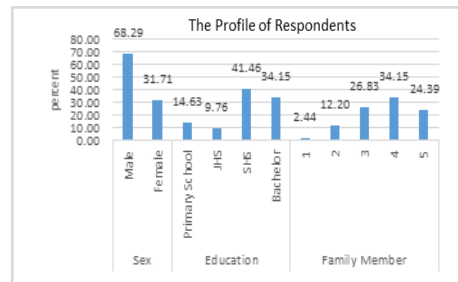


Figure 1

4.3 Customer Knowledge of Account.

Some requirements often needed in an opening and keeping an account. Among others are the minimum amount of deposit at first (to open) and minimum balance to keep the account. Additionally, to keep the account remain active, the customer must be transactions at least once in a given period of time (usually six months) and if there are no transactions in the period, the account will automatically be classified as passive accounts (dormant accounts). The customer needs to activate the account in order to be able to use again. Associated with it, respondents tend to have a good knowledge of the minimum amount of deposit at first (to open) that required and minimum balance for the next. However, almost all respondents do not know that if there is no transaction within a certain period, the account will be automatically classified into passive or dormant accounts and in order to be able to use again, they have to activate it. Except for the personal data (usually demographic data), no other requirements are needed when opening an account. To open an account, it is enough for potential customers to go to the bank or collectively serve by the bank officer in a certain place that has been agreed. Thus it can be said that opening a bank account is easy and tended not incriminating.

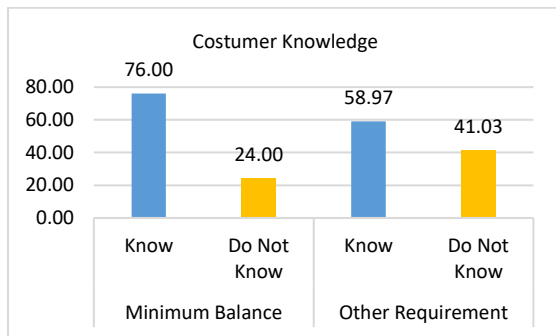


Figure 2

4.4. Access (Ability to use formal financial services)

On the dimension of access, the poor and middle class of society have had good access to financial services. This is reflected in the number of respondents who have a bank account. This study shows that respondents are familiar enough towards banking products. Most of them utilize those products. Almost all of respondents have the deposit account, 93.41 percent of respondents have the saving account and 15.38 percent of respondents have time deposit account. More than half of the total respondents have a debt, however, respondents who utilizing bank credit facilities is not as much as respondents who have a deposit account. There is 16.48 percent of respondents having a credit card. Vehicle ownership credit owned by 27.47 percent of respondents, mortgages owned by 5.49 percent of respondents and other credit by 2.20 percent of respondents. These conditions indicate that the funds channeled to the poor or low-income group are relatively small. The simple explanation for this finding is that the requirements to open deposit accounts tend to be easier than the credit accounts. For example, prudential banking requires character, capacity, capital, condition, Collateral or 5C for people to be able to utilize the credit facilities. The existence of these requirements can be alleged to as the cause of the difficulty of the poor and middle-low group to access credit facilities.

Though more than half of the total respondents have a debt, respondents who utilizing bank credit facilities is not as much as respondents having the deposit account. The

debts they have, among others sourced from money lenders (4.55 percent), nonbank financial institutions, e.g. cooperatives (45.45 percent), as well as family/friends (50.00 percent). Of those who utilize bank credit reasoned that the banks provide lower interest, easier and more reliable. Meanwhile, of those who prefer non-bank loan reasoned that nonbanks loan have no minimum limit of amount, no need collateral, close to where they live, small installment in a weekly or bi-weekly period, and borrower-creditor recognize each other. There are some of the respondents who experienced rejection of credit applications in the last 3 years. However, they tended not know rejection reason although it has been explained by creditors.

The most of the respondent doesn't have any other financial services such as insurance, debit card, payment facility for some billings (electricity telephone and water), There is only 7.89 percent of respondents have insurance. Type of insurance owned is life and health insurance. None of them has the debit card and other facilities. Besides costly, they stated don't need those services. Because of the lack of financial consulting agency, most people tend to consult their financial matter to people nearby such as family, friends, and neighbors.

There is 4.88 percent of respondents don't have any bank account at all. There are several reasons that might be the reason not to open a bank account, among others are no fund to save, no bank branch office, no cash receipts/payment which needs bank account, worried about account fees that high, have been rejected, a long time process, it doesn't important to have bank account, fear of rejection and others. Of the several options provided as the reasons for not have any bank account, there are only two options chosen, no fund to save is the reason that most often stated (75.00 percent) and no bank branch (25.00 percent). The thing that must be noticed is that there is no bank branch is one of the options chosen by respondents. The existence of the branch office can be a trigger or stimulus for people to utilize the bank's financial services. Thus, the people who can be served will be wider and more. It means that financial



inclusiveness is more implemented. There are many Banks and non-bank financial institutions in Semarang. According to Bank Indonesia Semarang, there are 64 banks and 278 rural Banks in central Java, 35.59 percent of which are in Semarang. There also more than 100 cooperation in Semarang. Those Banks and non-bank financial institutions are distributed to districts. On average, every km² underserved by the formal financial institutions. However, how those financial institutions are easily accessible by group target are more important. This study found that respondents tend stated that it is very easy to reach out to the bank branch and also ATM.

4.5 Quality (product attributes match the needs of customer),

There has been financial service offered by the bank and nonbank financial agency. However, these products cannot be easily accessed by the poor for various reasons, mainly because of poverty. Poor people tend to be less / no access to financial services, do not have the money to save on deposit accounts and cannot meet the requirements for a credit account. These conditions show that inclusive finance, namely financial services that involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector yet implemented. The involvement of the poor and marginalized in financial services can be a medium for the government to implement the poverty alleviation programs. The poor and marginalized will also have greater access to the results of development. The following describes the attractiveness of some financial services as perceived by the poor. Small Deposit.

There are six financial services that might be suitable for the poor and marginalized, those are small deposit, low of interest loans, working capital/investment, loans Management consultancy, the benefits of financial services consultancy, and Other financial services

information. Data shows that those financial services are attractive, especially small deposit, low-interest loans and financial services information.

Related to small deposit program, the government has launched a "Gerakan Menabung" (saving movement) since 2010 with "tabunganku" (my saving) program. "Tabunganku" is saving accounts that have easy requirements and no administrative costs. There are two types of "tabunganku", standard features (mandatory) "tabunganku" and customized features (optional) "tabunganku". Standard features (mandatory) "Tabunganku" is a product that its features should be applied uniformly by all banks which launch TabunganKu. The Standard features of TabunganKu are listed as following

Table 1: Standard features of TabunganKu

Standard Featured	Conventional Bank	Islamic banks
Name of Product	TabunganKu	TabunganKu
Administration Cost (Rp)	0	0
Minimum initial deposit (account opening) (Rp)	20,000	10,000
The minimum cash deposit (Rp)	10,000	-
Minimum balance (Rp)	20,000	10,000
Penalty fees dormant balance V	2,000/month	1,000/month
Minimum cash withdrawal at the counter (Rp)	100,000	50,000
Account closure fee (Rp)	20,000	5,000
Interest rate / wadiah bonus (Rp)	0-500,000, no interest 500,000 – 1,000,000, 0.25%/annum >1,000,000 , 1% /annum	Commercial Islamic banks, maximum bonus equivalent to 1% per Islamic BPR, 4 % per annum Islamic BPR profit sharing, incentive rate of about 4%
The replacement cost of books	0	0

Source: Bank Indonesia

Customized features (Optional) is the product that its features can be selected to be applied by the bank. Banks can provide additional features such as more the product of savings such as saving book, statement sheet, ATM cards or other banking services, as long as do not violate the collective agreement.

Meanwhile, Low-Interest Loans, Working Capital/Investment, Loans Management consultancy, benefits of financial services consultancy, and other financial services information programs can be associated with the national Accelerated Poverty alleviation team, with their small loans called KUR. KUR is a credit/financing for working capital and or investment for the Micro, Small and Medium Enterprises and Cooperatives (MSME) that productive and feasible but un-bankable. It is a program of credit/financing below Rp500 million that guaranteed by the Government for maximum 80% in agriculture, marine and fisheries, forestry, and small businesses, and 70% in other sectors. There are three KUR scheme, namely; 1) KUR Micro with a ceiling of up to Rp20 million which bears interest at a maximum of 22% per year, (2) KUR Retail with a ceiling of Rp20 million to Rp500 million which bears interest at maximum of 13% per year, (3) KUR Linkage with a ceiling of up to Rp2 billion. KUR Linkage usually uses other institutions, such as cooperatives, rural banks, and Non-bank Financial Institutions, to channel-KUR loan from implementer Bank to MSME. This research also found that small deposit, individual loan, financial and investment consultancy and financial education are attractive, important and beneficial to them.

4.6. Usage (Actual usage of financial services)

The importance is one of the bases for decision making. In deciding to open or not open a bank account, he would consider the importance of the account. Perceptions of the importance of banking products reflect benefits expected and also influence the usage. In the following exposure will be presented the exploration of respondents' perceptions of importance to some products that may be suitable for them.

The aim, how they involved in opening the account, and underlying reasons to open or do not open a bank account is an important thing to note in the context of financial inclusion. It can be used as a reference to develop appropriate policies in order to improve financial services to the community, especially on those who are currently underserved or unbanked. Here is the description of those things that traced in this study.

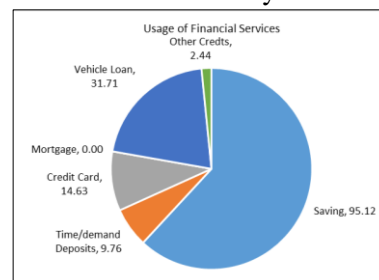


Figure 3

There are several options related to the aim of bank account opening such as receiving the transfer, receive remittances, savings, credit requirements and others. Only two main reasons underlying in an opening of bank accounts by the poor. To save is the most widely chosen as a reason to open an account (88.57 percent of respondents stated). The rest (8.57 percent) stated that their main reason for having a bank account is to receive government's cash transfer (unconditionally cash transfer) or other assistance from the government and 2.86 percent of respondents stated to meet credit requirement. Unconditionally cash transfer is usually given as compensation for certain government policies to maintain the purchasing power of the poor or marginalized groups. An example is a compensation for the increase in fuel prices as a result of the retraction/reduction in government subsidies. Unconditionally cash transfer is only given within a certain period.

Majority of respondents open account by themselves and those who open an account with the help of others, most of them helped by the bank officer. Most of the respondent who has bank account tend to save routinely for at least once a month (55.17 percent) and only if they have the money or when there was money



(38.46 percent). There is 5.13 percent of respondents never save after issued.

Table 2: The Importance of Financial Products

Products	Very Unimportant	Unimportant	Neutral	Important	Very Important
Have a Bank Account	2.44	7.32	36.59	48.78	4.88
Individual Small Loans	4.88	24.39	39.02	31.71	4.88
Credit Card	4.88	29.27	34.15	19.51	7.32
Financial Consultancy	7.32	21.95	31.71	36.59	2.44
Investment Consulting	0.00	9.76	26.83	41.46	21.95
Financial Education*)	0.00	0.00	20.00	20.00	0.00

Source: Primary data, processed.

As mentioned in the previous section, almost all (98.41percent) respondents have a deposit account and only 27.47 percent of them have a credit account. This means that the poor and middle class of society have had good access to financial services. Nevertheless, the contribution of fundraising as well as the banking credit distribution to the community towards GDRB is relatively low. The ratio of fundraising to GDRB is 0.45, meanwhile, the credit to GDRB ratio is 0.39. In more detail concern with ratio credit to GDRB, this studies found that of working capital credit to GDRB ratio is 0.21, investment credit to GDRB ratio is 0.07 and MSME credit to GDRB ratio is 0.08. In addition to having a small proportion of Gross Domestic Regional Product (GDRB), credit to MSMEs also tend to be not growing, even the position of MSMEs credit in 2014 is lower than that of MSMEs credit in 2010. MSMEs credit to GDRB This condition reflect that financial service facility in Semarang city still needs to be improved, especially the favor of banks to MSMEs. The low ratio of credit to GDRB reflects that the contribution of banking performance in encouraging economic growth is relatively low. As has been known that the amount of investment through increased working capital and new investment is also very instrumental in the provision of goods and services for the community. Likewise credit to the MSMEs, it must be recognized that MSMEs contribute toward the economy through employment, output and its resistant to the economic crisis. Since MSMEs is a strategic sector in the economy, the attention to MSMEs including the disbursement of credit in the sector needs to get attention.

Table 3: Ratio Fundraising, Working Capital Credit, Investment Credit and MSMEs Credit to GDRP

Years	Ratio GDRB to			
	Fund Raising	Working Capital Credit	Investment Credit	MSMEs Credit
2010	0.42	0.16	0.04	0.19
2011	0.41	0.16	0.04	0.08
2012	0.44	0.20	0.06	0.08
2013	0.46	0.21	0.07	0.09
2014	0.45	0.21	0.07	0.08

Source: Semarang District in Figure, processed.

Furthermore, the types of financial services provided by financial institutions will be more effective and give benefits if the services meet the needs. The financial institution should know whether the products are important or not from the consumer perspective. Table 2 shows the data of respondent's opinion to some kind of financial services based on its importance. Generally, by comparing all of the financial services are important. However, in detail, it can be seen that financial service with a very high of importance intensity is investment consulting (63.41 percent), and having an account (53.66 percent). Meanwhile, credit card tends to be considered unimportant by the low-income of society.

5. CONCLUSION

In general, it can be concluded that financial inclusion is well implemented on the low income of society in terms of account ownership or in the case of fund raising. However, it has not yet been well implemented in terms of lending/credit. It is reflected in the condition of each component of financial inclusion as follows: (1) Access, it is found that basically formal financial services in term of availability such as cash offices, branch offices, and ATMs tend to be easily accessible. However, access in term of credit facility is relatively low due to the inability of people to meet the requirements. (2) Quality, the result shows that the quality of financial inclusion the low income is relatively low. It is reflected on the ownership of credit accounts that tend to be very little and also the ratio credit, especially MSMEs credit to PDRB tends to be low, and



(3) Usage, almost all respondents have savings account in the bank with various goals and there is a tendency to save regularly,

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TECHNOLOGY ACCEPTANCE FACTORS INFLUENCING INDONESIAN WOMEN'S INTENTION ON DOING ONLINE SHOPPING THROUGH NON-E-COMMERCE MOBILE APPLICATION

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ABSTRACT

The aim of this research is to find the influence of technology acceptance factors of Indonesian women's intention on doing online shopping through non e-commerce mobile application. The non e-commerce mobile application here refers to Blackberry Messengers (BBM) application. This research use modified Technology Acceptance Model (TAM) to explain the influence of technology acceptance factors towards intention to do online shopping. Constructs that used in this research are: perceived usefulness, perceived ease of use, attitude, behavioral intention and the additional construct, that is perceived enjoyment. This research use Partial Least Square (PLS) as a data analysis method. The 35 respondents of this research were collected using purposive sampling. This research finds that all of technology acceptance constructs are significantly influence other constructs, such as: perceived ease of use significantly influence perceived usefulness ($8.950 > 1.64$); perceived ease of use significantly influence attitude ($2.688 > 1.64$); perceived usefulness significantly influence attitude ($3.127 > 1.64$); perceived usefulness significantly influence behavioral intention ($3.197 > 1.64$); attitude significantly influence behavioral intention ($2.760 > 1.64$); and perceived enjoyment significantly influence perceived ease of use ($2.427 > 1.64$).

Keywords: *Blackberry Messenger; e-commerce; intention; online shopping; technology acceptance model*

1. INTRODUCTION

There is confusion among people about the definition of electronic commerce. Some people are being confused about the difference meaning between electronic commerce and electronic business. Laudon in his book entitled 'Management Information Systems: Managing the Digital Firm' (2014: 403), defined electronic commerce as the use of the internet and the web to transact business. Turban et al (2017: 6) stated that electronic commerce refers to using the internet and other networks (such as intranets) to purchase, sell, transport, or trade data, goods, or services. Farther, Turban et al (2017: 6) said that electronic business refer to broader definition of electronic commerce, not just buying and selling of goods and services, but conducting all kinds of business online such as servicing customers, collaborating with business partners, delivering electronic learning, and conducting electronic transactions within organizations. Lignell (2014:15-16) defined electronic commerce as buying or ordering goods via the internet for a consumer's personal or household's consumption, regardless of whether the invoice for payment arrives later or the goods paid immediately via electronic banking, credit card, electronic payment or similar.

Electronic commerce (usually stands as e-commerce) becomes very popular in this digital era. The emergence of e-commerce changed the commerce and marketing concept.



Rahayu and Day (2015) said that the result of e-commerce is the creation of the new economy era - the information era. Laudon, in his book entitled as *Management Information Systems: Managing the Digital Firm* (2013), stated that e-commerce has some unique features that makes e-commerce become more powerful than traditional commerce. One of the features is the ubiquity. It means that e-commerce is available everywhere and at all the times.

The emergence of e-commerce marked by the birth of some e-commerce medium such as: e-commerce websites and e-commerce marketplace (for example: Amazon, eBay, etc.). Those medium make people easily when they want to buy some goods through the internet. After the emergence of e-commerce medium, people try to do online shopping through mobile applications. Due to the absence of the e-commerce specialty mobile application in the beginning era of e-commerce, people tries to use non e-commerce mobile application and the very first popular of that kind of application is Blackberry Messenger. Blackberry Messenger is a mobile application for chatting, but during the time, people use Blackberry Messenger for online shopping because of its special feature, that is the feature of status and photos updating. This feature enable consumer to know the new coming stock from the sellers.

This research focuses on women respondents because of some reasons: First, shopping is identically with women. The main reason why women like shopping is they do it not only for them, but also for their relatives. This is suitable with the research from Badar (2008). He said that female workers shop not only for themselves but for their family and friends. This statement also appropriate with Brennan's article. In her article for Forbes (2013), Brennan wrote that women have primarily care-giving responsibility for both children and elderly, that is why women shopping or buying something on behalf of everyone else in their lives. Second, the

women's acceptance on technology is very interesting topic in the studies because some scholars believe that there is a difference on technology acceptance between women and men. Goswami and Dutta (2016) found that men more technologically adept compared to women. Orji (2010) stated that based on some literatures about gender differences and use of technology, those are more favorably for men than women.

Indonesia, one of the most populated countries – latest data from www.census.gov shows that Indonesia are in 4th positions as the most populated countries - also effected with the e-commerce phenomenon. The growth of e-commerce sales in Indonesia is increasing from 2015 to 2016. From www.statista.com, the growth rate of e-commerce sales in Indonesia from 2015 to 2016 is 22.4%. This growth is predicted to be increased in the next year (2017) for 23.3%.

This research using modified Technology Acceptance Model (TAM). Originally, TAM consists of some constructs, such as: perceived usefulness, perceived ease of use, attitude, behavioral intention, and actual use on technology. In this study, there is an additional construct to explain the acceptance and use of technology that is perceived enjoyment. Perceived enjoyment is conceptualized as external variable. The objective of this research is to identify technology acceptance factors that can influence Indonesian women's intention in using Blackberry Messenger as a means of e-commerce. The focus of this research is behavioral intention of technology users, not actual use of the technology.

2. LITERATURE REVIEW

2.1 Blackberry Messenger

Blackberry is one of the well-known smartphone brands in the world. This brand became very popular because of its features such as push mail and Blackberry Messenger. In the beginning era of smartphones,



Blackberry is the first smartphone with the push mail feature and chatting feature. The most favorite feature is Blackberry Messenger. This feature enables Blackberry users to have chat with other Blackberry users freely. Of course to send a message to other Blackberry users, we must know the Personal Identification Number (PIN). With this feature, Blackberry users also able to know others' activity through profile picture and status update. This ability of Blackberry Messenger became popular in e-commerce sellers because the customers can know about the updated stocks of their goods by viewing the sellers' status updates. That's why most of online sellers also give their Blackberry Messenger Personal Identification Number on their website or advertisements.

Although nowadays there are a lot of messaging application to socialize with others, such as LINE, WhatsApp, and many more, the number of Blackberry Messenger users still enormous. Detikinet (one of the Detik channels), on March 6, 2017 stated that data taken from SimilarWeb, 87.5% Android users in Indonesia has installed Blackberry Messenger application on their smartphones. This condition happens because in this very competitive competition among the smartphone brands, Blackberry Messengers are made in multiple platforms, so it can be installed in other types of smartphones, such as Android.

2.2 Technology Acceptance Model

Technology Acceptance Model (TAM) is one model that is used to explain the users' acceptance of technology. Park (2009) said that TAM, originally proposed by Davis in 1986, is one of the well-known models related to technology acceptance and use. Theoretically, TAM has two important constructs on explaining users' acceptance of technology. Davis (1989) said that the most important constructs are perceived usefulness and perceived ease of use. Davis proposed that

two constructs because at that time, he felt that there are no valid measures on acceptance and use of technology. Originally, TAM is not a pure new model. Park (2009) said that TAM is considered as an influential extension of Theory of Reasoned Action (TRA) found by Ajzen and Fishbein. TAM consists of some constructs, such as: perceived usefulness, perceived ease of use, attitude, behavioral intention, and use of technology.

Some researches was done conducted the technology acceptance and electronic commerce. These studies also use some developed TAM. Reny et al (2013) conducted a research about users' acceptance of online airlines purchasing. They modified TAM with the additional construct that is trust. Their respondents are 285 consumers who have internet access. They use Structural Equation Modeling (SEM) as the data analysis method and they use Confirmatory Factor Analyses (CFA) SEM Software to analyze the data. Their research indicates that all of the constructs: perceived ease of use, perceived usefulness, and trust influence attitudes on online airline ticket purchasing. In other research, Hajli (2014) conducted a research about the effect of social media, trust, and perceived usefulness towards consumer intention to engage on electronic commerce. Their research to 237 respondents finds that perceived usefulness and trust have significant impact on intention to buy on electronic commerce. They also found that social media produce trust in electronic commerce. Lim and Ting (2012) also conducted a research about TAM and e-commerce. They conducted a research to predict the Malaysian consumers' technology acceptance towards online shopping. Their research suggests that all constructs on TAM are having positive influence on others constructs. More detail, they found that consumers' perceive ease of use of online shopping sites will positively influence attitude towards online shopping; consumers' perceived usefulness of online shopping sites will positively influence



attitude towards online shopping; consumers' perceived ease of use of online shopping sites will have a positive influence on their perceived usefulness towards online shopping; and consumers' attitude towards online shopping will positively influence intention to engage in online shopping.

The definition of TAM constructs are described below.

2.2.1 Perceived Usefulness

Davis (1989) defined Perceived Usefulness (PU) as the degree to which a person believes that using a particular system would enhance his or her job performance.

2.2.2 Perceived Ease of Use

Perceived Ease of Use (PEoU) defined as the degree to which a person believes that using a particular system would be free of effort (Davis, 1989).

2.2.3 Attitude

Suki and Ramayah (2010) defined attitude in TAM terminology as the mediating affective response between usefulness and ease of use beliefs and intentions to use a target system.

2.2.4 Behavioral Intention

Behavioral intention refers to the measure of the likelihood of a person employing the application (Surendran, 2012)

2.2.5 Perceived Enjoyment

Davis et al (1992) as cited in Nguyen (2015) defined perceived enjoyment as the intrinsic reward derived through the use of technology.

Hypothesis and Prior Researches

Hypothesis in this research was built from some prior researches.

Influence of perceived ease of use on perceived usefulness.

Research from Lim and Ting (2012) suggest that perceived ease of use influence perceived usefulness in term of online shopping. Lim and Ting (2012) explain that if online shopping site are perceived to be effortless, then consumers form perception of online shopping are useful. Based on the theory and studies, the first hypothesis is as stated below:

H1: Perceived ease of use on using Blackberry Messenger for online shopping positive significant influences perceived usefulness.

Influence of perceived ease of use on attitude.

Linn and Ting (2012), based on their research, found that perceived ease of use influence attitude in online shopping. They said that consumers would only develop favorable attitudes toward online shopping if online shopping sites are easy to use. In-line with research from Linn and Ting, Renny et al (2013) in their study about online airline ticket purchasing also found that perceived ease of use influence attitude on doing online shopping. Based on the previous studies, the hypothesis of perceived ease of use and attitude is:

H2: Perceived ease of use on using Blackberry Messenger for online shopping positive significant influences attitude on using Blackberry Messenger for online shopping.

Influence of perceived usefulness on attitude.

Linn and Ting (2012) and also Renny et al (2013) found on their research about online shopping that perceived usefulness had influenced attitude on doing online shopping. Linn and Ting (2012) further explained that positive attitude towards online shopping is because a reason that consumer perceive that online shopping improves their shopping performance. Based on previous studies, we argue that:

H3: Perceived usefulness on using Blackberry Messenger for online shopping positive significant influences attitude on using Blackberry Messenger for online shopping.

Influence of perceived usefulness on intention.

Cho (2015) found that perceived usefulness influence users' behavioral intention on doing online shopping. This finding also confirmed the theory from Venkatesh and Davis (1996) about technology use in general term as cited by Lai (2017), perceived usefulness found to have a direct influence on behavior intention. Based on previous studies, the hypothesis of perceived usefulness and behavioral intention is stated below.

H4: Perceived usefulness on using Blackberry Messenger for online shopping positive significant influences behavioral intention on using Blackberry Messenger for online shopping.

Influence of attitude on behavioral intention.

Juniwati (2014) on her research about online shopping behavior in university students found that attitude has positive significant influence on intention to shop online. According to her, it means that positive attitude on online shopping will increase the intention to shop online. Based on previous study, the hypothesis related attitude and behavioral intention is as follow:

H5: Attitude on using Blackberry Messenger for online shopping positive significant influences behavioral intention on using Blackberry Messenger for online shopping.

Influence of perceived enjoyment on perceived ease of use.

Hwang and Yi (2002) found that perceived enjoyment has a positive influence on perceived ease of use of web-based information systems. It is means that technology user who feel enjoy with the technology, they will use the technology

easily. Based on the previous research, the hypothesis of influence of perceived enjoyment on perceived ease of use are as follow:

H6: Perceived enjoyment on using Blackberry Messenger for online shopping positive significant influences perceived ease of use.

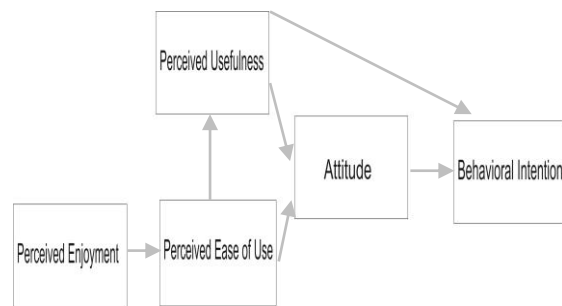


Figure 1
Research Model

3. RESEARCH METHODS

3.1 Sampling and Respondents

This research collects the data from 35 female respondents using 5-Likert scale questionnaire about technology acceptance model. This research use purposive sampling as the sampling method. The respondents in this research are female users of Blackberry Messenger. Due to the aim of this research is to predict the behavioral intention of users on using Blackberry Messenger for e-commerce, not actual use, so there is no distinction between respondents that are ever doing online shopping using Blackberry Messenger or not.

3.2 Instrument Measurement Test

There are some instrument measurement tests for this research: construct validity test and reliability test. Requirements of construct validity test are: AVE > 0.5, Communality score > 0.5, and Redundancy approaching 1 (Jogiyanto and Abdillah, 2009:80). Table 1 below shows the score of construct validity. From the table below, it show that all



constructs are meet with the validity construct requirements with AVE score and Communality score > 0.5, although the Redundancy score for all of the construct are far from 1.

Table 1: Construct Validity

	AVE	Communality	Redundancy
Attitude	0.855774	0.855774	0.446572
Ease of use	0.784862	0.784862	0.274619
Enjoyment	1.000000	1.000000	
Intention	0.920460	0.920460	0.448509
Usefulness	0.757245	0.757245	0.534182

Reliability test also indicates that all of constructs are reliable because the Cronbach Alpha score is higher than 0.6 and Composite Reliability higher than 0.7 (see table 2 below).

Table 2: Reliability

	Composite	Cronbachs
Attitude	0.946803	0.915705
Ease of use	0.956300	0.945135
Enjoyment	1.000000	1.000000
Intention	0.958583	0.913587
Usefulness	0.949257	0.935855

3.3 Hypothesis Test

3.3.1 R Square

Table 3: R Square

	R Square	Criteria
Attitude	0.684986	Substantial
Ease of use	0.137136	Weak
Enjoyment		-
Intention	0.732571	Substantial
Usefulness	0.543259	Moderate

Coefficient of determination (R^2) has some criteria. According to Chin (1998) as cited by Lee and Chen (2013), the explanatory power

is considered substantial, moderate, and weak if R-Square approximately around 0.67, 0.33, and 0.19 respectively. Based on the table above, there are two constructs with substantial explanatory power (attitude and intention), and one construct with moderate explanatory power (perceived usefulness) and weak explanatory power (perceived ease of use).

3.3.2 Estimate for Path Coefficients

The result of path coefficient, generated from SmartPLS 2.0 statistical software as seen in table below:

Table 4: Path Coefficient

	T Statistics	Significant or Not
Attitude → intention	2.76013	significant
Ease of use → attitude	2.688226	significant
Ease of use → usefulness	8.950473	significant
Enjoyment → ease of use	2.427275	significant
Usefulness → attitude	3.127603	significant
Usefulness → intention	3.197850	significant

From the table above, all of constructs in this research are significant based on the comparison between t-statistic values and one tailed score for 5% alpha, 1.64.

4. RESEARCH FINDINGS AND DISCUSSION

From the data analysis technique, we found that all of hypothesis in this research are fully supported. First hypothesis (H1), perceived ease of use on using Blackberry Messenger for online shopping positive



significant influences perceived usefulness is supported and T-statistics show the positive number of 8.950473. It means that women feel that using Blackberry Messenger for e-commerce is easy and it can improve their activity on online shopping. Next hypothesis (H2) stated that perceived ease of use on using Blackberry Messenger for online shopping positive significant influences attitude on using Blackberry Messenger for online shopping. This hypothesis also supported. From the last table, we can see that there is a positive and significant t-statistic value for the influence of perceived ease of use to attitude (2.688226). This value means that women user feel using Blackberry Messenger for online shopping is not difficult so they show the positive attitude to use Blackberry Messenger for online shopping.

Third hypothesis (H3), perceived usefulness on using Blackberry Messenger for online shopping positive significant influences attitude on using Blackberry Messenger for online shopping also totally supported with positive t-statistic value 3.127603 which means women feel using Blackberry Messenger for e-commerce is very useful for their e-commerce activity. Hypothesis 4 (H4), perceived usefulness on using Blackberry Messenger for online shopping positive significant influences behavioral intention on using Blackberry Messenger for online shopping also supported. It means that women intention to do online shopping will be higher when they feel that Blackberry Messenger is very useful to do online shopping. Next hypothesis (H5), also totally supported. Women' attitude on using Blackberry Messenger for online shopping influence their behavioral intention. Last hypothesis, indicates that when women enjoy using the Blackberry Messenger for e-commerce, they will feel that using Blackberry Messenger for online shopping is easy.

5. CONCLUSION

From the findings and discussions, all hypothesis are in line with previous studies about technology acceptance for online shopping, and also this research conclude that for Indonesian women, the technology acceptance factors had influenced towards their intention to use non e-commerce mobile application (Blackberry Messenger) to doing online shopping. Perceived ease of use significantly influence perceived usefulness; perceived ease of use significantly influence attitude; perceived usefulness significantly influence attitude; perceived usefulness significantly influence behavioral intention; attitude significantly influence behavioral intention; and perceived enjoyment significantly influence perceived ease of use.

The most influenced factor is perceived ease of use towards perceived usefulness. It is mean that women will feel that using a technology will make their job easier. Or in electronic commerce context, it means that women feel using technology is free from hard effort, so the technology will be very useful to do online shopping.

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ANALYSIS OF FACTORS SUPPORTING THE SUCCESS OF RIGHT ISSUE: EMPIRICAL STUDY IN MANUFACTURING COMPANIES LISTED IN IDX PERIOD 2005-2014

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ABSTRACT

The purpose of this research is to examine the factors influencing the success of right issue in Indonesia. This research tests 3 relationships: the relationship between ex-post expected return and the degree of change of public shareholdings proportion, the relationship between the degree of change of public shareholdings proportion and the change of WACC, and the relationship between the change of WACC and the reaction of investors after right issue. The data used in this research are secondary data, consisting of manufacturing companies listed on Indonesia Stock Exchange (IDX) which decided to do right issue from 2005 to 2014. The number of qualified samples is 21 companies taken by purposive sampling. The methods of analysis are Structural Break Test, Seemingly Unrelated Regression (SUR), and Pearson Correlation Test. The result of this research shows that hypotheses 1 and 2 are not supported and hypotheses 3 is partially supported. The result is no relationship between ex-post expected return and the degree of change of public shareholdings proportion. There is no relationship between the degree of change of public shareholdings proportion and the change of WACC. The last hypotheses supported partially when the increase of WACC has negative relationship with the reaction of investors after right issue. This negative relationship shows that investors negatively react to companies that have the increase of WACC after right issue while the decrease of WACC does not have relationship with the reaction of investors after right issue.

Keywords: rights issue; ex-post expected return; the degree of change of public shareholdings proportion; changes in WACC; reaction of investors after right issue

1. INTRODUCTION

In order to fulfill a company's need, a company can get the budget from internal or external funding. Hanafi (2016) stated that internal funding is from company's operational profit while external funding means that the company gets the money from obligation debt and bank loan, other ways to do the funding is from stocks.

Funding from right issue is also a media to get the money. Right issue is done when a company issuing additional shares and offer them to the recent shareholders. Compare to indebting, a company which does right issue will get the funding without getting the burden from bank loan. Therefore, funding from right issue can be a beneficial alternative to be done by a company who need additional fund. According to Husnan dan Pudjiastuti (2006) compare to the normal offer, right issue has several benefits, those are:

1. the price is cheaper than normal offer because the company do not use underwriter
2. the shareholders can protect their proportion in stocks' ownership in the company
3. the recent shareholders will be prioritized in buying the new stocks
4. the ordinary stocks become a liquid because the total is bigger and can increase stocks' marketing frequency.

The company's additional funding by a company from right issue is used by the company to strengthen the funding structure or infestation, business expansion, increasing the capital, and also paying the indebt.



For the shareholders, because it is their rights, so the recent shareholders do not have to buy the new stocks in right issue. Although the recent shareholders do not use their rights to buy the new stocks, their ownership will get dilution. The recent shareholders in making decision are affected by expected return which is made by the investor on right issue offering. Investors' expected return in making decision to buy or not offering the stocks can be calculated by using ex-post expected return which is get from the return between stocks' price in cum date with right issue offering's price. Offering price in right issue usually is cheaper than stocks' price in the market. The price is cheaper so that the recent shareholders are attracted to use their rights in right issue.

It is interesting to be researched whether ex-post expected return has a relation in right issue offering successfulness which is showed by the changing in public shareholding proportion. Right issue offering is succeed when there is no changing in the ownership proportion which showed that recent shareholders executed the right issue offering. Therefore, when there is no changing in public shareholding proportion or the changes is not big, so the right issue offering is considered as succeed. The bigger the ex-post expected return, the recent shareholders are more interested in executing the right issue offering and it is more successful.

The company chooses funding through right issue because it is cheap funding compare to the general offering. The company who use this funding, usually is a company who avoid adding debt. It has a high debt ratio, therefore the company does not want to add the debt expense and increase their risk. Other than that, the company tries to achieve the target of optimum capital structure and it is achieved when the company minimize the capital budget and maximize the company rate. Because right issue is a cheap funding, therefore right issue is consider as success in capital usage and company rate when a company who conduct right issue can fix their capital structure by minimize the company WACC and maximize their rates. It is interesting to be research whether the changing in public stock ownership

proportion in right issue to see the right issue successfulness has a relation with company's WACC changing after the company conduct the right issue. The recent shareholders execute their rights from right issue offering want the company to fix their company capital structure which is to minimize the capital usage after doing right issue. Other than that, it is interesting to conduct research on WACC changing after a company conduct right issue which in this research is showed by using the coefficient changing in stock's price trend. If the company can minimize the capital usage after doing right issue, it can maximize the company's rate.

1.1 Problem Limitation

This research is limited on company manufactures which conduct right issue on 2005-2014. The chosen company did not conduct other funding such as obligation debt and bank loan, and preference stock. Other than that, the sample company publish a finance report with complete data from 2004-2015.

1.2 Problem Formulation

1. What is the relation between ex-post expected return with proportion changing in public stocks' ownership?
2. What is the relation between changing in public stocks' ownership with WACC changing?
3. What is the relation between WACC changing with the investor reaction after the company conduct right issue?

2. LITERATURE REVIEW

2.1 Capital Structure Theory

Capital structure theory is a combination between debt and equity. In a long term finance structure, capital structure reflects the balance between debt and the capital. Capital structure theory explained that company's funding rules in deciding the combination of debt and equity is to maximize the company rate which is



reflected from the stocks' price in stock exchange.

Combination in choosing the capital structure affected the cost of capital guaranteed by the company. The company who has a optimum capital structure means that it has debt, preference stocks and stocks equity which affected the maximum stock's price. While the outcome for the activity is called capital level. According to Brigham and Houston (2013), optimum capital structure is got when the combination between debt, preference stock, and ordinary stock can minimize WACC and maximize company's rate.

2.2 Efficient Market

According to Jones (2014) investor decided the stock price based on the cash flow expectation received from stock and risk. Rational investor will use all the available information. The information is consist of know or will be known information.

Efficient market defines as a condition where the price is reflected the relevant information completely and efficiently. In the efficient market, nowadays, securities price reflected the relevant information. It is also showed that securities price reflected all information available in the market.

2.3 Related Studies

- Fong and Lam (2014).
Agent problem is one of the reason why recent shareholders do not execute right issue and their ownership are taken by controller shareholder
- Rantapuska and Knupfer (2008)
In Finlandia Capital Market, investor who are not execute right issue are investor who are lack of finance knowledge, small portfolio investor, and also foreigner investor.
- Chen and Chen (2007)
Right issue in China showed that the market are usually giving negative reaction on the

announcement day and giving positive reaction after the announcement days.

3. RESEARCH METHODS

3.1 Break Structural Test

According to Gujarati and Porter (2009) break structural test is used to see the parameter changing on time series data impacted by external factors. In this break structural test, the researcher used this test to see investor reaction after the company conduct right issue which is showed by the changing in the coefficient of stock price's trend.

In this research, break structural model used is as below:

$$P_t = \alpha_t + \beta_t T + \varepsilon_t \quad (1)$$

Notes:

P_t = stock price

α_t = *intercept*

β_t = trend coefficient

T = trend

ε_t = *error*

3.2 Wald Test

It is done to see the coefficient trend before and after right issue whether there is a significance changing or not. The result will show whether there is a significance investor reaction for each companies. In this test, the chi-square significance score used is 0,10 or 10%.

3.3 Seemingly Unrelated Regression (SUR)

This model is used to analyze regression equation in the same time. The researcher can combine the information from the equation and can test the restrictions which involve parameters from different equations.

This research is Seemingly Unrelated Regression (SUR) model as below:

$$Y = X\pi + \varepsilon(2)$$

$$Y = \begin{bmatrix} Y_1 \\ Y_2 \\ Y_3 \end{bmatrix} \quad (3)$$



$$= [Y_1 Y_2 Y_3]' \quad (4)$$

$$X = \begin{bmatrix} \mathbf{1} & Y_0 \\ \mathbf{1} & Y_1 \\ \mathbf{1} & Y_2 \end{bmatrix} \quad (5)$$

$$\varepsilon = [\varepsilon_1 \quad \varepsilon_2 \quad \varepsilon_3]' \quad (6)$$

$$\pi = \begin{bmatrix} \alpha_1 & \alpha_2 & \alpha_3 \\ \beta_1 & \beta_2 & \beta_3 \end{bmatrix} \quad (7)$$

With speculation:

$$E(\varepsilon_i \varepsilon_j) \neq 0$$

$$i, j = 1 \dots 3$$

Covariant assumption between $\varepsilon_i \varepsilon_j$ is not zero, so there is a relation between error term in the equations.

$$\text{So, } \hat{\pi} = (X' \Omega^{-1} X)^{-1} X' \Omega^{-1} Y \quad (8)$$

Where, Ω^{-1} = Inverse from weighting matrix
(9)

Notes:

y_0 = *ex-post expected return*

y_1 = *owner proportion changing*

y_2 = *WACC changing*

y_3 = *investor reaction*

α_i = *constant*

β_i = *coefficient*

ε_i = *error*

3.4 Pearson Correlation Test

Pearson correlation test is correlation test for continual data and discreet data. The correlation test calculates the correlation with data variation. Data variation showed the correlation. Pearson correlation test calculate the data and do not making ranks on the data as how Spearman Rank does.

Pearson Correlation can be count as below:

$$\sum_{i,j \neq 1}^n = \frac{(X_{it} - \bar{X}_i) - (X_{jt} - \bar{X}_j)}{\sigma_{xi} \sigma_{xj}} \quad (10)$$

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Analysis Using Seemingly Unrelated Regression (SUR)

Table 4.1: Output Result Seemingly Unrelated Regression (SUR)

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Probability</i>
α_1	0,089	0,018	4,926	0,000
β_1	-0,044	0,039	-1,130	0,263
α_2	0,001	0,010	0,019	0,985
β_2	0,010	0,086	0,116	0,908
α_3	-0,676	1,600	-0,423	0,674
β_3	-0,891	2,683	-0,332	0,750

Systems of Equations:
 PROPORTION CHANGING = $\alpha_1 + \beta_1 * \text{EXPECTED_RETURN} + \varepsilon_1$
 WACC_CHANGING = $\alpha_2 + \beta_2 * \text{PROPORTION CHANGING} + \varepsilon_2$
 INVESTOR_REACTION = $\alpha_3 + \beta_3 * \text{WACC_CHANGING} + \varepsilon_3$

Source: Analyzed data (2017)

On the first test, beta regression coefficient score (β_1) is -0,044 and probability score is 0,263. Those score showed there was no significance relation between ex-post expected return with changing of public stock ownership. The result showed right issue offering success was not determined by the return got from the stock price in market and right issue offering price differences. On the second test, both beta regression coefficient (β_2) were 0,010 and probability score was 0,908 and those score showed that there was no significance relation between changing of public stocks' ownership with WACC changing. By getting no significance result on the hypothesis tests meant that recent shareholders decision in executing right issue was not determined by their knowledge whether right issue can fix the company capital structure by minimize WACC or not. On the third test, beta regression coefficient (β_3) was -0,891 and probability score was 0,750. The score showed there was no significance relation between WACC changing with investors' reaction after the company doing the right issue. By getting no significane result in the hypothesis test, it was



meant that capital changing was not followed by investors' reaction. It could be concluded that investor gave no reaction to capital changing. But, regression result using SUR for the third hypothesis test was not accurate because investors' reaction for each companies were experienced different WACC changing. So, the result got by the researcher was not accurate.

4.2 Investor Reaction through the Company who Conduct Right Issue

In this test, the researcher wanted to see whether right issue by companies in Indonesia have an effect in the form of investors' reaction which different and significance for each companies.

Table 4.2: Coefficient Changing on Stock's Price Trend and Wald Test

No	Year	Company	Before Coefficient	Trend	After Coefficient	Trend	Coefficient Changing (Wald Test)
1	2006	Mandom Indonesia Tbk, PT	-5,821*		19,475*		25,296*
2		Sumalindo Lestari Jaya Tbk, PT	0,083		4,935*		4,852*
3	2007	Charoen Pokphand Indonesia Tbk, PT	0,232*		0,544*		0,312*
4		Barito Pacific Tbk, PT	9,645*		-8,547*		-18,192*
5		Gajah Tunggal Tbk, PT	-0,192*		-0,995*		-0,803*
6		Ades waters Indonesia	-2,403*		-2,828*		-0,425
7	2008	Tiga Pilar Sejahtera Food Tbk, PT	1,739*		-0,734*		-2,472*
8		Mandom Indonesia Tbk, PT	-3,397		-12,793*		-9,396***
9	2010	Sumalindo Lestari Jaya Tbk, PT	-0,531**		-0,120*		0,412
10		Asiaplast Industries Tbk, PT	0,103*		0,150*		0,047
11	2011	Tiga Pilar Sejahtera Food Tbk, PT	-0,253*		1,764*		2,017*
12		Multistrada Arah Sarana Tbk, PT	1,248*		-0,964*		-2,212*
13	2012	Keramika Indonesia Assosiasi Tbk, PT	-0,006		0,415*		0,421*
14	2013	Astra Otoparts Tbk, PT	2,020*		-0,938		-2,957*
15		Indospring Tbk, PT	0,604**		-0,744**		-1,347*
16		Chandra Asri Petrochemical Tbk, PT	3,692*		-0,284		-3,977**
17		Tri Banyan Tirta Tbk, PT	1,431*		-1,687*		-3,118*
18	2014	Pan Brothers Tbk, PT	0,471*		0,339*		-0,132
19		Nipress Tbk, PT	1,640*		0,521*		-1,118*
20		Pabrik Kertas Tjiwi Kimia Tbk, PT	-1,147*		-1,747*		-0,600*
21		Sekawan Intipratama Tbk, PT	0,950***		0,100		-0,850

Source: Analyzed data (2017)

Notes:

*** = significant in 1%

** = significant in 5%

* = significant in 10%

The result in table 4.2 showed that there were 16 companies who have significance score in doing wald test. It showed that right issue conducted by those companies were impacted to the significance investors' reaction. From those 16 samples, 5 companies were giving positive reaction and 11 companies were giving negative reaction. It was proved the

researcher's speculation that investors' reaction will be different for each companies. So the regression test by using SUR on the third hypothesis test was not significance and accurate.

Since the regression test using SUR getting no significance result and known that the investors' reaction were different from one



another, the researcher conducted correlation test on the third hypothesis. The test was done on companies which experienced partial WACC changing. The researcher tested whether there was a relation between WACC changing with investors' reaction after the company doing the right issue on the companies who experiences increasing and decreasing WACC.

4.3 Investors' Reaction on Partial WACC Changing

4.3.1 Descriptive Statistics

Table 4.3: Descriptive Statistics Test on Investors' Reaction to Partial WACC Changing

Category		N	Mean	Std. Deviation
ΔWACC	Investor Reaction			
Increase	Positive	2	2,416	3,007
	Negative	6	2,896	3,345
Decrease	Positive	5	4,505	7,678
	Negative	8	3,778	5,965

Source: Analyzed data (2017)

Table 4.3 shows the output SPSS result for descriptive statistics. The result shows that generally there are more companies that have negative investor reaction after the company did right issue than the company which had positive investor reaction after the company did the right issue.

4.3.2 Pearson Correlation Test

Table 4.4: Pearson Correlation Test on Investors' Reaction to Partial Change of WACC

Category		Correlation Coefficient	Sig. (2-tailed)
ΔWACC	Investor Reaction		
Increase	Positive	-0,713	0,047
	Negative		
Decrease	Positive	0,459	0,125
	Negative		

Source: Analyzed data (2017)

Table 4.4 was the result on Pearson correlation test. The result was gotten from pearson correlation test on companies which experienced WACC increasing aafter conducting right issue, correlation coefficient - 0,713 and sig. score (2-tailed) was 0,047 and the score was smaller than 0,05 which showed that there was a significance relation between the WACC increasing with the investors' reaction after the company conducting right issue. The negative relation and significance showed that investors were giving negative reaction to companies which experience increasing WACC after conducting right issue. Investors' reaction showed by the company which experienced increasing WACC after conducting right issue had an impact in the form of stock's price performance which had the tendency to get low.

On pearson correlation test for the company which experienced decreasing WACC after conducting right issue, the correlation coefficient score was 0,459 and sig.(2-tailed) score was 0,125 and the score was bigger than 0,05 which showed there was no significance relation between WACC decreasing with investors' reaction which conducted right issue. It showed that investors gave no reaction on companies which experienced decreasing WACC after conducting right issue.

The result from the correlation test showed that there was partial relation between WACC changing with investors' reaction after the companies conducted right issue (only for those which experienced increasing WACC). The increasing had negative relation with investor's reaction after conducting right issue. The negative relation proved by the decreasing tendency of the stock's price. While WACC decreasing had no relation on the significance investors' reaction after the company conducting right issue.

5. CONCLUSION

5.1 Conclusions

Based on the analysis above, there are several conclusions:

1. There is no significance relation on the third hypothesis when it is tested with SUR. But the result got on the third hypothesis test is assumed because the investors' reaction on



- WACC changing are different for each companies. Therefore, when regression with SUR is done, the result is not significant.
2. Companies with negative investor reaction after conducting right issue are more than companies with positive reaction.
 3. On the third hypothesis test by using partial correlation, the third hypothesis is supported partially when WACC increasing has negative relation with investor reaction after conducting right issue. The negative relation showed that investors are giving negative reaction to the company which experienced WACC increasing after conducting right issue. While WACC decreasing has no relation with investors' reaction after the company conducting right issue.

5.2 Research Limitation

This research has several limitation which are only using manufacture industry as sample, therefore it cannot reflect the condition on other industry.

5.3 Suggestion

- a. Future researcher can add the research's time periodic in order to increase the observation time. Therefore, the research will be stronger.
- b. Conduct research on other company from other industry so there will be no limitation on manufacture industry only.
- c. Be careful on sample selection because companies can conduct funding activity not only from stock's in right issue.

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EMOTIONAL INTELLIGENCE AND LEADERSHIP EFFECTIVENESS IN A CROSS-CULTURAL CONTEXT: A STUDY OF THE RELATIONSHIP IN THE MALAYSIAN MULTI-ETHNIC BUSINESS SOCIETY

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ABSTRACT

Emotional intelligence (EI) has been suggested as a key factor that enhances leadership effectiveness. The dimensions of EI and its benefits are extensively documented. However, some scholars have noted that the concept is primarily derived from the Western psychology, and questioned the extent it could be universally applied. The literature on cross-cultural psychology indicates that interpretations of EI as well as how EI is applied in the workplace are likely to vary across cultures. Therefore, there is a need to better understand EI as a context-bound construct and define the attributes and competency associated with EI in specific cultures. The proposed research shall explore EI and leadership effectiveness in the context of Malaysia, a country characterized by a multi-cultural society with high exposure to both western and eastern cultures. The goals of the research are to conceptualize EI based on the Malaysian culture and identify how EI can be applied in order to enhance leadership effectiveness.

Keywords: *Emotional intelligence; leadership effectiveness; cross-cultural; Malaysia.*

1. INTRODUCTION

Though studied with all sorts of approaches, leadership remains enigmatic (George, 2000). Effective leaders are recognized as essential to enhancing organizational, in which various literature acknowledges as transformational leadership as compared to transactional (Palmer et al, 2001). Thus, predicting effective training programs and recruitment then has extensive value, a measurement previously thought was highly

reliant on intelligence and personality (Mayer et al, 2008) and to a certain extent, prior job performance (Yammarino et al, 1993).

McClelland (1998) noted however that academically-tested intelligence failed to sufficiently relate to performance, particularly in high-level executives. Firms recognized the need to have training programs to develop effective leaders but were focusing on wrong areas, with technical skills only significant with entry-level executives (Goleman, 1998), eventually wasting resources in doing so.

George (2000) establishes that a leader-follower relationship is an emotional-laden process. Downey, Lee and Stough (2011) also suggests that emotions may uniquely contribute to job requirements. Expression and regulation of emotions, along with other relevant traits, contribute to leader effectiveness (Rajah et al, 2011) but has not often been explicitly considered. The value of emotions has been on the rise with more pressure than before on leaders to manage follower emotions for the benefit of companies (Rajah et al, 2011).

Emotional intelligence is a field still maturing but one that is currently popular for investigation (Cavazotte, 2012). Its link to organizational performance has held true in various studies of Asian corporate divisions (Goleman, 1998), accounting firms (Glodstein, 2014), and first-year college performance (Schutte, 1998), among many others.

Though the relationship excites many in the field, it has been littered with methodological shortcomings that has reduced their result validities via biased handling of evidence (Cavazotte et al, 2012). Others often were too quick to jump onto the bandwagon, utilizing EI



classification with components not mutually exclusive to the status quo intelligence and personality components (Palmer et al, 2001).

Emotional intelligence as a field of study has also invited plenty of popular, extraordinary and unfounded claims rather than scientifically-evidenced ones (Mayer et al, 2008). These approaches have rendered EI assessment and evaluation tools to either be too inclusive (trait model) or though well defined, lacked reliability (Mayer-Salovey-Caruso Emotional Intelligence Test i.e. MSCEIT) when leaders were assessing their own EI.

Glodstein's (2014) study could not prove causality between the EI and leadership effectiveness relationship but did find that occupation, to a certain extent, had relevance to emotional management. Though many doubts remain, EI is a domain worth exploring and theorizing further.

Prior studies have also identified that the relationship would benefit from being studied with more diverse leader samples (Palmer et al, 2001), leader-follower relationships with multi and cross-level designs (George, 2000) along with a cross-cultural setting (Cavazotte et al, 2012; Rajah et al, 2011). Controlling approaches of high power distance societies such as in Malaysia were found to have positive EI-leadership effectiveness relationships, contrary to common academic literature (Rajah et al. 2011).

Subordinate (follower), as opposed to self-perceived, leadership assessment would also provide greater validity

1.1 Research Questions

- i. What is the relationship between leader emotional intelligence and leadership effectiveness in more emotionally and socially relevant contexts?
- ii. What is the relationship between leader emotional intelligence and leadership effectiveness in a culturally diverse multi-ethnic society like Malaysia?
- iii. What is the relationship between leader emotional intelligence and leadership

effectiveness when subordinate EI and performance is taken into account?

The aim of this study thus intends to test the leader EI - leadership effectiveness relationship under more relevant recommended contexts through consistent and well-thought cross-level research design in order to contribute further to the theory (i.e. culture moderation) along with strengthening its empirical evidence (i.e. subordinate mediation).

1.2 Research Objectives

Research Objective 1: Test the relationship with culture as a moderator – based on ethnicities and assessed under Hofstede's theory or Selvarajah's (1995) conceptual framework on Asian/international leadership excellence. Studies by Selvarajah and Meyer (2008) and Jogulu and Ferkins (2012) disputes Abdullah's 2001 study of a Malaysian national culture and reporting that there are indeed moderating effects and differences by the three main ethnicities studied. The relationship has been highly disputed, particularly with inadequate studies in suitable contexts for leaders to be effective. The proposed cross-cultural (i.e. multi-cultural) context as proposed by various literature seems to suit Malaysia, where a national culture is rejected, highlighting the different leadership styles and preferences existing amongst its different ethnicities (Selvarajah & Meyer 2008). Varying ethnic-populations in differing geographical locations within the nation may also require heightened EI abilities amongst leaders in order to be effective with their workforce. This moderating construct is justified by:

- i. Literature that establishes leadership as a socially and emotionally laden responsibility (George, 2000) (past studies may have been done in contexts where these factors are insignificant or negligible);
- ii. Malaysia's multi-cultural or multi-ethnic workforce that may heighten the need for greater social and emotional abilities by leaders (hardly any prior research on the relationship



done in Malaysia);

iii. Literature that proposes for the EI – leadership effectiveness relationship to be tested in cross-cultural contexts (Cavazotte et al 2012, Rajah et al 2011) and preferably in differing industries from that of those done in the past; and

iv. Past studies done in Malaysia were limited to Peninsula Malaysia, and have been recommended to expand to East Malaysia (Sabah and Sarawak) to include the Dayaks, whom are also classified as Bumiputras but were generalized with Malays (Selvarajah & Meyer 2008).

Research Objective 2: Test the relationship by determining subordinates'/followers'/workforce's level of emotional intelligence as a possible mediating factor. This follower-centric approach through a multi-level leader-subordinate study will contest previous approaches that solely attributed leadership effectiveness (i.e. transformational leadership and measured by the achievement of organizational outcomes) solely to the EI of leaders, thus determining their leadership style (i.e. transactional or transformational). Literature has to acknowledge that the levels of EI amongst the leaders' subordinates, be it separate or as a result of the leaders' EI, can be a mediating factor or antecedent of leadership effectiveness to better study the relationship.

i. Most prior research has only attributed leadership effectiveness to the leaders' EI, ignoring that a highly emotionally intelligent workforce could independently contribute to a EI deficient leader's effectiveness or that an emotionally intelligent leader may not fulfil the organization's outcomes and be deemed effective due to managing a highly EI deficient workforce.

ii. Additionally, subordinates' EI could be naturally or independently established especially for employees in certain industries (e.g. service) or developed specifically by their leader due to probably a lack thereof need by

their respective industry (e.g. manufacturing).

iii. There cannot be an assumption that a leader's effectiveness in the organization is solely down to their own abilities when literature establishes that the practice highly involves influencing the satisfaction, commitment and productivity of their subordinates (Voon et al, 2011). Assessing the EI levels of their subordinates could establish that their satisfaction, commitment and productivity levels are independent and of their own making (if EIs are high) or probably as a direct influence of their leaders (if EIs are low).

iv. While Cavazotte, Moreno and Hickmann (2012) includes subordinates in the EI and leadership assessment of their leaders, it in no way tries to establish their own EI as an independent or mediating variable. George (2000) does express concern that analysis focuses primarily on leaders and that a more follower-centred approach by assessing followers' EI and its effects on the leadership process should be considered. Studies since then has mostly adopted Cavazotte et al's (2012) approach rather than studying the possible influence in the relationship proposed by George (2000). Rajah, Song and Arvey (2011) however supports either by echoing the need of a multi-level leader-follower relationship assessment using cross-level mechanisms for greater empirical support.

2. LITERATURE REVIEW

There are two main models of emotional intelligence that literature has developed; a trait model and ability model (Palmer et al 2001). The trait model, particularly by Reuben Bar-On, models this construct based on an individual's range of competencies, non-cognitive capabilities and skills in coping with surrounding pressures (Mayer et al, 2001). The trait model of EI assessments have been more widely used due to its overall greater convenience in terms of administration and formats (Downey et al, 2011). Developed by Mayer, Salovey and Caruso, the ability model of emotional intelligence is the most



theoretically well clarified model, recognizing it as a competence of monitoring and managing the emotions of one's self and of others (Palmer et al 2001). A later development has seen the Swinburne University Emotional Intelligence Test (SUEIT) (now Genos) modeled to better measure EI in the workplace (Downey et al, 2011).

The ability model creates distinction by applying cognitive intelligence to emotional questions (Cavazotte et al 2012). Mayer et al (2008) claims this conceptualization holds incremental validity in predicting socially relevant outcomes by recognizing this ability as an intersection between emotions and intelligence. This model was also specifically unrelated to both academic intelligence and personality constructs, the former of which was failing to account for successful high-level executive performance (McClelland, 1998). Empirical evidence nevertheless suggests it contributes greater to incremental predictions of social effectiveness and social relationships (Mayer et al, 2008)

Transformational leaders are acknowledged to be more effective leaders than transactional leaders (Palmer et al 2001). Transformational leadership has been claimed to be less related to academic performance (Yammarino et al 1993), echoed by Goleman (1998) that claims IQ and technical skills are more of job-entry "threshold" capabilities. George (2000) identified several factors determining leadership effectiveness as abilities in influencing the follower collective. Studies show that EI is highly correlated with several components of transformational leadership, taking into account how leaders make their subordinates feel at work (Palmer et al, 2001).

Palmer et al (2001) relates the two by suggesting that the monitoring and management of emotions may be the underlying competency of transformational leadership. Emotional expressions, regulation and intelligence are cited factors contributing to a leader's effectiveness (Rajah et al 2011). Downey et al (2011) additionally claims performance is better predicted by emotional intelligence when compared with personality

and IQ constructs. George (2000) also establishes leadership as a socially and emotionally laden responsibility.

The ability model however is much more difficult to measure, when compared to the trait model, thus not widely utilized (Downey et al 2011). Antonakis et al (2010) also suggest these tests are rarely done effectively, leading to results distortion.

Palmer et al (2001) suggested the relationship to be studied with larger and more diverse leadership samples. Culture and gender impacts on the theory and measurement were also identified as potential gaps (Mayer et al 2008). Few studies on the relationship have also been carried out in cross-cultural contexts and are suggested to be empirically tested for (Rajah et al 2011). Rajah et al (2011) also cites (Shipper et al 1993) finding positive relationships between emotional intelligence and controlling skills in Malaysia, where high power distance cultures exist.

In societies with higher power distance, such authoritative approaches would seem to be more effective with minimal display of emotions (Rajah et al, 2011). With culture as a potential moderator, transformational leadership has also been found to be a consistent antecedent of leadership across different contexts (Cavazotte et al, 2012). Consistent emotion recognition can also be found amongst people of similar ethnicities, giving cause to cross-cultural studies of this relationship (Rajah et al, 2011).

Additionally, some measures, such as the Mayer Salovey Caruso Emotional Intelligence Test (MSCEIT) are self-perceived measures, and may not be accurate in measuring actual emotional intelligence (Palmer et al 2001). George (2000) suggests that, being an emotion-laden process from leader to follower, the current measurement focus (on leaders) can benefit from a consideration of followers' EI. Such cross-level mechanisms can provide greater empirical support for measuring the relationship (Rajah et al, 2011). Glodstein (2014) related to this by measuring it against job satisfaction, justifying productivity and retention as relevant but important work outcomes.



3. RESEARCH METHODS

Scholars suggest that millions are spent on training and development of emotional intelligence in leaders but doubts still persist amongst the literature of such relationships existing. Most of these studies however were done in a Western context with the Western perspective to (transformational) leadership. With limited research and exploration done in the Eastern or Asian context, it is hope that this research can contribute as such.

This study intends to study the relationship of emotional intelligence with leadership effectiveness in a cross-cultural/multi-cultural context in varying organizations of the same industry as suggested by scholars (Cavazotte et al, 2012) (George, 2000) (Palmer et al, 2001). Malaysia would fit this context well with previous studies exploring its multi-cultural uniqueness in Asia as opposed to a single national culture (Selvarajah and Meyer, 2008). Though there have been various leadership studies conducted in the Malaysian context, there is extremely scant work done with focus on its relationship with EI (Jogulu and Ferkins, 2012). In a richly diverse and globalized environment, it is hoped that emotional intelligence, rather than IQ and personality, would prove to be the construct that has a greater interrelationship and answer to managing culture/diversity.

Using a more follower-centric evaluation of overall emotional intelligence within the organization to explain leadership effectiveness, which is often tied to organizational outcomes (George, 2000). George (2000) proposed such initiatives to test its relationship with leadership outcomes it has been hardly adopted by other studies since then. Follower-centered assessments have been commended to overcome self-assessment flaws on leadership (Cavazotte et al, 2012). Rather than as a methodological limitation, it is presumed that the lack of research with this approach were largely due to limited focus and motivation on follower-based diversity, allowing for generalization of leadership influence. However, leadership effectiveness hardly depends solely on leaders' abilities,

more so when studying a culturally diverse workforce, rendering previous approaches unsuitable (Cavazotte et al, 2012). Thus, this practically-tuned approach is suggested as a methodological contribution to the widely proposed cross-cultural study of the EI – leadership relationship.

Measurement of intelligence, personality and emotional intelligence of managers/leaders will be done via tests more widely suitable for the workplace such as the SUEIT that has adopted the ability model of EI (Downey et al, 2011) and possibly identify their leadership styles via the multifactor leadership questionnaire (MLQ) (Palmer et al, 2001). These methods have been adopted by prior studies and should be replicated for consistency and validity.

Next stage is to measure the emotional intelligence of their followers/subordinates via EI tests. This method is not widely practiced for leadership assessment but many EI tests exist, namely the Mayer, Salovey and Caruso Emotional Intelligence Test (MSCEIT) that acknowledges the EI construct as an ability rather than a trait as claimed by other competing theorists (Mayer et al, 2008). Cultural theorists whom discuss cultural intelligence as a separate construct to that of IQ (just as EI and personality are) may further establish Mayer, Salovey and Caruso's ability framework.

These results (both leader and follower) can be further analysed with Hofstede's theory on cultural dimensions but Selvarajah's framework on Malaysian's cultural perceptions of Asian leadership excellence seems to bring greater clarity and insight to the unique diversity of ethnicities in Malaysia and can better suit the research design (Selvarajah and Meyer, 2008). May be particularly interesting if foreign leaders of local workforces do not align with the cultural perceptions of leadership excellence identified by Selvarajah and Meyer (2008) yet are highly emotionally intelligent and effective. It is hoped that these methods are aligned with the moderating and mediating constructs of the study to contribute to the relationship studied by current literature and to deepen its theory.

These measures will then be tested for correlation with the most recent organization's financial performance via bonuses and turnovers (McClelland, 1998) and possibly the manager/leader's performance ratings by their respective subordinates, as recommended by George's (2000) follower-centric approach adopting a much-needed cross-level design (Rajah et al, 2011) to provide greater empirical validity. Additional consideration into leader performance ratings can include job satisfaction (Glodstein, 2014) as effective managers are additionally measured based on related abilities such as generating and maintaining enthusiasm, confidence, cooperation and trust (George, 2000). Job satisfaction has also been established to include numerous important work outcomes, including productivity (Glodstein, 2014) (Brooks and Nafukho, 2006).

Managers and subordinates of organizations in Malaysia can include a mix of local and international organizations that would promise a diverse population of leaders and subordinates within the Malaysian context (Selvarajah and Meyer, 2008). Additionally, organizations with foreigners as managers of a local workforce may have increased difficulty leading their multi-ethnic subordinates to bring about interesting results and discussion (Rajah et al, 2011).

The higher education industry may suit this requirement nicely, as the Malaysian context is vastly populated with both public and private universities that consist of mostly local ethnicities and a small but good mix of international (foreign) practitioners as opposed to a homogenous sample to offer more valid EI-occupational focus (Glodstein, 2014). As education sits within the service industry, it accentuates the emotional and social needs of both the leader and follower (Mayer et al, 2008). However, academics need not be the focus of the study as this can be controlled or even compared with administrative departments that also serve a significant yet possibly transactional function for these respective organizations (Cavazotte et al, 2012).

3.1 Conceptual Framework

The conceptual framework as detailed in Figure 1 below is meant to highlight the moderating effects of culture on a multi-level study in which a follower-centric approach is additionally adopted as a potential mediating effect in determining the relationship between leader emotional intelligence and the effectiveness of leaders.

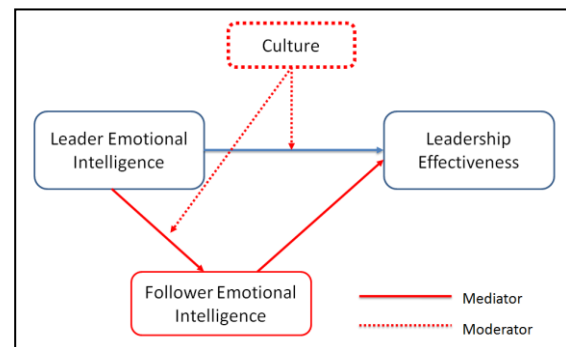


Figure 1

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IDENTIFICATION OF MONETARY POLICY TRANSMISSION MECHANISM OF MONEY CHANNEL AND INTEREST RATE CHANNEL IN INDONESIA PERIOD 2000Q1-2014Q3

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ABSTRACT

Research purposes to identify monetary policy transmission (Monetarist approach) and interest rate channel (Keynesian approach). The study was conducted in Indonesia during the period 2000Q1-2014Q3. The data used are sourced from the Central Bureau of Statistics and Economic and Financial Statistics in Indonesia. The object of research is the transmission of monetary policy conducted by Bank Indonesia. Method of data analysis using vector error correction model (VECM). Before data is processed the data stationerity test, unit of root test, optimum lag, Johansen cointegration test, impulse response function and variant of decomposition. The results showed that the transmission of monetary policy of the interest rate channel with the effect of capital cost is more effective than the interest rate consumption channel and the money channel.

Keywords: *transmission of monetary policy, money channel, interest rate channel*

1. Introduction

Monetary policy is part of a very important macro-economic policy role in influencing the economic conditions of a country. Monetary policy is carried out by the monetary authority (central bank) to influence the amount of money in circulation and credit which in turn will affect the economic activities of the community (Nopirin, 1988). The success or absence of a monetary policy can be seen the positive impact of monetary policy on the real economic activities of a country such as: increased economic growth, public welfare, employment opportunities, foreign exchange

earnings, and bring positive influence on other macro policies (Pohan, 2008).

Monetary policy works in a mechanism known as monetary policy transmission mechanism (MTKM). The monetary policy transmission mechanism illustrates how the monetary policy adopted by the central bank influences various economic activities and financial activities so that it can ultimately achieve its final set goals (Warjiyo, 2004). In simple terms, MTKM is the stages through which monetary policy begins monetary policy formulation toward the final destination that has been determined. Monetary policy runs well when the transmission line passes (MTKM) runs well and smoothly.

Several studies have shown the importance of the role of monetary policy transmission mechanisms to the economy, Bernanke and Blinder (1992), Taylor (1995), Bernanke and Gertler (1995), Obstfeld and Rogoff (1995), Taylor (1995), Warjiyo and Agung (2002), Warjiyo (2004), Muelgini (2004), Mishkin (2001), Haryanto (2007), Natsir (2008). The importance of MTKM is attributed to the presence or absence of its influence on the real sector and the monetary transmission channel in which the effect takes place.

Monetarist and Keynesian currents have different views of the influence of monetary policy on the real economy. The main difference between the two theories is about the role of money in the economy (Lockett, 1984). Monetarist approach argue that money affects only the inflation rate and not at the level of real economic growth, whereas the Keynesian approach believes that money can directly



affect real economic activity as well as its effects on inflation. The implication is that monetary policy can be used as one policy indicator that actively influences the ups and downs of real economic activity. Differences in the views of the Monetarist and Keynesian flows against it are interesting to be researched. This condition becomes the background of the importance of research on monetary policy transmission mechanism on Monetarist channel and Keynesian channel.

Oh, (1999), the monetary policy transmission mechanism consists of a quantity channel (Monetarist approach) and the Price path (Keynesian approach). The quantity path consists of a money channel and a credit quantity channel, while the price channel consists of a channel of interest rates, exchange rate channels and asset channels. This study identifies the effectiveness of Monetarist monetary policy monetary transmission mechanisms represented by the Keynesian money and flow channels represented by the interest rate channel. Effectiveness The monetary policy transmission mechanism is measured by two indicators. The first indicator is measured by how much speed or deadline (time lag) and the second is how the strength of variables in response to monetary policy instrument shocks.

The purpose of this study was to identify the effectiveness of monetary policy transmission mechanism of quantity channels of money and interest rate channel (effect of capital cost and income substitution effect) during period 2000Q1-2014Q3. The research benefits are to provide empirical contribution to the development of monetary economics by presenting the empirical findings of MTKM effectiveness of money channel (Monetarist) and interest rate channel (Keynesian) in realizing the ultimate goal of monetary policy in Indonesia.

2. LITERATURE REVIEW

2.1 Transmission Mechanism Monetary policy

Taylor (1995) states that the monetary policy transmission mechanism is "the process through which monetary policy dictates the

transmitted into changes in real GDP and inflation". The monetary policy transmission mechanism describes the actions of the monetary authority through changes in monetary instruments and its operational targets affecting various economic and financial variables before ultimately affecting the ultimate goal of inflation. Mishkin (1996) states that the monetary policy transmission mechanism is a complex process, and therefore in monetary economics theory is often called the "black box". The complexity in monetary policy transmission mechanism is influenced by three factors, namely: first changes in behavior of central banks, banks and economic actors in various economic and financial activities. This is related to the anticipated behavior by banks and economic actors on any changes in central bank behavior. The second is the time lag since the monetary policy is pursued until the inflation target is reached. This is because monetary transmission is related to the pattern of relationships between various economic and financial variables that are always changing in line with the economic development of the country. And the third change in the channels of transmission of monetary policy is in accordance with the economic development of the country.

2.2 Differences View of MTKM Monetarist Channels with Keynesian Channels

The difference between the Monetarist and Keynesian groups concerns the way market mechanisms work and the drivers of aggregate demand growth in the economy. The Monetarist group assumes that the economy can run perfectly so that prices can adjust if there is a difference between demand and supply. The rise or fall of the price is influenced by the amount of money in circulation. If the policy of the centenary taken by the central bank by determining the amount of money in circulation (JUB), then fully JUB will affect the price development. For this reason Monetarist groups argue that monetary policy affects only the nominal (not real) value of aggregate demand through changes in prices with relatively stable effects. This is in line with



Friedman's (1968) opinion, "inflation always and everywhere a monetary phenomenon", the price increase (inflation) will always exist and wherever it is a monetary phenomenon.

On the other hand, Keynesian groups argue that economic problems are so complex that they cannot be solved by simply controlling money, as many factors play an important role in encouraging economic activity. Market conditions are assumed not always in a balanced state, because there is some rigidity in the workings of market mechanisms in the economy. This situation occurs for example because of the price setting of a commodity price by the government, the unilateral contract of employment by employers. Under these conditions, in case of shocks in the economy, for example, a monetary policy actively easing or tightening will affect real economic growth in the short term, although ultimately in the long run the price will also be affected (Warjiyo, 2004). The conclusion according to the Keynesian group of monetary policy will affect the real sector of the economy.

The next difference concerns the motive of money demand. The monetarist is concerned about the demand for money for the purpose of the transaction. Keynesians base money demand on three motives, namely transactions, precautionary, and speculation. This difference in money functions has a different effect on output and prices in the economy. Monetarist money demand is defined as a fraction of their income. An increase in the money supply will increase the income (Y or GNP), and this Y increase will cease if money demand is equal to the money supply. So the income will increase until the entire money supply increase is absorbed in the increasing demand for transaction demand and Monetarist. By no means offends the effect on the interest rate. On the basis of the above assumptions, the Monetarist flow with quantity approach recommends monetary policy transmission through the use of money supply targets (Sarwono and Warjiyo, 1998). According to the Keynesian theory, bases demand money on three motives, namely transactions, precautionary, and speculation. Transaction motives are based on income variables (Y),

while the precautionary and speculative motives are based on income and interest (i) variables. Traditional Keynesian is a price channel approach, this approach puts the interest rate as the central bank's operational target.

2.3 Monetarist and Keynesian Monetary Policy Channels

Oh (1999), MTKM consists of transmission channel with Monetarist approach that is quantity channel and Keynesian approach known as price channel. The quantity approach is presented by money channel and credit channel. Monetarist channels are also called direct channels, assuming an increase in the money supply will directly raise public spending, and thereby increasing revenues. The credit channel is a critique of interest rate lanes that assume that the interest rate component as a variable of capital price is very difficult to identify. This credit approach assumes that an increase in the money supply as a result of monetary expansion will increase credit, will further increase investment and income. The Keynesian approach is a price channel approach, this approach places the interest rate as the central bank's operational target. The price channel is presented by the interest rate channel, exchange rate channel and asset price channel.

2.4 Quantity Channel

Transmission of monetary policy through a direct channel or money channel refers to the classical theory of the dominance of the role of money in the economy based on Quantity Theory of Money described by Irving Fisher (Fisher, 1911). This theory provides a framework for the analysis of the direct relationship between the growth of uanhg in circulation and inflation. This model is known as "The equation of exchange" expressed in the identity equation, $MV = PT$ ie money supply (M) multiplied by the rate of velocity (V) is equal to the price level (P) multiplied by the sum of the real output (T). In the economic equilibrium, the money supply used in the transaction (MV) equals the sum of nominal



output (output is calculated based on prevailing prices) transacted in the economy (PT). This quantity of money theory emphasizes that people's money demand is only used for transaction purposes (Pohan, 2008).

The monetary policy transmission mechanism through the money channel is a direct consequence of the process of turning money in an economy consisting of two stages (Warjiyo, 2004). The first stage of the central bank conducts monetary operations to control the money supply in the community (M1 and M2) through the arrangement of base money or M0 as monetary targets. The second stage, banks manage their liquidity in the form of reserves (bank reserves) that can be used at any time as the mouth of the bank's main activities of credit and other funds disbursement.

The monetary policy transmission mechanism through the money channel begins with the actions of the central bank controlling the base money adjusted to the ultimate goal to be achieved. Then this primary money, with a multiplier process (money multiplier) is transmitted to the money supply (M1, M2) adjusted to the public demand. This money channel transmission aims to balance the supply of money (Ms) with demand of money (Md), which in turn, this money supply will affect the economy that is inflation and real output.

2.5 Interest Rate Channel

Interest rates are important in determining how monetary policy is transmitted to the economy because interest rates have a strong relationship with household expenditure. The monetary contraction will increase the short-term nominal interest rate. Combined with sticky prices and rational expectations, long-term interest rates will rise following short-term interest rates. In general, monetary transmission through interest rate channels can be described (Mishkin, 2001), as follows: an increase in interest rates directly affects the first two sides increases cost of capital, thereby reducing the interest to invest (assuming monetary policy is accompanied by an increase in interest rates and ceteris paribus conditions). Reduced

investment lowers aggregate supply. Second, the increase in interest rates increases the interest income of savers, which on the one hand impacts the increase in the purchasing power (income effect), but on the other hand reduces the interest of consuming (substitution effect). The net effect both determines the amount of consumption, which ultimately affects aggregate demand. Figure 1, states that a tight monetary policy leads to an increase in the real rate of interest rate, which then raises the cost of capital, which leads to a decrease in investment spending, and ultimately leads to a decrease in aggregate demand and output

Nualtaranee (2001) supports the above assumption by showing that a strong relationship between real interest rates and asset prices is a major factor in the monetary transmission mechanism. A change in the real interest rate will have an impact on the cost of capital, which will then affect the value of assets and investment decisions. In the banking sector, usually tight monetary policy through a liquidity contraction in the economy limits the ability of banks to raise funds. This will put pressure on interest rates to rise so as to increase the cost of capital as reflected by the cost of borrowing imposed by the banks. Such increases will lead to lower spending on investment goods and durable goods and lower aggregate demand and output.

2.6 Effectiveness Indicators of Monetary Policy Transmission Mechanism

The effectiveness of MTKM is measured by two indicators (Mishkin, 2001): (1). What is the speed or deadline (time lag) and (2). The strength of the variables on the monetary transmission line in response to the rSBI shock to the realization of the ultimate goal. Speed indicators are measured by how many time lags are required by the variables in a path to respond to the shock of the policy instrument until the inflation goal is reached. The variable strength indicator in response to shock of a variable is measured by order of magnitude. If the order of magnitude of a variable is wider (far from the equilibrium point), the stronger the variable responds to monetary instrument



shock or other variable changes. The indicators for response strength can also be seen from the Variance of Decomposition.

3. RESEARCH METHODS

3.1 Research Data

The data used are time series data, period of quarter 2000: Q1 until 2014: Q3 Data sources are obtained through official government institutions such as BPS, Indonesian Economic and Financial Statistics (SEKI) issued by Bank Indonesia, and Bank Indonesia Annual Report.

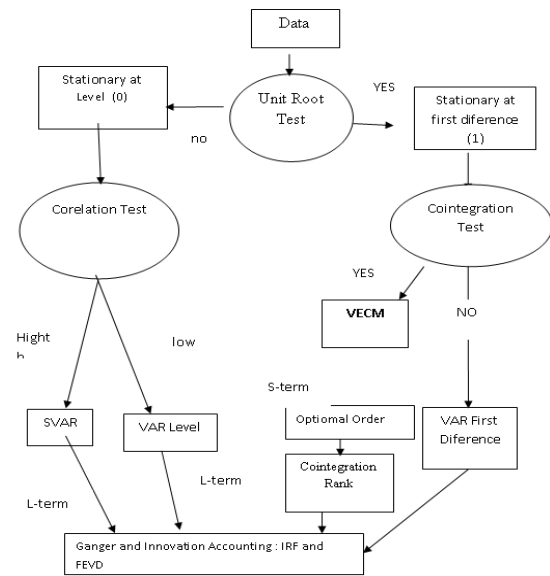
3.2 Operational Research Variables

Table 1 Operational Research Variables

NO	Variables	The definition of a variable	Measuring Instrument	Source
1	SBI	Interest Rate of Bank Indonesia Certificates (rSBI), is the interest rate of securities issued by Bank Indonesia on the issuance of SBI	Percentage	SEKI Bank Indonesia
2	LPDBR	Represents the Log of real gross domestic product as measured at constant 2000 prices	Billion Rupiah	BPS
3	INF	Core inflation (INF) is a type of inflation that is fully controlled by monetary policy measured in percent.	Percentage	SEKI Bank Indonesia

4	RDEP	Time Deposit Rate (3 month), represents the interest rate on the Bank's three-month time deposit	Percentage	SEKI BI
5	RKI	Interest Rate of Investment Credit (RKI), is the interest rate of bank credit at commercial bank which is intended for Investment	Percentage	SEKI BI
6	LKRSS	LKRSS is a log of real consumption of the private sector ie the amount of household expenditure is calculated based on constant prices	Billion Rupiah	SEKI BI
7	LIRSS	Log of Real Private Investment (IRSS), represents the amount of private investment invested as measured by 2000 constant prices	Billion Rupiah	BPS
8	LM0	MO is a currency consisting of banknotes and coins (base money), data in the form of logs	Billion Rupiah	SEKI BI
9	LM1	M1 represents the money supply in the narrow sense	Billion Rupiah	SEKI BI

		consisting of quarter money and demand deposit (M0 + Demand deposit), data in Log		
10	LM2	M2 represents money in a broad sense consisting of M1 plus bank deposits in the form of savings deposits and time deposits, data in the form of logs	Billion Rupiah	SEKI BI



Source: Widarjono, 2007

Figure 1: Step of VAR or VECM

3.3 Data Analysis Method

Data analysis technique used for data processing in this research is VECM model. Before VAR or VECM estimation, the following steps are taken in Figure 1 (Widarjono, 2007). The first step is testing the stationarity test. Testing of stationarity of data is very important in determining the proper analysis tool whether VAR or VECM. Data that has stationer at level can be used VAR analysis at level level. However if data is not stationary at level but at first degree used VAR analysis tool at first level (1'st) on condition there is no cointegration data. If there is cointegration of data then it is estimated Vector Error Correction Model (VECM).

3.4 Research Model

3.4.1 Model Quantity Channel of Money

(The money quantity channel model), MTKM money supply consists of 4 (four) variables namely; LM0, LM1, LM2, and inflation rate (INF). The VAR model of the money channel is:

$$\begin{aligned}
 LM0_t &= C1 + a1i \sum LM0_{t-k} + a1i \sum LM1_{t-k} + a1i \sum LM2_{t-k} + a1i \sum INF_{t-k} + \epsilon_i \\
 LM1_t &= C2 + a2i \sum LM0_{t-k} + a2i \sum LM1_{t-k} + a2i \sum LM2_{t-k} + a2i \sum INF_{t-k} + \epsilon_i \\
 LM2_t &= C3 + a3i \sum LM0_{t-k} + a3i \sum LM1_{t-k} + a3i \sum LM2_{t-k} + a3i \sum INF_{t-k} + \epsilon_i \\
 INF_t &= C4 + a4i \sum LM0_{t-k} + a4i \sum LM1_{t-k} + a4i \sum LM2_{t-k} + a4i \sum INF_{t-k} + \epsilon_i
 \end{aligned}$$

The VECM equation of monetary policy transmission on the quantity path of money is formulated as follows:

$$\Delta X_t = a_0 + A_1 \Delta X_{t-k} + a_2 \text{ect} + \epsilon_t$$

Where: X_t = Vector 4 x1 of each variable are M0, M1, M2 and INF, a_0 = Vector 4 x 1 of intercept (constants), A_1 = Maktriks 4 x1 of the coefficient, a_2 = vector 4 x1 from error correction model, t = vector 4 x1 of error terme



Δ = data in the form of first derivative (first difference), T = time (quarter)

k = optimum slackness based on AIC and SC

3.4.2 Model of Interest Rate channel through the effect of capital cost (Interest Rate 1)

The path of interest rate of 1 transmission line through the cost of capital with the following variables: SBI, RDEP, RKI, LIRSS, LPDBR and INF. The interest rate channel 1 VAR equation is:

$$\begin{aligned} \text{SBI}t &= C_1 + a_{1i} \sum \text{SBI}_{t-k} + a_{1i} \sum \text{RDEP}_{t-k} + a_{1i} \sum \text{LKRSS}_{t-k} + a_{1i} \sum \text{LPDBR}_{t-k} + a_{1i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{RDEP}t &= C_2 + a_{2i} \sum \text{SBI}_{t-k} + a_{2i} \sum \text{RDEP}_{t-k} + a_{2i} \sum \text{RKI}_{t-k} + a_{2i} \sum \text{LIRSS}_{t-k} + a_{2i} \sum \text{LPDBR}_{t-k} + a_{2i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{RKI}t &= C_3 + a_{3i} \sum \text{SBI}_{t-k} + a_{3i} \sum \text{RDEP}_{t-k} + a_{3i} \sum \text{RKI}_{t-k} + a_{3i} \sum \text{LIRSS}_{t-k} + a_{3i} \sum \text{LPDBR}_{t-k} + a_{3i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{LIRSS}t &= C_4 + a_{4i} \sum \text{SBI}_{t-k} + a_{4i} \sum \text{RDEP}_{t-k} + a_{4i} \sum \text{RKI}_{t-k} + a_{4i} \sum \text{LIRSS}_{t-k} + a_{4i} \sum \text{LPDBR}_{t-k} + a_{4i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{LPDBR}t &= C_5 + a_{5i} \sum \text{SBI}_{t-k} + a_{5i} \sum \text{RDEP}_{t-k} + a_{5i} \sum \text{LIRSS}_{t-k} + a_{5i} \sum \text{LPDBR}_{t-k} + a_{5i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{INF}t &= C_6 + a_{6i} \sum \text{SBI}_{t-k} + a_{6i} \sum \text{RDEP}_{t-k} + a_{6i} \sum \text{RKI}_{t-k} + a_{6i} \sum \text{LIRSS}_{t-k} + a_{6i} \sum \text{LPDBR}_{t-k} + a_{6i} \sum \text{INF}_{t-k} + \varepsilon_i \end{aligned}$$

The VECM equation of interest rate 1 estimation model can also be written as follows:

$$t\varepsilon\Delta X_t = a_0 + A1\Delta X_{t-k} + a_2 \text{ect} + \varepsilon_t$$

Where: X_t = Vector 6 x 1 of each variable (SBI, RDEP, RKI, LIRSS, LPDBR, INF)
 A_0 = Vector 6 x 1 from intercept (constant), A_1 = Maktris 6 x 1 from coefficient
 t = vector 6 x 1 of error term ε a_2 = vector 6 x 1 of the error correction model,
 Δ = data in the form of first derivative (first difference), t = time (quarter)
k = optimum slackness based on AIC and SC

3.4.3 Model of Interest Rate Channel of Substitution and Revenue (Interest Rate Channel 2)

The interest rate 2 model consists of 5 (five) variables namely SBI (SBI interest rate), deposit interest rate (RDEP), private real sector consumption log (LKRSS), LPDBR, and inflation rate (INF). The interest rate channel VAR model 2 is:

$$\begin{aligned} \text{SBI}t &= C_1 + a_{1i} \sum \text{SBI}_{t-k} + a_{1i} \sum \text{RDEP}_{t-k} + a_{1i} \sum \text{LKRSS}_{t-k} + a_{1i} \sum \text{LPDBR}_{t-k} + a_{1i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{RDEP}t &= C_2 + a_{2i} \sum \text{SBI}_{t-k} + a_{2i} \sum \text{RDEP}_{t-k} + a_{2i} \sum \text{LKRSS}_{t-k} + a_{2i} \sum \text{LPDBR}_{t-k} + a_{2i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{LKRSS}t &= C_3 + a_{3i} \sum \text{SBI}_{t-k} + a_{3i} \sum \text{RDEP}_{t-k} + a_{3i} \sum \text{LKRSS}_{t-k} + a_{3i} \sum \text{LPDBR}_{t-k} + a_{3i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{LPDBR}t &= C_4 + a_{4i} \sum \text{SBI}_{t-k} + a_{4i} \sum \text{RDEP}_{t-k} + a_{4i} \sum \text{LKRSS}_{t-k} + a_{4i} \sum \text{LPDBR}_{t-k} + a_{4i} \sum \text{INF}_{t-k} + \varepsilon_i \\ \text{INF}t &= C_5 + a_{5i} \sum \text{SBI}_{t-k} + a_{5i} \sum \text{RDEP}_{t-k} + a_{5i} \sum \text{LKRSS}_{t-k} + a_{5i} \sum \text{LPDBR}_{t-k} + a_{5i} \sum \text{INF}_{t-k} + \varepsilon_i \end{aligned}$$

The VECM equation of Interest Rate Channel 2 is as follows:

$$\Delta X_t = a_0 + A1\Delta X_{t-k} + a_2 \text{ect} + \varepsilon_t$$

Where:
 X_t = Vector 5 x 1 of each variable (SBI, RDEP, LKRSS, LPDBR, and INF) a_0 = Vector 5 x 1 from intercept (constant), A_1 = Maktris 5x1 of coefficient, a_2 = vector 5 x 1 from Error correction model, ect = vector 5 x 1 of error term, Δ = data in first derivation, t = time (quarter), k = optimum slowness based on AIC and SC

3.5 Research Result

The results of empirical research include: data stationerity test (unit root test), optimum lag test, cointegration test, and decomposition variant (VD).

3.5.1 Test Result of Stationary Data (Unit of Root Test)

Unit of root test results show most stationary data on first difference (1'st) ie data SBI, RDEP, RKI, LPDBR, LIRSS, LM2.



Inflation data (INF) stationary at level (0). The unit of root test results in LM0 and LM1 stationer data on second difference (2nd) and LM2 stationer data on first difference (1st) so that the data used for the money supply variable is LM2 data.

Table 2. Test Results of Unit Root ADF test

NO	Variable	Uji Stasioneritas variabel dengan metode ADF test						
		Level		1st difference		2nd difference		level integrasi
		t'st at	p-value	t'st at	p-value	t'st at	p-value	
1	SBI	-2.221	0.201	-3.865	0.004*	-	-	1 st
2	RDEP	-2.473	0.127	-3.698	0.006*	-	-	1 st
3	INF	-7.418	0.000*	-	-	-	-	0
4	RKI	-1.5365	0.508	-3.7607	0.005*	-	-	1 st
5	LPDBR	1.3184	0.998	-3.275	0.0021*	-	-	1 st
6	LKRSS	1.3675	0.998	-9.7271	0.000*	-	-	1 st
7	LIRSS	0.1539	0.966	-4.6960	0.0003*	-	-	1 st
8	LM0	1.5069	0.999	-2.4766	0.1267	-13.155	0.000*	2 nd
9	LM1	2.4854	0.124	-1.0527	0.727	-15.199	0.000*	2 nd
10	LM2	0.0915	0.9448	-11.244	0.000*	-	-	1 st

Note*Significans $\alpha = 5\%$

3.5.2 Determination of Optimum Lag

Table 3. Output Lag Order Selection Criteria of Monetary Transmission Channel

NO	Channel mechanism Monetary policy transmission	significant*	Optimum lag
1	Money quantity channel	LR, FPE, AIC, SC, HQ	Lag 1 or first
2	Interest rate channel 1	LR, FPE, AIC, SC, HQ	Lag 1 or first quarter
3	Interest rate channel 2	LR, FPE, AIC, HQ	Lag 4 or fourth quarter

Based on the optimum lag test results lag order selection criteria shows the path of the quota of money and the optimum lag line 1 optimum in lag 1. The optimum lag line 2 is based on 5 statistical criteria: LR test statistic (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information criterion (SC) and Hannan-Quinn Information Criterion (HQ).

3.5.3 Johansen Cointegration Test Results

To find a set of observed variables that are cointegrated or have long-term equilibrium relationships, cointegration tests are necessary. This cointegration test is very important because regression using time series data that is not stationary is likely to result in spurious regression Rosadi (2012)



Table 4: Johansen Cointegration Trace Statistic

Channel mechanism	None		At most 1		At most 2		Note
	Trace Stat	Prob	Trace Stat	Prob	Trace Stat	Prob	
Monetary policy transmission							*Significant 5 %
Money quantity channel	21.15814	0.0063*	0.143509	0.7048	-	-	1-cointeg
Interest rate channel 1	142.14	0.0000*	97.931	0.0001*	54.678	0.01*	3-cointeg
Interest rate channel 2	89.06534	0.0007*	54.28187	0.0111*	24.43241	0.1828	2-cointeg

Note : *Significant $\alpha=5\%$.

The Johansen cointegration test results (Table 4) based on the Trace Statistic number indicates the path Quantity of money has 1 cointegration. Interest rate channel 1 has 3 (three) cointegrations. While the Interest Rate Channel 2 has 2 cointegration (Johansen cointegration test results based on the Trace statistics number.

3.5.4 The Decomposition Variant of the Quantity Money Channel

The contribution of LM2 variable shocks to inflation variability (INF) after 4 quarters was 1,517% with own shocks 98.48%. The contribution of LM2 shocks to inflationary variability in the 8th quarter was 1.104% with own shocks 98.8955% and the 20th quarter of 0.84619% with 99.1538% own shocks.

Table 5. Variant Decomposition of Quantity Money Channel

Varian of Decomposition INF			
Periode	S.E.	LM2	INF
1	0.574559	3.072829	96.92717
4	0.584252	5.195482	94.80452
8	0.584492	5.239144	94.76086
20	0.584834	5.349026	94.65097

3.5.5 Decomposition Varian Interest Rate Channel 1 (Keynesian Approach)

The contribution of the shocks of the inflation rate variables 1 to the inflation variability (INF) after 4 quarters was 8.01% (SBI), RDEP (7.28%), RKI (21.08%), LIRSS (2.068%), LPDBR (14.06%) and own shocks 47.48%. In the 20th quarter the contribution of SBI shocks was 14.38%, RDEP shock (8.28%),

RKI shocks (42.39%), LIRSS shocks (1.023%), PDBR shocks (10.65%) and own shocks (23.25%). These findings suggest that inflation (INF) fluctuations (dominance) are dominantly affected by investment credit rate shocks (SBI), own shocks and SBI shocks.

Table 6. Variants of Decomposition of Interest Rates Channel 1

Variance Decomposition of INF							
Period	S.E.	SBI	RDEP	RKI	LIRSS	LPDBR	INF
Variance of Decomposition of INF							
1	0.52 9722	3.85 1669	1.58 1173	9.81 7868	0.76 8983	10.6 5607	73.3 2424
4	0.68 5189	8.01 3286	7.28 2186	21.0 8276	2.06 8535	14.0 6525	47.4 8798
8	0.77 4169	11.0 3480	7.35 7862	29.5 9103	1.66 9803	12.7 4341	37.6 0309
16	0.93 1084	13.5 7203	8.08 2503	39.4 5285	1.17 2402	11.1 3994	26.5 8027
20	1.00 1025	14.3 8725	8.28 1083	42.3 9248	1.02 3652	10.6 5652	23.2 5902

The result of Variance Decomposition (VD) estimation on the interest rate channel through the effect of capital cost (interest rate 1) with SBI as indicator of monetary policy as a whole indicates that the variability of bank interest rate variables are among others: SBI interest rate, RDEP), investment credit interest rate (RKI) is dominated by SBI shocks



3.5.6 Variants of Decomposition of Interest Rate Channel 2

The contribution of PDBR shocks to price level variation (INF) after 4 quarters was 22.36% with own shocks 54.648%. The contribution of other variable shocks, SBI shocks by 7.72%, RDEP shock 13.084%, shock LKRSS 2.185%. In the 20th quarter SBI shocks were 9.161%, RDEP shocks 14.613%, KRSS shocks 5,033%, LPDBR 22.948% shocks and 48.243% own shocks. These findings suggest that INF variability is more dominated by own shocks, LPDBR shocks and RDEP shocks.

Table 7. Variants of Decomposition of Interest Rate Channel 2

Variance of Decomposition of INF						
Periode	S.E.	SBI	RDEP	LKRSS	LPDBR	INF
1	0.54 6073	1.26 2902	14.238 97	0.7559 12	0.1634 92	83.57 873
4	0.68 2923	7.72 0528	13.084 42	2.1852 07	22.361 79	54.64 806
8	0.70 5627	8.42 7473	15.472 08	2.0975 23	22.057 58	51.94 534
20	0.79 1586	9.16 1391	14.613 22	5.0336 91	22.948 59	48.24 310

4. RESEARCH FINDINGS AND DISCUSSION

- The monetary policy transmission mechanism of the money quantity channel has a short time lag (1 lag), but based on the result of a small value variance decomposition (5.349%) channel Quantity Money is ineffective in influencing inflation shocks (INF shocks). This finding is consistent with the findings of Bond (1994) showing empirically that the relationship between interest rates and inflation rate is much stronger than the relationship between money supply and inflation rate, so it is proposed that interest rates be used as targets of monetary policy.

- Transmission mechanism of monetary policy of interest rate channel 1 has short time lag (1 lag) and decomposition variant gives a big contribution (42.39%) influence inflation shock (INF shocks). The results of this study strengthen the opinion Natsir (2010) which states that the Interest Rate Line is the main transmission route and effectively manifests the ultimate goal of monetary policy.
- Transmission mechanism of monetary policy of interest rate channel 2 has 4 lag and decomposition variant gives a small contribution (5.033%) influence inflation shock (INF shocks).

5. CONCLUSION

Based on the result of research can be concluded that:

- MTKM of interest rate 1 (interest rate cost effect) with Keynesian approach, effective in transmitting monetary policy to the real economy
- MTKM channels Quantity Money and interest rate channels through consumption effects (Interest Rate Channel 1) are not effective in transmitting monetary policy to the real economy.

5.1 Empirical Contributions

Based on the discussion of the research results obtained the empirical finding of the monetary policy transmission line that is: the monetary policy transmission on the effective interest rate through the Interest channel 1 or the Interest Rate through the Capital Cost Effect. In terms of monetary policy, for the monetary policy formulator, Bank Indonesia, the empirical evidence from this study can be an important input in order to improve the effectiveness of the monetary policy transmission mechanism in Indonesia. From the empirical evidence of research stating that: The monetary policy transmission lines that work dominantly toward the final target (effective transmission path) is the capital cost effect rate channel. Bank Indonesia should prioritize its monetary policy transmission on the monetary transmission channel. Monetary policy



indicator in the form of SBI interest rate. Is appropriate to be applied in Indonesia. This SBI rate can be maintained as a major monetary policy instrument for Bank Indonesia to achieve the ultimate goal of monetary policy, namely the stability of the inflation rate.

5.2 Future Research Recommendations

To enrich the research on MTKM then it is suggested for further research:

- Research on the same channel but with different analytical tools such as structural analysis of Vector Autoregressive (SVAR)
- MTKM research on other monetary policy transmission channels such as credit channels, exchange channels, asset channels and inflation expectations channels

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STUDY OF THE EFFECTIVENESS LEVEL OF RURAL BANK GOVERNANCE BASED ON POJK NO.4/ POJK.03/ 2015 IN THE WORKING AREA OF OTORITAS JASA KEUANGAN MALANG

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ABSTRACT

Peraturan OJK No. 4/POJK.03/2015 on the Implementation of Good Corporate Governance for Rural Banks (Bank Perkreditan Rakyat/ BPR) was issued in March 2015 with the adjustment period until the end of 2017. The regulation was issued considering that the greater the volume of BPR business and the challenges, the greater the rural bank needs to equip itself with standard operating systems and procedures. The best way of management in managing rural bank is to obey the governance guideline to minimize the risk. The researchers observed the attention and readiness of the BPR Directors in the working area of OJK Malang in responding and complying with the POJK. The sample consists of 37 rural banks directors as respondents. The effectiveness of the corporate governance is measured by scoring the answer of the questionnaires. The results showed that 16 BPR were in effective predicate, 20 BPR were effective enough and only 1 BPR was less effective. Considering the results of this study, it indicates that mostly the respondents in the working areas of OJK Malang have prepared well since receiving this POJK in April 2015.

Keywords: *Peraturan Otoritas Jasa Keuangan (POJK), good corporate governance, rural bank, Otoritas Jasa Keuangan.*

1. INTRODUCTION

According to Sutedi (2011), Good Corporate Governance (GCG) mechanism is directed to guarantee and supervise the running of governance system in an organization. The Corporate Governance (CG) mechanism according to Priambodo and

Supriyatno (2007) is a system that capable of controlling and directing the operational activities of the company and the parties involved, so that it can be used to minimize agency problems. In addition, the implementation of GCG can provide true, accurate and timely information. The CG mechanism as an effort to enforce CG practices within the company is expected to reduce agency conflicts and is also expected to be able to control costs.

The economic condition in Indonesia also relies on micro, small and medium enterprises (MSMEs) is one of the basic determination of government strategy in the framework of national economic recovery that is focused on the empowerment of UMKM development. In line with the government's strategy, BPR as one of the banks that has been providing banking services especially to micro and small enterprises (MSEs) is expected to further enhance its role and contribution in the development of MSEs

The growth of rural banks (Bank Perkreditan Rakyat/BPR) and the development of their functions for almost 30 years contribute the development of SME's (small medium enterprise) in Indonesia. However, the BPR problems still exist especially in the governance system. The development of BPR industry leads to the bigger risk faced by the management.

The government is very concerned about the existence of BPR because the strategic position of BPR needs to be maintained and enhanced so that the existence of BPR can provide greater benefits for the community



and encourage the regional economy. The government; in this case the Otoritas Jasa Keuangan (OJK), consistently continues to regulate and monitor the development of the financial sector, especially the BPR industry as its role in assisting the stability of the financial system in Indonesia.

Peraturan OJK No. 4/POJK.03/2015 on the Implementation of Good Corporate Governance for Rural Bank were issued in March 2015 with the adjustment period until the end of 2017. Hopefully, the regulation can be fully implemented in early 2018.

2. LITERATURE REVIEW

2.1 *Good Corporate Governance*

Good Corporate Governance (GCG) is a value system that becomes a benchmark for the Company's ability in administering a healthy operational and business process. The organic structure of GGC, compliance to applied regulations and constitutions, and openness of information are several important aspects of CGC and reflects the organizational management of a company. The BPR governance applies the five principles namely transparency, accountability, responsibility, independence, and fairness.

According to OECD Report to G20 Finance Ministers and Central Bank Governors (2015), transparency refers to the openness, a willingness by the company to provide clear information to shareholders and other stakeholders. For example, transparency refers to the openness and willingness to disclose financial performance figures which are truthful and accurate.

Accountability refers to the clarity of functions, implementation and accountability of the organization so that the management of the company is implemented effectively. In brief; the board should present a balanced and understandable assessment of the company's position and prospects; the board is responsible for determining the nature and extent of the significant risks it is willing to take, etc.

Responsibility means the conformity in the management of the company through the law and corporate principles. The Board of Directors is given authority to act on behalf of the company. They should therefore accept full responsibility for the powers that it is given and the authority that it exercises. The Board of Directors is responsible for overseeing the management of the business, affairs of the company, appointing the chief executive and monitoring the performance of the company. In doing so, it is required to act in the best interests of the company.

Independence refers to the circumstances in which the company is professionally managed without conflict of interest and influence/ pressure from any party that is inconsistent with the law and principles of corporation.

Fairness refers to justice and equality in fulfilling the rights of stakeholders arising under agreements, laws and regulations. For example, the company provides a good and safe working condition for all employees in line with the company's ability and the existing laws.

2.2 *The Criteria of GCG*

Hery (2013) stated that there are five criteria's of good corporate governance. First, the rights of shareholders; the rights of shareholders consist of the right to receive relevant information about the company in a timely manner, having the opportunity to participate in any decision-making including the right of profit sharing. Control of the company should be as efficient and transparent as possible.

Second, the equitable treatment of shareholders; there shall be fair treatment of all shareholders, particularly minority or foreign shareholders, comprising the right to full disclosure of any material company information. All shareholders of the same class of shares should be treated fairly. Corporate board members and managers are required to disclose all material interests to any company transactions that occur.



Third, the role of stakeholders in corporate governance; the role of the parties concerned with the company should be recognized through legal determination. The GCG framework should encourage active cooperation between the company and its stakeholders to create jobs, prosperity and financially healthy companies.

Fourth, disclosure and transparency; the existence of accurate and timely disclosure and transparency of all material matters to company performance, ownership and corporate governance, as well as other issues related to employees and stakeholders. The financial statements should be audited by an independent party and presented under the highest quality.

Fifth, the responsibilities of the board; the GCG framework should ensure guidance, strategic arrangements for the company's operational and financial operations, effective monitoring and supervision by corporate boards, and corporate board responsibilities to companies and shareholders.

2.3 The Previous Research

There are three previous studies related to the bank governance. Tadikapury (2011) conducted the research of the bank governance and the finding stated that an important role between GCG principles that exist in the company, where with the application of GCG principles it is believed will help the company in general and the state economy in particular. In addition, the results of this study shows that the company's motivation is to implement the GCG principles in its entirety, meet the expectations of stakeholders, gain legitimacy, and win certain awards.

Pasorong (2012) in his research found that Bank Central Asia has an important role between GCG implementation to the credit lending procedures. The findings encourage and motivate the company to develop GCG principles as a corporate culture.

Labesi (2013) conducted the research in Manado and found that the implementation of GCG and the application of its principles on PT Bank Sulut Manado Central Office has

been manifested properly. The supervision on well-controlled management performance and corporate objectives to direct the company to increase the value of the company is well run.

The difference with the three previous studies is that no GCG research has been conducted on BPRs. Moreover, OJK is currently issuing new regulations namely Peraturan Otoritas Jasa Keuangan, No.4/POJK.03/2015 on The Implementation of Governance for Rural Banks. This research is conducted to investigate how far the level of effectiveness of BPR governance that has been done since the issuance of the new regulation. It is expected that the BPR in Malang can improve or develop their organizational governance in a better direction. With good governance, BPR performance can also be boosted, which can be beneficial for economic development in the banking sector.

3. RESEARCH METHODS

The sample in this research is all Director of BPR in the working area of OJK Malang. The 40 BPR that has total assets at least Rp10 billion is obtained as the sample of this research. Questionnaires were distributed to all those BPR and from 40 BPRs, only 38 BPRs returned the questionnaires to the researchers, and one of them is eliminated because the data is not complete. The steps of the research are:

- a. Contact the OJK to get permission to conduct research to BPR in the OJK working area of Malang include Malang, Pasuruan, and Probolinggo.
- b. Invites the Director of the BPR after obtaining a license from OJK, to Universitas Ma Chung.
- c. Data collection through questionnaires.
- d. Data analysis.

There are five indicators tested using questionnaire that is transparency, accountability, responsibility, independence, and fairness. The study used a 4-point Likert scale, where the score was 4 for the "ALWAYS" option, a score of 3 for the "SOMETIMES" option, a score of 2 for the



"RARE" option, a score of 1 for "NOT YET". There are 30 questionnaire questions covering 5 indicators that must be answered.

The method of analysis used in this study is descriptive based on the percentage of respondents' answers on each statement in the questionnaire formulated as follows.

$$P = \frac{K}{n} \times 100\%$$

P: percentage of the effectiveness level
K: score from respondent
n: total GCG score

Furthermore, the interval scale for measuring the level of GCG implementation is (Riduwan, 2005):

- 81 – 100: *effective*
- 61 – 80: *effective enough*
- 41 – 60: *less effective*
- 21 – 40: *not effective yet*

4. RESEARCH FINDINGS AND DISCUSSION

After the invitation was sent to 40 BPR, the number of BPR directors who took attendance to fill the questionnaire was 38 BPR. From those, only 37 questionnaires (97.37%) were collected and analyzed, because one questionnaire is incomplete.

The number of BPR attending the meeting comes from:

- a. Kabupaten Malang: 21
- b. Kota Malang: 2
- c. Kabupaten Pasuruan: 8
- d. Kota Pasuruan: 1
- e. Kota Batu: 2
- f. Kabupaten Probolinggo: 3
- g. Kota Probolinggo: 1

The results are:

A. TRANSPARENCY

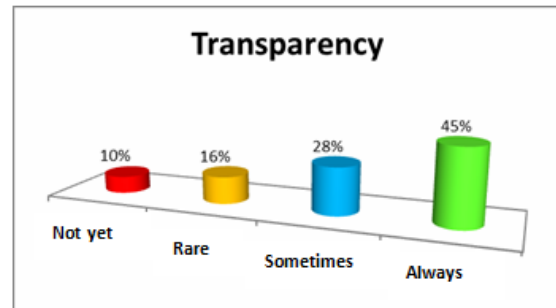


Figure 1: Transparency Principle Assessment

The calculation of the assessment of the 9 questions about the Transparency provides an illustration that there are 10% of BPR who have not applied the principle yet of Transparency; 16% of rare; 28% of Sometimes; and 45% of BPR are always apply the principle of Transparency in managing its BPR.

B. ACCOUNTABILITY



Figure 2: Accountability Principle Assessment

The calculation of the assessment of the 7 questions about the Accountability provides an illustration that there are 16% of BPR who have not applied the principle yet of Accountability; 5% of rare; 27% of Sometimes; and 52% of BPR are always apply the principle of Accountability in managing its BPR.

C. RESPONSIBILITY

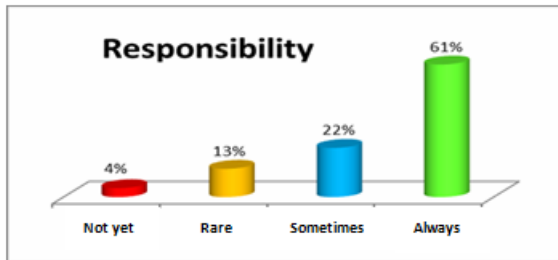


Figure 3: Responsibility Principle Assessment

The calculation of the assessment of the 4 questions about the Responsibility provides an illustration that there are 4% of BPR who have not applied the principle yet of Responsibility; 13% of rare; 22% of Sometimes; and 61% of BPR are always apply the principle of Responsibility in managing its BPR.

D. INDEPENDENCY

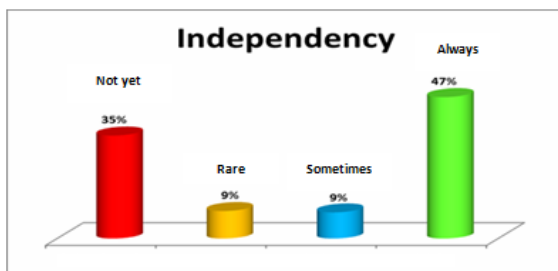


Figure 4: Independency Principle Assessment

The calculation of the assessment of the 6 questions about the Independency provides an illustration that there are 35% of BPR who have not applied the principle yet of Independency; 9% of rare; 9% of Sometimes; and 47% of BPR are always apply the principle of Independency in managing its BPR.

E. FAIRNESS

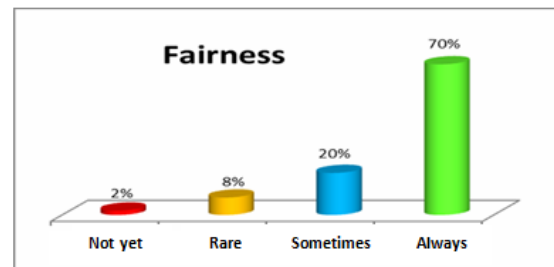


Figure 5: Fairness principle assessment

The calculation of the assessment of the 4 questions about the Fairness provides an illustration that there are 4% of BPR who have not applied the principle yet of Fairness; 13% of rare; 22% of Sometimes; and 61% of BPR are always apply the principle of Fairness in managing its BPR.

The BPR governance based on 5 principles are summarized in Figure 6. The red color shows the “Not yet”, the yellow shows “Rare”, the blue shows “Sometimes”, and the green shows “Always” answer.

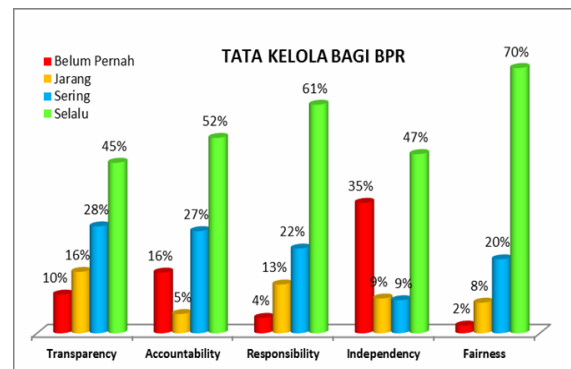


Figure 6: The 5 Principles of BPR Governance

Overall, the results of questionnaires on the 5 principles of BPR governance in the working area of OJK Malang show that the principle of Responsibility and Fairness is more prominent than the Transparency, Accountability and Independency.

The measurement of the effectiveness of BPR governance was 16 BPR got an average score of 86.30 with an *Effective* predicate, 20 BPR got an average score of 71.75 with predicate *Effective Enough* and 1 BPR scored 60 on the *Less Effective* predicate. Overall, 37



BPR get the value of 77.45 with *Effective Enough* predicate.

5. CONCLUSION

Based on the formulation of the research problem stating the effectiveness level to which the attention and readiness of the Director of the BPR in the working area of OJK Malang in responding and complying with the POJK, it can be concluded that the BPR governance in the working area of OJK Malang has been "*Effective Enough*" in applying the five principles of BPR governance. Details of 37 respondents studied gave results:

1. 16 BPR: *Effective predicate*
2. 20 BPR: *Effective enough*
3. 1 BPR: *Less effective*

Peraturan Otoritas Jasa Keuangan Nomor 4/POJK.03/2015 stated that the report on the implementation of Good Corporate Governance as referred to in Pasal 75 shall be submitted to OJK in the position of the final report of December 2016 and the imposition of sanctions will be applied 2 years after this regulation for the delivery of position report December 31, 2017.

Based on the findings of this study, it appears that most BPR in the working areas of OJK Malang have been preparing since receiving this rule in April 2015, although there are still some BPR who have not prepared well.

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THE ROLE OF CREDIT UNIONS IN RESOLVING SOCIAL ECONOMIC ISSUES FACED BY THE MEMBERS: A CASE STUDY IN FIVE CREDIT UNIONS IN SPECIAL REGION OF YOGYAKARTA

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ABSTRACT

One of the most felt social problems by many countries is the problem of poverty. Similarly in Indonesia, the problem of poverty has become a complex issue because it involves a wide range of other social aspects such as social inequality, unemployment, crime, and education. Poverty is closely related to the problem of imbalance. The substance of the gap is inequality in access to economic resources. This study aims to evaluate the role of Credit Union in an attempt to resolve social-economic problems of its members, and to analyze how the Credit Union solves the problem. This study is an exploratory study using a qualitative approach with a method of triangulation. The subjects of this study are 100 active members of the Credit Union, Credit Union administrators, and Credit Unions' managers that are located in Yogyakarta. The data is analyzed by classifying them based on diversity, and then connects them with all the data and information obtained from the literature, documents, surveys, interviews and field observations. The analysis shows that Credit Union has a role to resolve social and economic problems faced by the members through the products and the programs that they run.

Keywords: *Credit Union, poverty, access to economic, social-economical problems.*

1. INTRODUCTION

The phenomena of social problems always exist everywhere. The dynamism of the society has consequences in the rise of unavoidable social problems. These problems, consequently, will affect everyone's life

aspects. The causes of social problems are complex and various; they could be caused by attitude patterns, change interaction patterns, conflict of values. They could also be triggered by the lack of justice, ignorance of human rights, and severe ecological damages (Budi Muhammad, 2011).

One of the social problems faced by some countries is poverty. In Indonesia in particular, this poverty issue is one of the most complex problems since it deals with several other aspects such as social gap, unemployment, crimes, and education.

People's welfare is supposed to be the concern and responsibility of the government. However, it is almost impossible that the development program in certain periods of time can fulfill people's needs as well as solve every social problem.

All these years, the efforts to reduce poverty have been focused on the surface level only. As a consequence, the problems are not completely solved. The examples of these efforts are the direct cash transfers (BLT), charity actions, and other short-term social assistance. The worst consequence of poverty is moral degradation experienced by those poor or those feeling poor. This is because of the low morality, humans will lose their nature as God's creatures. Until now, people are generally dependent on government programs. Poor people usually have minimum ability to make efforts and limited access to economic activities. Consequently, they get left behind



even farther compared to those people with high potential.

Based on the elaboration above, some alternative solutions are needed to help solve those poverty-related problems. One of the possible solutions is to develop people's spirit of entrepreneurship through the development of social entrepreneurship. An example of social entrepreneurship actions was demonstrated by Muhammad Yunus, who implemented the Grameen Bank system. This Nobel peace 2006 laureate did not only create new patterns for micro credits for the underprivileged society, but also minimized the gap between banks and the underprivileged society who has usually been regarded unbankable. On one side, Yunus released people from poverty, and on the other side, the developed institution was managed in a business-professional way. Yunus maintained the initial principle of Grameen Bank as a form of social entrepreneurship based on the social responsibility towards the people. Through this, Yunus successfully minimized the poverty level in his country.

One of the forms of social entrepreneurship in the economic sector is Credit Union. As one of the financial institutions, Credit Union is built in the form of cooperation which provides financial services as what are provided by other banking institutions, such as saving, multi-purpose loans, insurances, and money transferring services (WOCCU (2003); Emmon (1997) as cited in Kusumajati, 2012). These services are provided based on the members' needs as well as the Credit Union development. Credit Union doesn't seek profits; its presence aims at serving the members within the same area, profession, workplace, etc. the main purpose of Credit Union is to give services to its members in order that their financial problems and needs are overcome.

Based on the elaboration above, the researcher believes that the mission carried by Credit Union in Indonesia is based on the social responsibility aspect. However, further investigations are needed since there are a limited number of literatures discussing Credit Union movements in Indonesia. Therefore, the researcher is interested to conduct a study on

how Credit Unions adopt the social responsibility principles in their programs.

Based on the explanation above, two research problems are formulated as follows:

- a. Does Credit Union aims to solve the social problems faced by the members?
- b. How does Credit Union aims to solve the social problems faced by the members?

2. RESEARCH METHODS

This research used the qualitative approach equipped with quantitative data in order to describe how the Credit Union movements adopt social responsibility principles in implementing its programs. The research method used was exploratory research.

This research were conducted based on the following things:

- a. Obtained Data:
 - i. Primary data, obtained from primary sources, namely Credit Union members and in-depth interviews with Credit Union stakeholders.
 - ii. Secondary data, obtained from series of documentations obtained from program data, planning data, policy pattern documents, etc. owned by the five Credit Union under investigation.

Literature data are obtained from literatures related to Credit Union, social entrepreneurship, social problems, social economic terminology, and social responsibilities.

b. Triangulation

Triangulation is the method used in qualitative research to check and ensure validity through analyzing data from different perspectives.

c. Data Collection

The techniques used in the data collection are:

- i. In-depth interview with Credit Union's committee, supervisor, and management.



- ii. Survey conducted with qualitative questionnaire responded by some samples who are Credit Union members.

d. Research Sampling

This research used convenience sampling method, in which the researcher has the freedom to select the samples and respondents unlimitedly. The researcher selected five Credit Union samples located in Yogyakarta. Those are Credit Union Tyas Manunggal in Bantul Regency, Credit Union Sapu Lidi in Sleman Regency, Credit Union Mulia in Kulon Progo Regency, Credit Union Anna in Sleman dan Credit Union Mitra Parahita in Gunung Kidul regency.

e. Data Processing

The data analysis is conducted in two stages: preparation and selection. The preparation was conducted by preparing all the field data in any forms, namely recordings, questionnaire responses, interviews, and field notes according the themes to be answered. The recorded data were first transcribed or written.

f. Data Analysis

First, in the beginning, the researcher made a data classification according to the problems to answer. In the classification process, the researcher separated the data into two groups: 'supporting' and 'non-supporting' the research questions. Further, the researcher classified the data based on the types as mentioned above, namely literature, documentation, survey, and interviews. Second, the researcher answered the research questions based on the classification by relating all the data from the literature, documents, survey, and interviews.

g. Making Conclusion

In this stage, the researcher made conclusions based on the problems and results obtained from different data forms.

h. Making Recommendations

In the final stage, the researcher proposed some recommendations relevant for future

research as well as suggestions for decision makers in Credit Unions.

3. RESEARCH FINDINGS AND DISCUSSIONS

Subsequent to fitting the information from interview processes, the researcher then conducted verification from the side of the beneficiaries related to the statements.

1. To answer the first research questions "Does Credit Union aim at solving social economic problems faced by the members?" based on the data analysis obtained from questionnaire, the following results were obtained:

- a. 94% of the respondents stated that Credit Union helped them from their economic problems as well as increased the social economic welfare of the members.
- b. 64% of the respondents stated that Credit Unions that they join had a concern on other problems besides the members' problems.
- c. These findings are supported by the interview result obtained from the manager of Credit Union Mitra Parahita in Gunung Kidul, who stated that :

"Most of the people can not access financial institutions, and I compassionate for the condition. So I am struggling for this Credit Union to be present for them, we are here to help them, who can not access financial institutions. "

- d. In relation to the research question above, there was a literature datum that supports the statements above. It is related to the discussion of the principles of Credit Union issued by WOCCU, as cited in Munaldus (2012), which states that:

"All Credit Union services aim at increasing the social economic welfare of the members. "

2. The second research question is how Credit Unions solve the social economy problems



faced by the members. From the field research, some information was obtained from thirteen interviewers who are members of five Credit Unions under investigation. The majority of the respondents admitted that Credit Union helped people with the saving and loan products, trainings for the members, financial consultation for the members, business supervisions, and other programs that facilitate the members to develop and achieve higher level of prosperity. Based on the interview result, there was a statement from the chair of Credit Union Mulia which stated that:

"Closely Assist to members through basic education, skills training in the areas of member work such as agriculture, training, we think this is a Credit Union effort to help members rise from economic problems and can also expand their business."

A similar statement was coined by the chair of Credit Union Mitra Parahita who mentioned:

"For me personally, Credit Union must give socialization to its members, and provides basic trainings, continued with micro business supervision for the members. At first, the members must be served with saving and loan service, through Credit Union products. In this case, members have to also help each other, the strong ones help the less strong ones. I am sure that members will feel safe, prosperous, and able to boost improve their business."

Further, from the questionnaire, it was known that:

a. 86% of the respondents stated that the Credit Union that they join has actively provided trainings for its members. However, 13% of respondents stated that they did not know about this matter. Meanwhile, the other 1% stated that Credit Union that they join did not actively provide trainings for the members.

- b. 95% of the respondents stated that the Credit Union that they join encouraged the members to have the spirit of togetherness and help each other.
- c. 64% of the respondents stated that the Credit Union that they join to help them with their social economic problems through offering loans and financial consultations. However, 32% of the respondents felt that the Credit Union that they join helped them most through giving loans only. The other 4% of the respondents said that the Credit Union that they join only provided them with financial consultations.
- d. 69% of the respondents stated that the Credit Union that they join facilitated its members to build business relationships to each other. 18% of the respondents stated that they did not know about this, and the other 13% respondents responded negatively toward this statement. They did not feel that the Credit Union that they join did not try to encourage members to cooperate with or have business relationships among the members.

3. The Programs of Credit Union

Financial knowledge can be earned from trainings, where trainings are the core service of Credit Unions. These trainings become more important because the members can learn the real practices of financial management in the present and future. The training programs conducted by the five Credit Unions in this study are mostly the same. Among them are basic trainings, financial intelligence training, household economy training, and financial management training for entrepreneurs. Each Credit Union presents the educational themes differently. The themes are adjusted to the real conditions where the Credit Unions are located.

Services provided by Credit Unions are not limited only to trainings and saving and loans related products. In fact, there are other programs that enhance the services of Credit Unions for the members. The program type and activities are different from one another. Based on the researcher's observation, the services



provided by five Credit Unions investigated in this study are as follows:

- a. CU Tyas Manunggal : Community gathering, *Focus Group Discussion*, personal visit, profession group meeting, training, comparative study, mortgage loans, information technology application, (web-based connection), facility of mobile payment, as well as social funding for the members and activities around Credit Unions.
- b. CU Mitra Parahita : Credit Union socialization to the people, small-scale business supervision to the members, regular visits to the members, vehicle purchasing loans, comparative studies, as well as social funding for the members and activities around Credit Unions.
- c. CU Anna : supervision to homeless kids, supervision to street vendors and other non-formal workers, visitation to business locations, CU socialization to people, as well as social funding for the members and activities around Credit Unions, and electricity bill payment services.
- d. CU Mulia : comparative studies with other CUs, Sunday services, joining manager forum together, participations on social funding for activities and disasters, internal trainings, and regular visit to the members.
- e. CU Sapu Lidi : Visitation to the members, as well as social funding for the members and activities around Credit Unions, website making, joinign manager forums, facilities to pay electricity / phone bills.

From all of the programs in the investigated Credit Unions, there is another important thing for all members, namely Annual Members' meeting (RAT). This event is crucial for all members to join because all the works and transparency of Credit Unions in the whole year are assessed. This event also facilitates members to share new ideas, recommendations, plans, and communal efforts that will be beneficial for the sustainability of the Credit Unions.

WOCCU, as cited in Munaldus (2012) stated:

“CU actively conducts trainings to its members, committee, supervisors, staff, and the society according to the principle of helping each other in togetherness, democracy, social, and economy. The goal of CU is to expand services to people in needs and allow people to get advantage from its services.”

The purpose is to encourage members to spend the money wisely, save money, and educate members to understand their rights and responsibilities. Every Credit Union needs to remember its goal, which is to expand services to all people in need.

The researcher believes that this is the concept of the main social responsibility on human developments and brotherhood which are manifested through Credit Unions in the services, cooperation, and teamwork to create a better life for the society.

4. CONCLUSION

Based on the overall analysis above, it can be summarized that:

- a. The existence of Credit Unions aims to help solve the social economic problems faced by the members. Based on the questionnaire, 94% respondents admitted that Credit Unions that they join could minimize members' financial problems as well as increase members' social economic welfare. This result is supported by the interview results, in which the interviewees stated that Credit Unions exist to help those who do not access to financial institutions. The two things are confirmed by a literature which stated that the services provided by Credit Unions aim to increase social economic welfare of the members.
- b. Credit Unions solved economic problems faced by the members by offering variety of programs and products. The products are financial facilitations, such as savings, loans, and payment facilitations (vehicle purchasing, electricity, phone bills, and mortgage). Other programs run by Credit



Unions are education, business supervision, financial consultation, and environmental solidarity actions. Other than that, personal approaches are used to make members comfortable when joining the Credit Unions.

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ANALYSIS ON TOURISM POLICIES, INSTITUTIONAL, AND MARKET TOWARDS THE TOURISTS VISIT TO INDONESIA FROM ASEAN COUNTRIES

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ABSTRACT

Tourism development has shown a very significant development. This is seen from several indicators of the growth of the number of visits of foreign tourists and the archipelago, the expenditure of tourists, employment opportunities and tourism sector contribution for national income (GDP). Tourist policy has been coupled with Law No.10 of 2009 on Tourism, and operationalized by Government Regulation no. 50 of 2011 on the National Tourism Development Master Plan (RIPPARNAS). Fiscal policy for tourism development also experienced a significant increase, especially for international tourism marketing that is up from Rp. 400 Billion (2014) to Rp. 1.2 trillion (2015) and Rp. 3.2 trillion (2016). Simultaneously, the opportunities for ASEAN community integration in 2015 and increased international promotion, tourism development are expected to capture these opportunities significantly. The previous economic tourism research has not yet accommodated the importance of economic institutions as the determining factor of demand for foreign tourism in Indonesia. This study focuses on tourism demand from ASEAN countries. This is in view of the importance of the ASEAN market for Indonesian tourism and the integration of the ASEAN market community that enables us to take advantage of it. Internally, this research needs to examine the effectiveness of RIPPARNAS policy in supporting tourism development. Externally, this study will look at prices, real effective exchange rates, internet technology, and city dwellers as a potential market to see the relationship of the country of origin with the demand for tourism in Indonesia. The external causal relationship mentioned above will reflect the people of ASEAN to see the power of competition, the quality of tourism and the effectiveness of internet promotions. The integration of ASEAN communities and markets is

also largely determined by the extent to which market buoyancy is measured by the degree of economic freedom which also has the potential to affect tourism visits. Overall demand tour analysis using dynamic panel data is expected to answer the importance of this research. First, this review will evaluate and recommend government policies, particularly international tourism development. Second, the importance of maintaining macroeconomic stability to support the development of national tourism. Third, to improve the competitiveness and quality of national tourism in the ASEAN region and to help develop strategic capabilities in exploiting ASEAN market liberalization opportunities. Fourth, develop the development economics to answer the challenges of the nation in the midst of strong currents of globalization.

Keywords: Visits of foreign tourists; Policy, Institutional; and Market Response

1. INTRODUCTION

Tourism is one of the most advanced sector and becomes an industrial which is able to raise the international growing higher than ten percent along last ten years. The number of international tourism expenditure has reached at more than us \$ 525 billion in 2014 (UNWTO, 2014). Potential tourist destinations also create numerous employment opportunities and foreign exchange to the economics of many countries. Tourism is also a means of increasing facilities and infrastructure to each tourist destination country. Tourism has promoted cooperation and understanding among the citizens in the worldwide. Tourism has become a means for many countries, particularly the developing



countries, to increase their base income and preserve their culture heritage and tradition.

Nowadays, tourism sector plays an important role to run our national, region and local economic wheel. The decision in making tourism sector as the flagship is very reasonable since Indonesia is a country which has varied natural resources, various derivative products, also cultural diversity wealth. Various policies were made to be the implementation steps and direction to the tourism sector. Law No.10/2009 has clear and prudent vision, mission, and principle. Since, tourism development has to be laid within the framework of sustainable development. Sustainability here referring to the balance between three elements the environment, economic and social. This policy has achieved its sufficient signs. First, contributions of tourism sector are strengthened on national or regional income. Central Statistics Bureau (2012) showed the contributions of tourism sector in gross domestic product and the constant value of up to 16.93 percent in 2009, increased up to 17.30 percent in 2010, getting higher to 17.74 percent in 2011, and even higher to the level of 18.05 percent in 2012 (www.bps.go.id). This has given tourism sector as second largest national income contributor after manufacturing industry. Second, the labour absorption of tourism sector is also strengthened. National Labour Force Survey (SAKERNAS) showed this sector could absorb over 20 percent of the work forces every year from August 2009 to 2012. Tourism had been propping workforce of 20,93 percent of the work force in 2009. This capability declined slightly became 20,73 percent in 2010, but increased significantly to be 21,33 percent in 2011. This capability ranked as the second highest after the primary sector.

Third, wages repair and improvement. In fact, tourism sector is also capable of providing the multiplier effect in the increase of community welfare, either directly or indirectly, especially in developing tourist destination areas. This sectorial rapid growth is economic development which is valuable for the economic. However, other data also

shows that tourism sector has not been in accordance and in line with the development of integrated tourism sector. The balance of the three development aspects especially social purposes which are often not reached easily in the same time with economic growth. In point of fact, the commitment of the Master Plan of National and Regional Tourism Development (RIPPARNAS and RIPPARDA) through the four pillars of development program has very clear goal and direction. Nevertheless, the four pillars of tourism development (human resources, institutional, marketing and destinations) have not been run properly that they are far beyond success.

In the international level, the market segment of Indonesian tourism has only about 1.2 percent with the value of about USD 1,7 billion in 2014. The government has projected foreign exchange from all of the sectors of about USD 20 billion in 2020, meanwhile the tourism market is expected to reach USD 5 billion or 25 percent of total foreign exchange. The existence and the role of Indonesian tourism are still low compare to some ASEAN countries specifically Malaysia, Singapore, Thailand and Philippine. The roles and contributions of tourism sector which are still low and slow need proper study to resolve the matter.

This study focused on Indonesian tourist visit and the factors which were considered influencing it. Conventional factors which had a very strong affects, which had been carried out by previous researchers, were taken to confirm the theory. It is reviewing the enactment of the demand theory such as tourism cost measured by Consumer Price Index (CPI) that was previously known as Gross National Product per capita. This study added the importance of infrastructure in communication related to the level of internet use (INET) in the native community, institutional market reflected by its Index of Economic Freedom; Tourism Master Plan Development in 2009. It was effectively applied and included in State Budget of 2011. This policy was stated in dummy variable. This study was carried out to know to investigate the current tour from selected



ASEAN countries (Brunei, Malaysia, Philippine, Singapore, and Thailand) to Indonesia. For the benefits of this study, the use of data panel was considered highly relevant to be used.

2. LITERATURE REVIEW

2.1 *Former Studies on International Tourism*

2.1.1 The Function of Tourism Demand

The use of tourism demand theory as a service system put the output measurement or quick result as a dependent variable. This case was mostly done on the previous researches. Several variables used to measure the results of tourism service are:

1. International Tourist Arrivals (see: Brakke (2004); Kareem (2005); Botti, Peypoch, Randriamboarison, Solonandrasana, & Bernardin (2007); Larson (2008); Altin, Uysal, & Muzaffer (2009); Padhan, (2011); Rochester (2011) Asemota, & Bala (2012); Webb & Chotithamwattana (2013); Athanasopoulos, Li, Deng, & Song (2013); Mamula (2015), Mei (2015); Sinaj (2015)
2. Average Length of Stay (ALOS), Teresa and Amaral (2000).
3. Visitor / Tourists Consumption Expenditure, Proença and Soukiazis (2005); Song, Smeral, Egon, Li, Chen (2008)

According to literature review, the most suitable variable to be used as dependent variable in demand equation is tourism income; either from the perspective of receiver country or tourism expenditure from the perspective of supplier country. However, the number of foreign tourists visit becomes the mostly used dependent variable if it is compared to the length of stay and travel expenses. The study estimates 70 percent of research on tourism demand function has applied the number of visitors (entrance) as dependent variable. The main reason for this option is that the data about travel expenses or travel costs has already been accessible. This

case has prompted arguments in tourism studies.

Tourism research often expanded at the outcome level and the generated impact. A sustainable tourism development paradigm encourages tourism sector. It is expected to realize the economic growth, social welfare and environmental improvement. The study known as Tourism-Led Growth Hypothesis (TLGH) (Georgantopoulos, 2013), is combined with the 21 agenda. The TLGH study and Agenda 21 encourage the utilization of a number of variables and indicators. Some dependent variables under this study are: First, economic growth (Georgantopoulos, 2013) and absolute poverty rate (Vanegas, 2014). According to identification from those references the foreign tourism, either by economic micro and macro approach, had the chance to rejuvenate dependent variable which are majoring such as those disparity indicators (Gini Ratio or GR); living quality; and environmental quality. Gini Ratio's role is to measure the rate of distribution result in tourism sector. On environmental aspects, variable which displays the level of environmental quality or biodiversity that serves as an alternative of the major discussion. Moreover, the paradigm under TLGH and agenda 21 suggesting to integrate sustainable tourism development goals in the terms of simultaneous environment; economic and social (Georgantopoulos, 2013).

Teresa and Amaral (2000), Rodriguez and Ibanez in 2001 use the number of visitors spent the night in destination country as dependent variable to study tourism demand in data panel approach. The choice of this variable to express tourism demand (compared to the arrival tourists) have the advantage to consider the length of stay and to exclude tourists who live in their family's or friends' homes. The debate on the measurement of tourism performance was not satisfied the researchers. For that reason, the effort in finding alternative way on measuring tourism performance must be conducted.



2.2 *The Factors Which Affect Tourism Demand*

A large number of potential factors explain tourism demand and varied function specification demand according to the state or the area that is used, a period of time research, types of data (time series or data panel and the tourism traits (vacation, a business trip, family or friend visits, and others). Explanatory variable selection to be included in sensitive model towards difficulties such as; degree of freedom, the reliability of data, collinearities problems, variable bias or endogeneity inconsistency (Mamula, May 2015).

Proença and Soukiazis (2005); Song, Smeral, Egon, Li, Chen (2008) identified one set of potential determinants that can affect the tourist decision to travel into the following categories: socioeconomic factors such as income levels, relative price of origin and destination country, demographic, urbanization and the length of recreation time; the technical factors associated with the convenient communication and transportation facilities; psychological factors and culture reflect personal preference and lifestyle of potential travellers; and the random factors dealing with an unexpected occurrence such as political instability, weather conditions, natural disasters, plagues, and so on. In more details, the variable which is used as an explanatory on the foreign tourists visit.

2.2.1 National Income Factor (Tourist Origin)

Average income assumed to be the most important factor to affect someone's decision to travel. It has been proven in empirical literature that orders for tourism and length of stay directly deal with income levels (the personal wealth) of potential travellers and is inversely with domestic life costs. Hence, the position of potential tourists' purchasing power is the dominant factor in explaining the current tourism and causality is expected to grow stronger (Asemota and Bala, 2012); (Webb and Chotithamwattana, 2013).

Several different variables have been used for a proxy of the wealth level of native country's tourists. They are, Gross national

product or gross domestic product in real terms or nominal but above all it is very possible to use PNB and GNP average income. Other studies use Industrial Index Production or family income as economic wealth measurement. Most studies use real average income as the most accurate indicator for measuring the living standard of the state sender (origin country).

According to literature, tourism is luxury goods income elasticity of demand higher than one and this is what happens in most studies. On the other hand, in the effort to review the empirical findings about it is concluded that elasticity income of a specific tourism demand for each state and no generalization can be made about the value of which is going to be used and its coefficient.

2.2.2 Trading Volume and the Exchange Rate Level

International trade is the trading goods or services output performed by the people of a country with other citizens of different countries in the world. Trade does not only include exports and imports of goods but also activities in exports and imports of service and also capital trade. Foreign trading has an extensive impact on economic growth to a country especially in developing country. Foreign trading is determined by the work force exchange rate, consumer price index, and international trade policy on imports charge and taxes. Trading volume between native and the destination country will affect mobility business, and allow the presence of direct interaction between residents. Citizens' mobility due to business will increase tourist visits into a country.

On the other hand, exchange rate levels will affect trading volume. Strengthening exchange rate the native country to the destination country will make tourists received a higher value of surplus consumers, as the tourism costs down or cheaper tourism costs.



2.2.3 Domestic Price Factor and Other Destinations

The inclusion of prices in tourism demand function as a result of some theoretical considerations. Tourism is consumption goods which has its price. It also can be distinguished along with competitors' destination prices or different purpose. For the financial problems in the native country lead the household to decide which product to consume on the top list. Whether it is tourism product or other kinds of consumption goods, especially things. After he makes a decision to travel, he will choose a travel destination by considering other factors such as the total travelling cost and he will try to maximize his utilities. However, the tourist's demand does not depend on the travel cost only but also at a price of goods and alternative services and the level of the general price of domestic market.

Here we need to differentiate two different situations. First, from the sender point of view on which the raising of domestic price level lower purchasing power of potential tourists. This case definitely lowers their demand to travel. On the other side, the raising price level in the destination country makes tourists hesitate to travel to that country or allocate their consumption to other cheaper destinations. In this case, these two types of prices need to be considered into the tourism demand. Relative prices between the recipient/destination country from the sender country and relative prices between different competitive destination places which is rooted in the substitution price effect theory.

Some proxy which are most frequently used in tourism research is relatively and adjusted consumer price index (CPI), CPI from favourite destination, travel price index, the average level of price hotel, the ticket and travel cost, the price of tourism package. So that the cost of transportation among countries can also be used as a proxy for the tourism cost from origin country to the destination country at a particular period.

2.2.4 Infrastructure and Spatial Variables

Infrastructure becomes one of crucial discussions in tourism. Connectivity and accessibility are particularly important for trip and tourism business. The availability of supporting tourism such as roads, accommodation, transportation, communication and some other supports have a very big role which determines any travelling decision. The accommodation rate, accommodation capacity and public infrastructure investment of a tourism destination country are the determined supporting infrastructure. Other public investment ratio in destination country for example a fixed number of telecommunications services (cellular mobile), the level of internet use, television ownership access also determines tourists' understanding towards travelling destinations and determines any decision on it.

2.2.5 The Structure of Capital Market Industry

Dow Jones' stock market index and logarithm index of average stock market industry are used as influential stock market in tourism demand. In the short-term (1 to 5 years) there is no clear relationship between tourism growth and Moving Average. Even often happens negative relations between stock price movements and tourism growth. The negative correlation between stocks and tourism growth occurred because of excessive financial market reaction compared to the revolution of real sector actual economic activities in tourism.

2.2.6 Non-Economic Variable

2.2.6.1 Political Variable

Politics is a proxy to improve its illegal political, instability, and economic pressure or otherwise (Brakke, 2004). Political instability in various parts of Africa continent having negative effect on tourists (Kareem, 2005), Economic Sentimen Indicators will be shown and its policies implication for tourists which



is developed by Altin, Mehmet; Uysal, Muzaffer (2009).

2.2.6.2 Social Variable

Social proxy also developed in a number of model as a form of turbulence and social phenomena accommodation as a form of the weaken of tourism role. In this case the number of unemployment in US (Rochester, 2011), the crime rate which is used to measure the criminal cases in Africa continent (Kareem, 2005) and Gini Ratio to measure social vulnerability over economic gap.

2.2.6.3 Qualitative Variable

Qualitative variable has variation in form to use in model. The qualitative development relating to taste, convenient, and satisfying services continuously be included as the development model. Qualitative measure is non-metric and often developed in the form of dummy variable. In older literature for example, dummy variable was used to know the effects and influence the Persian Gulf War that had disrupted tourist visit, the fluctuation of Sandinista civil society in Nicaragua that affects tourism in the Central America in 1982 – 1989. Several models also include the impact of the global economic crisis in 2008 – 2010 and so on.

3. RESEARCH METHODS

3.1 Estimation and Forecasting Modeling

Modelling is the most popular technique in the use of secondary data. In the econometric modelling. In modelling, econometric is used to explain economics theory. In economics, model is defined as theoretical construction or economic analysis framework consisting set of concept, definition, assumption, equation, similarity (identity) and dissimilarity from which conclusions would be derived. The steps of economic model formation:

- a. Separate between economic and non-economic variable
- b. Differentiate the chosen and unchosen variable (based on the theory)

- c. Determine the endogenous and exogenous variable
- d. Arrange the academic model based on the suitable theory which becomes the basic model choice.
- e. From the selected economic theory this will include the concept or theoretical definition of economic variable, assumption or equation or identity which is commonly used, or according to the selected theory.
- f. If the data being examined is cross section, the next step will be forming model which can be estimated.
- g. If the data being examined is time series and assumed that variations of period endogenous variable applies are not only determined by exogenous variable according to the same period, then the researchers must create a dynamic model. (PAM, ECM, PAM-RE, ECM-RE, ADL). The statistical issue of dynamic model, particularly relating to co-integration approach. It is necessary to do unit root test, integration degree test, and co-integration test in doing this approach.
- h. After the specification of dynamic model can be specified as same as cross section, the next step is choosing a model which is able to estimated that is expected to be aligned with statistical models.
- i. The following step is forming equation, identity, assumption and operational definition to support the last mentioned model.
- j. This step is relating to data collection, estimation, hypothesis testing, model election, forecasting and policy evaluation.

Modeling and forecasting are parts of the important econometrics. In tourism study, modeling and forecasting have grown significantly from traditional econometrics to modern econometrics. Further discussion on this displacement will be discussed in the next part.

3.2 The Findings on Data Panel Based Research

Data panel is data which is collected by cross section and tracked in a certain time-



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series. Data panel can also be defined as a combination of data cross section and time series. According to Baltagi (2005), the excellence of data panel model includes: Data panel is able to control individual heterogeneity. Individual, company, or region are heterogeneous. Data panel is able to control place and time variant while time series data and cross section are not able to control it. Study based on the time series data

and cross section cannot control heterogeneity so that the result obtained bias. (2) Data panel provides more information, variability, degree of freedom and reduce collinearities between variables. (3) Data panel is more capable to observe the dynamics of adjustment. When cross section estimation repeated, it can show how this conditions changed all the time during the observation.

Table 1: Estimation Results of Tourism Demand Based on the Former Studies (Data Panel Analysis)

No	Researcher	Variable	Results of Demand Estimation				
			CPI	CPL	GNI	ERR	OTH
1	De Mello, Pack, Sinclair (2002)	tourism market share country i at time t	-2.24 -1.82 -2.04	+0.10 +1.35 +0.07	+0.82 +1.23 +0.63	x	X
2	Stucka (2002)	TA=Visitor arrivals	AUSTRIA: +2.15 CZECH R.: +2.10 GERMANY: - 4.99 ITALY: -1.33 SLOVENIA: - 1,41		AUSTRIA: +0.93 CZECH R.: - 1.36 GERMANY: +3.93 ITALY: +5,18 SLOVENIA: +3.31	x	X
3	Botti, Peypoch, Randriamboarison, Solonandrasana, (2007)	TA=Visitor arrivals	(RP-GER): +0.002** (RP-USA): -4.53 (RP-UK): -1.92	X	+4.025 (Yj-GER) +1.66** (Yj-USA) 1.55**(Yj-UK)	-0.25* (ER-GER) -0.16 (ER-USA) -0.16* (ER-UK)	X
4	Asemota, and Bala (2012)	TA=Visitor arrivals	USA: -0.260 CAN: ns UK: ns GER : -0.440 AUS ns	x	USA: ns CAN +2.815 UK ns GER +2.189 AUS +3.35	x	X
5	Webb, Alan, and Chothithamwattana (2013)	TA=Visitor arrivals	MAY ns JPN ns CHN ns KOR +258,78 UK ns US ns SGN ns TWN +12.38 GER ns AUS ns	x	MAY +70.6 JPN ns CHN +22.3 KOR +15.5 UK +1.8 US +1.6 SGN ns TWN +12.38 GER +2.10 AUS +1.40	MAY +7.492 JPN ns CHN +22.3 KOR +1057964 UK ns US +192 SGN ns TWN +17.847 GER ns AUS Ns	x
6	Athanasopoulos, Li Deng, & Song, (2013)	TA=Visitor arrivals	AUS -0.290	ASIA +0.100** UK +0.056* US +0.063*	x	x	X



Estimation with the data cross section can estimate the condition variable at a certain point. With the data panel which has long perspective, those changes can be observed so that the progress the speed of economic adjustment can be followed. Data panel is able to identify and measure the impact which cannot be detected in the time series data and pure cross section. Data panel allows to build and examine the behavioral models more completely than the time series data and pure cross section. We can do fewer restriction on the model containing lag-variable. Data panel is obtained from the micro unit such as individual firms. There are more variables that can be measured with more accurate at the micro level that the bias caused by aggregation of some companies can be reduced.\

Data panel analysis confirms the relations of price other destinations, income and the number of tourism demand. The results show that their relationship is positive. This strengthen the understanding that tourism between the country is basically competitive and zero sum games, in addition tourism still becomes superior goods and services. The strength of data panel is the ability to display each individual or country in explaining destination's tourism demand. It is important to select the focus of the origin country to input in the policy making.

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Data Panel Analysis

A fundamental framework of data panel analysis is a regression model as follows:

$$Y_{it} = \beta_1 + \beta_2 X_{2it} + \beta_3 X_{3it} + \mu_{it}$$

$$i = 1,2,3,4$$

$$t = 1,2,\dots,20$$

There are k independent variables which are observed in matrix. Those variables can change between time (t) but do not change between individuals (i), change between i but do not change between t, or change between i

and t. Meanwhile, individual effects which are not observed (heterogeneity/components which are not observed/latent variable) are described in constant which contains a constant value and a set of individual or group variable which are constant throughout a certain period. μ_{it} is called error (idiosyncratic error) which varies between i and t. Hereinafter, there will be some variations of data panel model as follows: *Pooled Regression (Common Effects Model or CEM), Fixed Effects Model atau FEM, Random Effects Model atau REM*. In order to choose best model Chow Test or F-test are used. Chow test is used to choose CEM and FEM, while Hausman test is used to determine FEM and REM. This steps will be used to determine the most suitable model.

4.2 Demand Estimation Model

Model for specification in this research will follow empirical model of Halicioglu (2004) and Kareem (2007) that identify the effects income, relative prices and arrival tourism transportation costs. This model is remodified to accommodate the real situation in Indonesia. This fact shows that there are institutional and policy factors in tourism demand which are not well-thought-out in Halicioglu (2004) and Kareem (2007). Hence, this study sets the estimation model used as follows.

$$\begin{aligned} \text{Ln}(\text{TUR}_{it}) = & \alpha_{i0} + \alpha_{i1} \text{Ln}(\text{CPI}_{it}) + \alpha_{i2} \text{Ln}(\text{GNI}_{it}) + \\ & \alpha_{i3} \text{Ln}(\text{INET}_{it}) + \alpha_{i4} \text{Ln}(\text{FRE}_{it}) + \alpha_{i5} \text{Ln}(\text{URB}_{it}) \\ & + \alpha_{i6} \text{Ln}(\text{D}_t) + \epsilon_{it} \end{aligned}$$

Explanation:

TUR_{it} = The number of visits/the arrival of tourists from the native country i in years t (in thousand inhabitants)

CPI_{it} = relative consumer price index to the native country i in years t

GNI_{it} = Per capita income or Gross National Income tourists the native country i in years (in thousand US \$)



$INET_{it}$ = the rate of internet usage per 100 people in the native country i in six years t (in %)
 URB_{it} = residents who live in cities in the native country i in six years t (in %)
 FRE_{it} = economic freedom index in the native country i in years t
 D_t = domestic factor Riparnas policy (2004-2011= 0 and 2012-2014=1)
 ϵ_{it} = called as *error (idiosyncratic error)* which varies between i and t

the native country also appears to affect tourist visits to Indonesia. The number of residents who reside in the urban area also tend to increase the tourism demand. Moreover, index of economic freedom will certainly determine the number of visits to Indonesia. RIPARNAS policy has managed to shove the current of foreign tourism arrivals to Indonesia.

The analysis on data panel confirmed relations between price of other destinations, income and the number of tourism demand. The results show their positive relationship. This case strengthens the perspective of which tourism between countries are competitive and zero sum games. Moreover, it confirms that tourism still becomes superior goods and service. The excellence of data panel is that it can show each individual/country in explaining the demand on tourism destination. It is important to consider the focus on the native country to be recommendation in decision making.

4.3 Empirical Data

4.3.1 Descriptive Analysis

The number of international tourist visits to Indonesia especially from Southeast Asia are dominated from Singapore and Malaysia. Each reaching 1466,01 thousand and 1,138 thousand visits per year. While tourist visits from Brunei are the lowest (22.62 thousand per year) compared to Thailand (103,5 thousand annually) and the Philippines (175,50 thousand annually).

Based on the relative CPI data, some countries response the high price of tourism cost to Indonesia. This problem is faced by Philippines, Malaysia, Thailand and Brunei. While Singapore sees tourism cost in Indonesia is relatively inexpensive. This condition is relevant to present the tourism price theory. Income (GNI) per capita showing a different state, there is a tendency in which the higher per capita income the lower the visit to Indonesia. Internet access done by citizen in



Table 2: The Number of Tourists (in thousand people), the Tourism Cost, GNI Per Capita (thousand US \$), Internet Access (%) and the Urban Citizen (%) and the Economic Freedom Index

country		TUR	CPI	GNI	INET	URB	FRE
Brunei	Mean	22,62	99,62	33,62	52,09	,29	7,16
	N	10	10	10	10	10	8
	Std. Deviation	12,77	2,91	5,73	10,33	,01852	,02722
Malaysia	Mean	1138,14	99,30	8,11	58,52	19,66	6,98
	N	10	10	10	10	10	10
	Std. Deviation	296,16	7,35	1,91	6,53	1,67	,15866
Philipina	Mean	175,50	97,54	2,49	19,93	42,01	6,99
	N	10	10	10	10	10	10
	Std. Deviation	64,97	12,59568	,67	14,79	1,30	,15142
Singapura	Mean	1466,01	100,33	42,41	70,49	49,52	8,55
	N	10	10	10	10	10	10
	Std. Deviation	143,27	9,69712	9,68	7,25	,42	,11995
Thailand	Mean	103,50	99,55	4,11	22,69	28,97	6,68
	N	10	10	10	10	10	10
	Std. Deviation	41,85	8,27	1,01	6,02	2,88	,09
Total	Mean	581,15	99,27	18,15	44,74	19,17	7,28
	N	50	50	50	50	50	48
	Std. Deviation	622,83	8,45	17,43	22,22	15,57	,68

Source: World Bank Data, Herritage Foundation, proceeded 2015

4.3.2 Model Test Using Data Panel

Table 3: The Estimation Result of Demand with Pooled, Fixed Effect and Random Effect

Variable	Pooled OLS	Fixed Effect	Random Effect
Constant (C)	90.23477	-67.98078	90.23477
LN CPI	-37.65996	+0.252966	-39.03881
LN GNI	-55.50165	+13.23377	-89.84557
LN INET	+77.91529	+4.948169	84.68873
LN URB	+5.460134	+2.529014	6.676972
LN FREE	+68.91244	+48.70083	72.59082
LN RIPA	+87.39990	+13.36691	51.91444
Adj R ²	0.877253	0.998730	0.878648
F-Stat	57.71693	3696.636	57.71693

Source: Preceded with Eviews, 2015 (see attachment)

The most appropriate model to the research objectives will be chosen from three models which have been estimated. As for those three estimated model are found the models of CEM, FEM, and REM (see the following table 4.2.). The model election can be done with two kinds of test that can be used

as a means in choosing data panel regression model (CEM, FEM or REM) based on characteristic of data owned, they are: F Test (Chow Test), and Hausman Test.

4.3.2.1 F-Test (Chow-Test)

From table 4.3. The value of probability (Prob.) to cross-section F is 0,000. Since the value < 0.05 then the elected model is Fixed Effects. In the score table of F Cross-section Prob. There is 0,0000 whose value < 0.05 so that we can conclude that model in Fixed Effect Model is more precisely if it is compared to Common Effect Model.

Table 4: F-Test Redundant Fixed Effects Tests

Pool: ANTONIUS

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	970.049919	(4,37)	0.0000
Cross-section Chi-square	223.786291	4	0.0000



4.3.2.2 Hausman Test

From the top table 4.4., the probability (Prob.) score Cross-section random. If the score is $> 0,05$ so the elected model will be RE. in contrast, if the score is $< 0,05$ so the elected model will be FE.

Table 5. Hausman Test

Correlated Random Effects - Hausman Test

Pool: ANTONIUS

Test period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	4.752039	6	0.5760

** WARNING: estimated period random effects variance is zero.

In that table, the Prob. cross-section random score there are 0.5760 which scored $> 0,05$ for it can be concluded that RE model is more suitable compared to FE model. From those two kinds of model election tests we can draw a conclusion that RE model is better than FE and CE models even without any further tests. Hence, equation model is obtained as follows:

$$\begin{aligned} \text{Ln}(\text{TUR}_{it}) = & 90.2347 - 39.03881 \text{Ln}(\text{CPI}_{it}) - \\ & 89.84557 \text{Ln}(\text{GNI}_{it}) + 84.68873 \\ & \text{Ln}(\text{INET}_{it}) + 72.59082 \\ & \text{Ln}(\text{FRE}_{it}) + 6.676972 \\ & \text{Ln}(\text{URB}_{it}) + 51.91444 \text{Ln}(\text{D}_t) \\ & + \epsilon_{it} \end{aligned}$$

Modeling shows consistent relationships about the price (CPI), where 1 percent of reduction price will raise Indonesia tourism demand as many as 39,038 percent. While this study found different symptoms to the former study. The rise in per capita income of the native country will increase the tourism demand, but this study found that 1 percent of per capita income rise in fact will send down of 89,84 percent tourism demand to Indonesia. Differences among ASEAN countries have this potential deterioration. It is confirmed that Indonesia as a tourism destination in Asia face a service condition which is considered inferior for the high income society. Logically, per capita income in Singapore that rises will

move the current program in other countries. Model may need to take Singapore out from it to get a description of countries beyond Singapore.

Society's ability in surfing the internet will be one of important sources and promotions for Indonesian tourism. Thus, the rise of 1 percent citizen who access the internet will potentially increase the tourism demand as many as 84,69 percent. Market institutional which is represented by the economic freedom - more free and more open - will determine the rate of resident's mobility from the native country to travel. The economic freedom Index including market institutional framework which consists of Rule of Law (property rights, freedom from corruption); Limited Government (fiscal freedom, government spending); Regulatory Efficiency (business freedom, labor freedom, monetary freedom); and open markets (trade freedom, investment freedom, financial freedom).

The citizen proportion which grows and develops in the native countries will also determine the number of tourists who come to Indonesia. Modernization of rural areas need to be done continuously to build travel and sightseeing friendly society. The overall development of tourism in Indonesia is also very connected to the policy formulation and implementation of national tourism development master plan.

5. CONCLUSION

This study aimed to create a model of international tourism demand in Indonesia. The model was expected to explain the optimized of tourism resources for the progress of development. This data panel research found that Random Effect Model (REM) was the correct static analysis used to estimate tourism in Indonesia. This study found some similarities with the former study, especially in the strengthening of demand theory. The tourism cost which was tend to be more efficient would increase the number of tourist visits. Communication infrastructure access and the citizen proportion of town/urban in the native country would



increase tourism demand to Indonesia. Market institutional aspect covering the rules, regulations, fiscal power and market openness would encourage the acceleration of tourism. However, this study discovered that tourism services in Indonesia were still inferior. Moreover, this study considered that modernization in rural area and the strengthening of relevant policy related to the implementation of tourism master plan to improve tourist optimization.

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THE EFFECTS OF TRAINING PROCESS ACTIVITY TOWARDS TRANSFER OF TRAINING: A CASE STUDY OF AGENT OF CHANGE TRAINING AT PT X

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ABSTRACT

The purpose of this study was to know the effects of activities before, during, and after the training towards transfer of soft skill training. Transfer of training means the implementation of materials that received in training environment by training participants into work environment. Mixed methods were applied in this study. The subjects of this research was 2 groups of employees (N=45) who participated in agent of change training and training participants' supervisors (N=14). The data were collected with questionnaire, in-depth interview, and focus group discussion. The results of the research showed that there was 17 % significant effect of the activities during the training towards transfer of training, and there was no effect of activities before and after the training towards transfer of training. Research implication and practice are suggested from the results of this research.

Keywords: *Transfer of training, activities before, during, and after training.*

1. INTRODUCTION

In the last two decades, soft skills have been playing significant role compared to the previous era. As evidence, there are a lot of academic institutions in various countries giving more concerns on their students' soft skill development and incorporate it in the curriculum (Schulz, 2008; Shakir, 2009), either for students of faculty of engineering (Kumar & Hsiao, 2007; Sharma & Sharma, 2010), information technology program (Joseph, Ang, Chang & Slaughter, 2010) or accounting program (Beard, Schweiger & Surendran, 2007) as well as students of

computer graphic program (Schweppe & Geigel, 2011).

Within the perspective of human resource management, the integration of soft skills at the working place will help managers and their subordinates work more effectively through harmonious cooperation (Pulich & Tourigny, 2004). According to Davis & Muir (2004), the development of soft skills will help the employees comprehend their working environment in order to accelerate the achievement of the goals. Besides, with strong soft skills, the employees will be more able to adapt themselves with various changes as well as being able to pursue happiness and satisfaction at the working place (Pulich & Tourigny, 2004).

Parente et al (2012) argues that the role of soft skills is getting more important at the managerial level of an organization. The high pressure at work and the increase level of differences in the working world demand the managers not only to have strong hard skills to make their work more effectively, but also entail them to have soft skills to do the tasks. This argument is strengthened by Jessy (2009) who states that successful professionals have good soft skills. Even in more extreme way, Watts & Watts (2008) condemn that hard skills contribute only 15%, while soft skills contribute almost 85% to the success of professionals at the more competitive era. In similar vein Bush (2012) study showed that individuals with interpersonal ability and good self management will be more successful in organization compared to those who only have hard skills. With all of those reasons, the organizations start to have bigger investment in soft skills training (Green & McGill, 2011).



Training is believed to have very important role in developing human resource capability and competency. Historically, since the Second World War until today, training and development have been playing a very important role for organization (Torraco, 2016). Smith and Smith (2007) found that training and development played important roles for organizations in Australia through competency-based training and development strategies.

Khanmohamadiotaqsara et al (2012)'s findings also showed that training and development which were done in accordance with educational principles will increase the organizations' productivity and profit in the third milenium. Martin-Diaz et al (2014) stated that training and development become the second biggest variables which determine the competitiveness among organizations in Spanish. Sum and Chorlian (2014) strengthens that training will be able to increase the competitiveness among organizations in America.

Organization believes that training will bring many benefits not only for individual but also for working team, the organization, and the society. Aguinis & Kraiger (2009) reviewed various studies related with trainings and found that training had many advantages and benefits for individual, working team, organization, and society.

Considering that training plays very important and strategic role, organizations allocate and invest their funds in training program for their human resources. As an illustration, Associations for Talent and Development (ATD) reported its finding in 2015 that 336 organizations in the United States averagely invested \$1,229 per employee for 32.6 hours per year. That finding gives a description of how organizations view training as one of the crucial things to improve the capacity and capability of their employees.

Even though until today similar data have not been found among organizations in Indonesia, it is believed that organizations in

Indonesia also allocate and invest in trainings to enhance the competences of their employees. However, it is not easy to conduct effective training especially soft skills training. Noe (2010) states that effective training refers to the benefits gained by the participants or organizations. Gaining new knowledge, skills, and behavior is the beneficial for the training participants. The benefits for organizations are for examples the increase of sale, the decrease of production cost, the increase of customer satisfaction, etc.

Evaluation towards training is basically a measurement of results or specific criteria which is set as a benefit of a training program involving data collection of results or those criteria to determine whether the training program is effective or not. One of the criteria widely used to evaluate the effectiveness of a training is transfer of training (Baldwin & Ford (1998); Arthur dkk (2003); (Alan M. Saks and Monica Belcourt, 2006); Baldwin, Ford & Blume, 2009; Aquinis & Kruger (2009). According to Baldwin and Ford (1998), transfer of training includes: generalization or material implementation, application of skills and behavior got from the training into the working context, and how long the material, skills and behavior are applied in the working context which is known as maintenance. Therefore, to determine whether a training program is effective or not, transfer of training which includes: generalization and maintenance can be used. In this study, the effectiveness of the training was measured by the so called transfer of training using two indicators namely generalization and maintenance.

Transfer of training at soft skills training program is relatively more difficult to achieve. According to Georges (1996), it is not easy to achieve the effectiveness of soft skills training in its design, delivery and especially the measurement of its effectiveness. The results of soft skills training is not always concrete. It is quite different with hard skills training which is easier to be observed and measured.

Platt (2008) adds that the measurement of soft skills training effectiveness is very complicated and it takes a long time. Different opinion is presented by Noe (2010) who states that it takes a long time to ensure the existence of transfer of training at soft skill training program and until the impacts of the soft skills which are developed can be observed. Laker and Powell (2011) in their article identify at least 9 differences between soft skill and hard skill training. From those 9 differences, they concluded that soft skill training has higher level of difficulty in term of needs analysis, goal setting, methods, measurement of effectiveness and the implementation in the working context.

There are many determinant variables to optimize the transfer of training process in soft skill training program. To identify the variables that determine the effectiveness of training with consideration on the occurrence of transfer of training, we found some interesting findings form previous studies (Mathieu, Salas & Tannebaum, 1992; Chiaburu & Tekleab, 2005; Punia & Kant, 2013). From the analysis, the variables which determine the transfer of training can be categorized as individual factor, organizational factor and situational factor. Below is results from previous studies:

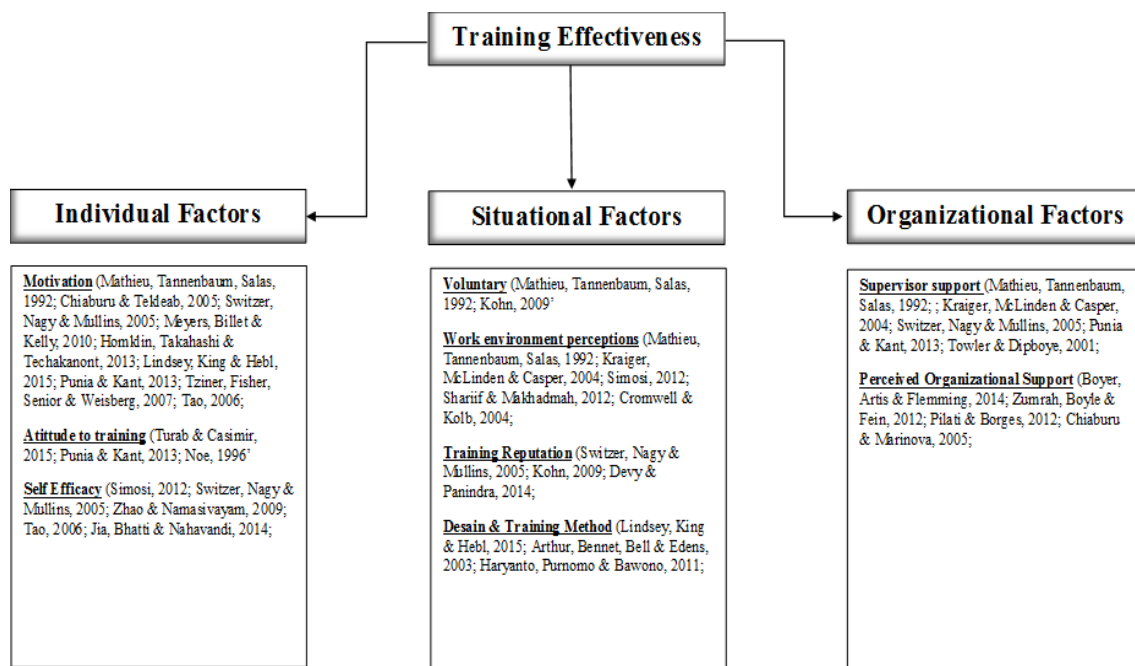


Figure 1: Analysis of research road map on the effectiveness of training.

From the analysis of research road map above, individual factor is the factor that has been mostly investigated. The studies commonly focused on either individual or situational factors (Burke, 1997; Burke & Baldwin, 1999; Gaudine & Saks, 2004; Richman-Hirsch, 2001; Tziner, Haccoun, & Kadish, 1991). In current study, we focused more on the organizational factors, especially the ones related with activity factors before, during, and after training. Salas & Cannon-Bowers (2001) mention that although there

have been many studies about determinant variables for training effectiveness, there are many organizations which do not apply them when they have the trainings. One of the concerns is the fact that there are many organizations which are consistent in conducting training activities that they expect will determine the transfer of training. These training activities include before, during, and after training.

From what was outlined above, it seems that the effectiveness of training which is



represented by the transfer of training of soft skill training program is remain unclear. Therefore, it is necessary to know which factors – the factors before, during or after training that have significant effect towards transfer of training. The research questions of this study are as the following: Do training activities before, during and after the training affect the transfer of training? From the three activities, which one has the most significant effect?

2. LITERATURE REVIEW

2.1 *Transfer of Training*

The main problem faced by organization in conducting soft skill training will be on ensuring whether transfer of training is actually occurred after the training. It is in accordance with Baldwin and Ford (1998) and Burke (2001) who stated that the main research agenda related with training and development is transfer of training.

Transfer of training is a dimension which is relatively difficult to be measured (Baldwin & Ford, 1988; Pineda, 2010) although conceptually it is easy to be formulated. Based on Baldwin, Ford & Blum (2009), transfer of training can be identified through two indicators: generalization and maintenance.

Generalization is the application of new knowledge, skills, and behavior which are gained in the training to the working activities. Maintenance is how long training participants apply the training results in their work.

Different idea is presented by Pilati & Abbad (2005) who say that transfer of training happens at the fourth phase in the series of research results which include acquisition, retention, and generalization, transfer of training and impact of training on work. They claimed that the five phases do not causally related or in other words each phase is independent.

In this research, the transfer of training will be measured using the concept proposed by Baldwin & Ford because conceptually the 2 indicators are more comprehensive.

There are many factors and antecedents influence transfer of training. Some studies

about transfer of training were focused more on the individual factors (Colquitt, LePine, & Noe, 2000; Fecteau, Dobbins, Russell, Ladd, & Kudisch, 1995; Ford, Quinones, Sego, & Sorra, 1992; Quinones, Ford, Sego, & Smith, 1995; Smith-Jentsch, Salas, & Brannick, 2001; Tesluk, Farr, Mathieu, & Vance, 1995).

In Ford & Weissbein's (1997) view, transfer of training can also be predicted from the organizational factors. Holton, Bates & Rouna (2000) call those organizational factors as the transfer system, which include superior support, peer support, training design, and individual opportunity to apply the results of the research.

Rouller & Goldstein (1993), in their research found that positive organization climate can facilitate transfer of training. Both of the researchers call that variable as organizational transfer climate. It includes situations and consequences of the training which can help individuals in transfer of training. In short, the organizational transfer climate is formulated in the activities before, during and after the training (Burke, 2001; Machin, 2002).

In this research, transfer of training was examined from the perspective of training activities: before, during, and after the training.

2.2 *Activities before Training*

According to Tannenbaum & Yukl (1992), activities before training are called as pre-training environment. The most important thing in this activity is support from the superiors which include several dimensions such as providing time for participants to prepare themselves, discuss the material and target to achieve after training and also the presence of superior in the training session.

Involving training participants in the needs analysis process is very important to facilitate transfer of training so that the training material given will be relevant and meet the participants' needs (Baldwin, Magjuka & Loher, 1991). Another important thing in this phase is increasing the trust of training participants (Mathieu, Martineau &



Tannenbaum, 1993) and giving the participants opportunity to have both time and psychological preparation (Tannenbaum & Yukl, 1992). Therefore, the researcher proposes the first hypothesis as the following:

Hypothesis 1: activities before training affect transfer of training.

2.3 Activities during Training

In this phase, the most important thing is the application of learning principles in the training design to facilitate transfer of training (Baldwin & Ford, 1988). Those learning principles include concrete training materials and examples which describe the real working context; materials which various situations that will be faced by participants when they are back to their work, and trainings as well as feedback to participants (Machin, 2002).

Various studies found that activities during training which have been planned in training design are very influential towards transfer of training (Anderson, 2000; Kraiger, McLinden & Casper, 2004; Panchapakesan & Prabhakar, 2012; Towler, 2014). From what have been outlined above, the second hypothesis is proposed:

Hypothesis 2: activities during training affect transfer of training.

2.4 Activities after Training

The last phase in training process is activities after training. Tannenbaum & Yukl (1992) state that there are many obstacles will be faced in this phase because this phase is related with organization climate and learning culture. The activities include organization support in the form of policy which enables participants to implement the results of the training; superior and peer support (Cromwell & Kolb, 2004); follow-up programs; discussion on the implementation of training results between superior and participants become very important in this phase (Baldwin & Ford, 1988; Tannenbaum & Yukl, 1992).

In this phase, the role of superior is very vital. That role is including motivating

participants, helping to find solution for participants' problems; giving feedback, and ensuring that participants can implement the training results (Baldwin & Ford, 1988; Ford dkk., 1992; Kraiger dkk., 2004; Machin, 2002; Tannenbaum & Yukl, 1992). Hence, the next hypothesis is:

Hypothesis 3: activities after training affect transfer of training.

3. RESEARCH METHODS

The research methodology used to test the hypothesis in this research was quantitative method which was supported with qualitative method. Both methods were applied at the same time or in parallel. The use of those two methods aimed to get deeper understanding to sharpen the result of the research (Creswell, 2014).

The research variables are:

Table 1: Research Variables

Dependent Variable (Y)	:	Transfer of training
Independent Variable (X)	:	<ol style="list-style-type: none"> 1. Activities before training (X1) 2. Activities during training (X2) 3. Activities after training (X3)

3.1. Participants

The participants of this research consisted of two groups. The first group was 45 staff of PT. X which followed Agent of Change training. The AoC training program was designed by consultant with the company and conducted in 4 phases as the following:

Table 2: AoC Training Phases

Phase	Program	Date of Conduct
I	Achievement Motivation Training	6-7 April 2016.
II	Agent of Change Ensurement I and II	20 April and 2 June 2016.
III	Corporate Culture Continuous Program	10 May and 2-3 September 2016.
IV	Agent of Change Evaluation	9 November 2016.



The participants of the second group were 14 AoC training participants' superiors.

3.2. Research Procedures

The procedures are as the following:

1. Between 1-15 July 2017, each participant in the first group (45 people) was given 4 questionnaires: transfer of training questionnaire; activities before training questionnaire; activities during training questionnaire; and activities after training questionnaire.
2. In-depth interview was done with 4 training participants who were chosen randomly on July 20, 2017.
3. Focus Group Discussion (FGD) with 14 training participants' superiors on July 25, 2017.

3.3. Measurement

Measurement towards 4 research variables was conducted with an instrument adapted from Saks & Belcourt (2006), as the following:

1. Transfer of training questionnaire which consisted of 2 indicators with $\alpha = 0.87$.
2. Activities before training questionnaire which consisted of 4 indicators represented by 11 question items with $\alpha = 0.75$.
3. Activities during training questionnaire which consisted of 3 learning principle indicators represented by 7 question items with $\alpha = 0.82$.
4. Activities after training questionnaire which consisted of 4 indicators represented by 11 question items with $\alpha = 0.88$.

For qualitative data, the measurement was conducted in 2 methods:

1. In-depth interview with list of questions which are in accordance with the four research indicators.
2. Focus Group Discussion with the theme "the role of superior in the activities before

and after the training", which are in accordance with the two variables.

4. RESEARCH FINDINGS AND DISCUSSION

4.1. Research Findings

Regression analysis was used to see the correlation and effect of independent variables towards dependent variables. The number of data was $N = 45$.

To identify the theme, to relate the themes found and later to interpret the themes, the qualitative data were analyzed by coding the data (Cresswell, 2014).

Below is the summary of correlation and regression data analysis:

Table 3: Mean & Standard Deviation

Variable	Mean	SD
Transfer of training	6.611	2.664
Activities before training	26.844	7.198
Activities during training	24.266	5.478
Activities after training	32.866	7.316

Table 4: Regression $X_1, X_2, X_3 - Y$

Variable Independent	R Square	Sig F
X1=Before	0.010	0.510
X2=During	0.170	0.005
X3=After	0.003	0.702

From the results of quantitative data analysis above, hypothesis 1 and 3 were not proven and there was no effect of activities before training and after training towards transfer of training. Hypothesis 2 was proven, there was significant effect of activities during training towards transfer of training.

Below are the themes found from the interview and FGD:

Table 5: Coding of In-depth Interview

Subject	Collected Themes
Subject 1	<ul style="list-style-type: none"> - Doing transfer of training although not all - Activities before training are not maximum at all - Activities during training are very fun and useful. - Activities after training were not optimal



Subject 2	<ul style="list-style-type: none"> - Difficulties in doing transfer of training - Activities before training were not maximum - Activities during training were not optimal enough. - Activities after training did not run.
Subject 3	<ul style="list-style-type: none"> - Doing transfer of training - Activities before training were not maximum enough - Activities during training run very well and useful - Activities after training were not optimal and systematic
Subject 4	<ul style="list-style-type: none"> - Doing transfer of training although not optimal - Activities before training were not maximum at all - Activities during training were not optimal. - Activities after training happened but not optimal

Table 6: Coding of FGD with subjects' superiors

Activities	Collected themes
Before Training	<ul style="list-style-type: none"> - Have not been done optimally, only covered the administratif thing. - Superiors were not yet involved in the needs analysis and preparation process
After training	<ul style="list-style-type: none"> - Follow-up pasca training were not optimal and systematic - Trapped in routine tasks

From the results of qualitative data above, it can be said that from the training participants' view, transfer of training had taken place although it was not optimal yet. Subject did not undergo optimal treatment in the activities before and after training. For activities during training, 3 subjects enjoyed the training process and got a lot of advantages.

From the training participants' superiors view, it was found that activities before training had not been done optimally, they were just still at administrative level. The same thing happened in the activities after training in which superiors had not been optimally involved yet and trapped in daily routine tasks.

4.2. Discussion

From the data analysis above, it can be concluded that only hypothesis 2 was proven that there was effect of activities during training. It was evidently shown by the transfer

of training by which the effect was 17%. Meanwhile, hypothesis 1 and 3 were not proven.

The facts that there were no effects of activities before and after training towards transfer of training, and the effect of activities during training which was only 17 % indicated that soft skills training was something that was not easy to be managed. It is in accordance with what is stated by Georges (1989) that soft skills training is more difficult to be managed compared to hard skills training, because in soft skills training there are so many variables which have to be tightly managed from the training participants, trainer and organization. In more detailed way, Laker & Powel (2001) describe 9 characteristics of differences between hard skills and soft skills training, which show how difficult it is to manage soft skills training.

This result is also in accordance with Salas & Cannon-Bowers (2001) findings which state that in conducting a training, most organizations focus more on activities during training and do not give attention to activities before and after training. This finding is also confirmed by qualitative data that activities before and after training are not optimally done.

The significant effect of activities during training towards transfer of training which is 17% indicates that the training design has applied adult learning principles. This finding is also confirmed by the results of interview with subjects who stated that the subjects enjoyed the training process and got advantages from the training.

It is interesting that there is no effect of activities before and after training towards transfer of training. This result is quite different from the research by Saks & Belcourt (2006) that found 21 % effect of activities before training and 24 % activities after training. It is also different from the study of Jaidev & Chirayath (2012) which found activities before training affected 20.2% and activities after training affected 18.3 %. That there is no effect of activities before and after training in this research can be explained by qualitative data which confirmed that activities



before and after training did not run as they were expected, either from the training participants or the superiors' point of views. From the results of the interview, it was revealed that in the activities before training, the subjects were not involved in the needs analysis process, there was no support from the superior for the participants to have adequate preparation before the training. It also happened in the activities after training, both training participants and superior did not see that the activities after training were optimal.

4.3. Implication

From the findings of this research, there are several implications for the future studies and the application of the next trainings as the following:

Research related with transfer of training especially soft skill training are still necessary considering that the result of this study shows there is only 1 variable which affects the transfer of training. Further studies focusing on activities before and after training can be done. This is necessary because theoretically both activities are believed to be influential towards transfer of training, but in this research the effect is not found.

In conducting soft skills training, organizations need to improve the quality of the training design which will be realized in the activities during training, considering that the effect of training activities is relatively small, that is 17%.

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PROCEDURAL FAIRNESS IN PERFORMANCE EVALUATION SYSTEM: EMPIRICAL STUDY AT UNIVERSITY

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ABSTRACT

The performance evaluation system still dominates the research topics in the field of Management Accounting. Performance evaluation system is not only viewed from the metric size, but also how the evaluation process can affect the individuals' behavior to achieve goal alignment with organization. This study aims to investigate whether the process performance evaluations in this case are formality and participation can influence procedural fairness. The research was conducted at one of university in Malang as one of the education institution that prioritizes the quality of education involving all units. Data collection is done by survey method staff and lecturers with the criteria of respondent (1) has served at that position for at least one year for ensure their familiarity with the performance evaluation system, (2) there are superiors who evaluate performance, (3) has been evaluated. Research instrument to measure variable independent and dependent developed from previous research by Hartmann & Slapnicar (2009, 2012). Research is expected to contribute in providing feedback to the individual staff and lecturers of University on performance evaluation systems and how their procedural fairness perceptions improve the quality of evaluation and will have an impact on the quality of education as a whole.

Keywords: *performance evaluation system, formality, participation, procedural fairness*

1. INTRODUCTION

Performance evaluation system is still a dominating topic in management accounting research (Harris & Durden, 2012). Further Harris & Durden (2012) explains that performance evaluation systems are still central to the practice and research of management accounting. Therefore the topic of performance evaluation system is still relevant to be studied more deeply by not only looking at performance measurement aspect but also performance evaluation process, which in this case related to how performance evaluation is done by superiors. Performance evaluation system is developed not only consider financial or accounting information but also nonfinancial information as a measure of performance. It is reviewed by Franco-Santos, *et al.* (2012) by developing conceptual frameworks to understand the consequences of measurement systems contemporary performance comprising measurement of financial and nonfinancial performance and theories underlying these consequences.

Considering the importance and prevalence of performance evaluation procedures in control system, it is likely that fairness of the procedures will have important behavioral implications for organizational members (Lau, Wong, & Eggleton, 2008). Organizational literatures suggest that participants in the organization form a perception of fairness about the organization's procedures against them, then this perception will be able to explain important work outcomes, such as motivation, commitment, and task performance (Hartmann & Slapnicar, 2012). Hartmann & Slapnicar (2012) also said that the characteristics that lead to



performance evaluation perceived fair is still limited.

The normative principle of procedural fairness consists of consistency and accuracy. Therefore, the superior who is consistent and accurate in providing performance evaluation will be considered fairer in the evaluation process. However, Hartmann & Slapnicar (2012) suggests that there is little literature explaining what actual behavior or procedures can improve consistency and accuracy to achieve fairness. The lack of a theoretical basis resulted in earlier studies providing predictions of the effect of fairness on the characteristics of inconsistent performance evaluations. Characteristics of performance evaluation in this case as an example are non-financial measures that are considered more accurate but inconsistent.

This research tries to see performance evaluation not from measurement metrics (Financially and non-financially) but more on the performance evaluation process that is done within the organization. The trade-off that occurs between consistency and accuracy causes fairness to be no longer seen from the measurement of performance evaluation but from the performance evaluation process. Characteristics of the evaluation process include the formalities of performance evaluation and subordinate participation in the evaluation process. This study tries to examine the effect of performance evaluation process on procedural fairness perception.

It is important for organizations to design performance evaluations in accordance with organizational goals and use them to achieve organizational strategic goals. It has been argued that the design of performance evaluation has evolved along with the development of the organization and is influenced by the culture and behavior of individuals within the organization. This is seen from recent studies that increasingly evaluate the evaluation of performance not only from the aspect of the organization but individuals in it.

Replication is done in this study by testing the generalization level of previous research findings in different contexts. As

Leung (2005) points out in Agritansia & Sholihin (2011) that procedural fairness still needs to be tested in various contexts. This suggests that the procedural effect of fairness cannot be generalized in all contexts. Previous research, Hartmann & Slapnicar (2012) examines the impact of the performance evaluation process in the banking industry. The results showed that participation (voice) influences the perception of procedural fairness.

In general, this study aims to assess the perception of procedural fairness in the process of performance evaluation that can provide input to the top management of the organization to build a performance evaluation system framework that can improve the motivation, commitment and individual performance. More specifically, the process of performance evaluation involves formalities and the participation of subordinates in building a performance evaluation system. Furthermore, in relation to the appraisal of employee performance in educational institutions, fairness perceptions in performance appraisal are important to assess the assessment process that promotes quality improvement, which will impact on the quality of education services.

This research contributes in examining the effect of the performance evaluation process on the perception of procedural fairness in the organizational context in the field of education. Desriani & Sholihin (2012) conducted their research in the aerospace industry, which has different characteristics from this research. Education institutions contribute to the development of quality human resources, which is expected to provide the best education to build not only hard skill but also soft skill. Quality of education cannot be separated from the evaluation for every individual involved in the implementation of education. In this case university, the quality of education is also determined by the quality of educator staff and support staff. An appropriate performance evaluation system can provide feedback for leaders in assessing individual performance for the quality of education maintained.



2. LITERATURE REVIEW

2.1 Fairness perception

Organizational justice theory explain about fairness perceptions (Voubem, Kramer, & Schaffer, 2016). Two forms of fairness perceptions distinguished in organisational justice theory are distributive fairness and procedural fairness (Greenberg, 1987). Distributive fairness concerns about achieved outcome, whereas procedural fairness is about fairness in procedure used to determine those outcomes (Greenberg, 1987).

Procedural fairness refers to the social psychological consequences of variations in justice, which focus on the effect of procedures on judgment of justice (Thibaut and Walker, 1975 in Lau and Moser, 2008). It also explains that (1) procedural fairness perceptions will increase satisfaction, (2) procedural fairness is the most important determinant of choice of procedure, and (3) high process control procedures will lead to a high justice assessment as well. With respect to performance measurement, subordinates will assess fair performance evaluations if (1) an accurate and complete information-based performance assessment, (2) reflect long-term interests, (3) contain provisions that reject unfair assessments, (4) reflect on deep performance Control, (5) protect their interests, and (6) indicate appropriate and appropriate treatment (Lau & Moser, 2008).

Procedures will be perceived fair when consistent over time and between individuals, free of bias, accurate, containing mechanics to correct wrong decisions, stick with the concept of common morality, and represent the opinions of the individuals involved. The management control system has procedural fairness aspects because the management control system is based on the procedure that defines how objectively determined, performance measurement and awarding (Langevin & Mendoza, 2013).

Studies in accounting have acknowledged the need to incorporate fairness considerations in the design of managerial control system because distributive and procedural fairness

perceptions have been shown to be important predictors of beneficial work-related behavior and attitudes (Colquitt, *et al.*, 2001). Previous research has examined the effect of procedural fairness on individual behavior that will improve its performance. However, the influence varies both directly and indirectly (Supriyadi, 2010). Procedural fairness on performance evaluation affects job satisfaction through the level of trust in the boss, organizational commitment, and fairness of outcome (Lau, *et al.*, 2008). The models in this study were re-examined using different subjects to assess the generalization of research results by Sholihin & Pike (2009). The results show no difference with previous studies by Lau *et al.* (2008). Nevertheless, there are inconsistent results testing the effect of performance measurement on procedural fairness perceptions. While Lau & Moser (2008) indicate that the perception of procedural fairness of managers is more fair on the measurement of nonfinancial performance because it is considered more complete and accurate. One possible reason for the inconsistency of this study is the importance of the performance appraisal process.

2.2 Performance Evaluation Formality

Formality performance evaluation construct of the research was first built by Hartmann & Slapnicar (2009) that examined the relationship model associated with the performance evaluation system used by superiors to subordinates confidence. Formalities construct related performance evaluation was developed because the previous studies provide evidence that performance evaluation system has impact on trust, and also raised question about what aspect of the system that affects trust and how they affect. Then, Hartmann & Slapnicar (2009) tested the aspect of performance evaluation process which is how formal evaluation carried out within organization.

Performance evaluation process in this study refers to the process of evaluation in Hartmann & Slapnicar (2009, 2012) research.



This performance evaluation is seen by formalities as described as how much objectivity (compared with subjectivity) in the performance evaluation process. A superior that is often informally evaluate performance using qualitative rather than quantitative targets, measuring performance based on qualitative assessment rather than tracked procedures, and often base the award based assessment further than the fact the document (Moers, 2005). Superior that informally evaluate subordinates tend to use qualitative targets such as 'do your best' compared using a well-documented targets (Hartmann & Slapnicar, 2012).

Formality definition in this study followed the proposed definition by Hartmann & Slapnicar (2009). To the different level of performance evaluation process, the formality is defined as follows, (1) related to the determination of the target, which implies the higher the level of formality means that superior explain and set the targets in the form of quantitative and writing, while targeting informal means setting targets implicitly, qualitative and communicated informally, (2) related to performance measurement, the higher the level of formality that requires more objective and quantitative performance measures rather than subjective and qualitative measurements, which more to the informal performance measurement, and (3), related to reward, the higher the level of formality suggests that there are any provision or formulation in determining bonuses or reward, while the more informal process of using personal judgment in determining bonuses.

2.3 Performance Evaluation Participation / Voice

Hartmann & Slapnicar (2012) proposed the second characteristics of the performance evaluation process, that is voice which leads subordinate participation in the performance evaluation process. Hartmann & Slapnicar (2012) suggested characteristics of voice in the performance evaluation process in order to improve the consistency and accuracy in the performance evaluation process. Voice is

defined by Leventhal (1980) in Libby (1999) as the ability of subordinates involved in the decision-making process by communicating their views to his superiors. Voice used in previous studies to examine the perception of fairness in setting budgeting as did Libby (1999) and Lindquist (1995).

Voice is also associated with the budgeting process which is the participation in the budgeting process. Research on participatory budgeting has been done for over 40 years and provides evidence inconsistent in their effects on satisfaction and performance (Lindquist, 1995; Shield & Shield, 1998). Because of this inconsistency, Lindquist (1995) and Shield & Shield (1998) tried to focus on the antecedents of participative budgeting so that may explain the association with the consequences of participatory budgeting, such as performance and satisfaction. Participation grows not only in the context of the determination of the budget but also the context of financial and nonfinancial performance measurement. Research by Sholihin, *et al.* (2011) developed the participation not only in financial goal setting as Wentzel (2002) did but also in non-financial goal setting. Results showed that participation in goal setting financial and non-financial goals affect commitment that mediated by perceptions of procedural fairness and trust.

2.4 Hypothesis Development

Hopwood (1972) initiated a study of performance evaluation by examining the role of accounting data in performance evaluation. In this case Hopwood (1972) reveals that superiors use accounting information that is considered as a source of formal information in evaluating the performance of subordinates. Performance evaluation system is developed not only consider financial or accounting information but also nonfinancial information as a measure of performance. It is reviewed by Franco-Santos, *et al.* (2012) by developing conceptual frameworks to understand the consequences of contemporary performance measurement systems comprising measurement of financial and nonfinancial



performance and theories underlying these consequences.

Several previous studies have examined the effect of performance evaluation on the consequences of individual behavior of the measurement metrics used. Lau & Buckland (2001) examined the effect of performance measurements involving financial measures of employment pressure through trust and participation. The results of Lau & Buckland (2001) suggest that performance measurements that focus on financial measurement indirectly affect job pressures through trust and participation. Lau & Sholihin (2005) examined the effect of nonfinancial measures on job satisfaction through perceptions of justice and trust. An important result in Lau & Sholihin (2005) research is that nonfinancial performance measurement has an effect on job satisfaction which is not unlike the measurement of financial performance. Hall (2008) examines the effect of a comprehensive performance measurement system on performance through role clarity and psychological empowerment. This research underscores the role of cognitive and motivational mechanisms in explaining the effect of management accounting systems on managerial performance.

Hartmann & Slapnicar (2009, 2012) see performance evaluation not from performance measurement metrics but from performance evaluation process which in this case is level of formality of performance evaluation in organization and participation role of subordinate (voice). Hartmann & Slapnicar (2009) examined the effect of the performance evaluation process, namely the level of formality, on trust through the perception of procedural fairness and quality of feedback. Hartmann & Slapnicar (2012) adds characteristics in the process of performance evaluation that is not only the level of formality, but also the participation of subordinates (voice). Both characteristics of the evaluation process are tested for influence on the perception of procedural fairness. The results of Hartmann & Slapnicar (2012) showed that in uncertain conditions, voice

more significantly affect the procedural fairness.

This study suggests that a formal approach in performance evaluation will affect the perception of procedural fairness when subordinates are given the opportunity to participate in the performance evaluation process. Formality will help improve consistency, while voice is expected to improve accuracy in the performance evaluation process because of the belief that subordinates are better able to control the outcome of the process (Hartmann & Slapnicar, 2012). Langevin and Mendoza (2013) also argue that the opportunity to participate is a communication tool between subordinates and superiors that enable subordinates to exchange and seek information from superiors. Sharing of information in participation will improve the accuracy of the data used in the decision-making process. Therefore the hypothesis in this study is put forward as follows.

H1: formality affects procedural fairness perception

H2: participation in performance evaluation affect procedural fairness perception

3. RESEARCH METHODS

The stages of this study include a preliminary study by conducting observations and focus group discussions with unit leaders to discuss the mechanics of performance evaluation to obtain a comprehensive overview of the performance evaluation process. The next pilot test is testing the research instrument that is in the form of questionnaires distributed to respondents who are not respondents' research. Pilot test is conducted with the purpose of testing the validity of the instrument and level of understanding of respondents related questions posed in the instrument. After the instrument testing process, the next step is to collect the research data by distributing questionnaires to the respondents in accordance with the selected sampling method. The data obtained is processed and analyzed to obtain results that answer the research question.



This research is conducted by survey method by distributing questionnaires to University staff and lecturers. The reason for choosing survey method is due to two considerations. First, there is no public data archive of the constructs used in this study. Second, the study of fairness is usually regarded as a private secret, which requires that data collection be anonymous, this is easily achieved by survey methods (Hartmann & Slapnicar, 2009).

Research is conducted on a single organization for several reasons. First, focusing on one organization allows us to get very detailed data on both individual information and other qualitative information. In this case, this study may link the detailed data on the performance evaluation formalities of individual employees. Secondly, the university consists of 15 directorates and 10 study programs so as to provide the possibility of meaningful variation of research variables, let alone the research is done at the individual level.

3.1 Research Variables

Independent variables in the research are formality and participation. Variable formality of performance evaluation system is measured by using instrument developed by Hartmann & Slapnicar (2009). This instrument measures the performance evaluation system as a latent construct. The construct is developed into three distinct formalities sub-form as follows: 1) the formality of the target setting is measured using two items of question whether the setting target is made by the superintendent in written and quantitative form or otherwise, 2) the performance measurement formalities using two question items On how the employer performs a performance appraisal whether based on objective and quantitative information (more formal) or otherwise uses personal judgment and is qualitative (less formal), 3) rewarding formalities are measured by 4 items indicating the objectivity of reward determination. All of these instruments are expressed on a 5-point likert scale with numerical scaling, which in this case is

approaching 1 means less formal, and vice versa 5 means more formal.

Participation in performance evaluation is measured using instruments developed by Hartmann & Slapnicar (2012). Participation in this study is the extent to which individuals are allowed to play a role in setting goals, and actively providing feedback in the performance evaluation process. Three question items are developed that (1) ask whether the purpose of work is determined by considering the input of subordinates, (2) whether the supervisor judges the performance, notes the subordinate's explanation, and (3) whether when determining the work objective the supervisor considers factors that cannot be controlled.

Dependent variable in this research is procedural fairness measured by four items of question developed by Hartmann & Slapnicar (2009). Question items include the extent to which respondents believe that subsystems from target setting, performance measurement and rewarding, as well as the system as a whole, lead to the determination of a fair income.

3.2 Hypothesis Testing

Testing of hypotheses 1 and 2 is whether there is influence formalities of performance evaluation and participation to the perception of procedural fairness is done by using multiple regression analysis. To test each hypothesis is done by using t-test to determine whether there is influence linearly between independent variable and dependent variable. The value of t statistic test can be seen from the level of significance, if the level of significance is below the error rate of 0.05 or 5% then declared the independent variable affect the dependent variable.

The coefficient of determination is used to test the goodness-fit of the regression model (Ghozali, 2000). The coefficient of determination is between zero and one. The small value of R^2 means that the ability of independent variables to explain the variation of independent variables is very limited. A value close to one means the independent



variables provide almost all the information needed to predict the variation of the dependent variable. The fundamental weakness of the use of the coefficient of determination is the bias against the number of independent variables entered into the model. Each additional one independent variable, then the value of R^2 must increase regardless of whether the variable significantly affect the dependent variable or not. Therefore, many researchers recommend using an adjusted R^2 value when evaluating a regression model (Ghozali, 2000).

The F statistic test basically shows whether all the independent variables included in the model have a mutual influence on the dependent variable. The null hypothesis (H_0) to be tested is whether all parameters in the model are equal to zero, or: $H_0: \beta_1 = \beta_2 = \dots = \beta_k = 0$, meaning independent variables simultaneously have no significant effect on the dependent variable. $H_a: \beta_1 \beta_2 \dots \beta_k \neq 0$, meaning independent variables simultaneously have a significant influence on the dependent variable (Ghozali, 2000). The way that can be used to determine whether or not Rejected H_a is to see the level of significance of the results of the F test. If the significance level test $F < (0.05)$, H_0 is rejected and H_a accepted. This means that the independent variable simultaneously has a statistically significant probability to the dependent variable.

4. CONCLUSION

The topic of performance evaluation system is still relevant to be studied more deeply by not only looking at performance measurement aspect but also performance evaluation process, which in this case related to how performance evaluation is done by superiors. This research aims to assess the perception of procedural fairness in the process of performance evaluation that can provide input to the top management of the organization to build a performance evaluation system framework that can improve the motivation, commitment and individual performance. This study is expected to contribute in performance measurement

studies in different context. This study also expected to contribute to university as they will develop performance evaluation matrix that relevance and increasing fairness perception.

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THE EFFECT OF VIRTUAL PRESENCE AND PERCEIVED ENJOYMENT ON LEARNING OUTCOMES

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ABSTRACT

This study aimed to examine the effect of virtual presence and perceived enjoyment, on learning outcomes of accounting students at Sanata Dharma University in the subject of financial accounting. The experimental research used a modified learning device of accounting simulation in the form of quiz packaged in a game titled "Who Wants to Be a Millionaire".

Participants in this experiment were accounting students of Sanata Dharma whom have passed Accounting Introduction II course. There were 214 participants, who were divided into a control group and an experimental group. The results based on quantitative data processing with software WarpPLS showed that only virtual presence had the positive influence on learning outcomes.

Furthermore, this study also revealed that perceived enjoyment had no positive effect on learning outcomes of accounting students at Sanata Dharma University.

Keywords: *experimental research; accounting simulation games; virtual presence; perceived enjoyment; learning outcomes*

1. INTRODUCTION

The development of the 21st century has brought aspects of the technological knowledge to all aspects of society. A significant shift has occurred, and discusses how, when and where humans 21st century will be working. This paradigm shift also reveals how individuals, companies and even countries understand and organize themselves. The most important matter from this shift is the education that is required to make the structure of the education system to prepare

the pupil, to effectively live in the 21st century (McClarty et al., 2012).

Attention and thinking about the need to reform the education system that is more associated with the element technologies, interconnection and competition on the situation of "The World is Flat" continues echoed both by politicians, education professionals, parents, and others all over the world (Reimers, 2008 ; Burke, 2010). The statement reinforces what has been proposed by Levy and Murnane (2004), that the next generation will have a characteristic work, among others, such as: increased use of technology, the extensive problem solving, and a more complex communication.

The situation of education pupils and students in the world, especially in Indonesia at this time, has been formulated previously by the North Central Regional Education Laboratory (NCREL) and Metiry Group in 2003. They formulated the proposition that pupils and students are currently experiencing growth in the presence of a laptop, tablet , a mobile phone and includes video calls. The students are hoping to use these technologies in their daily interactions wherever they are.

This research observes an area of technological development in the world of education, which identifies the movement of technology-based education model. The identification using the tool in the form of educational games are increasingly available in the form of electronic media and physical media. The use of simulation games in education is expected to expand over the next three years into the future based on the report of Horizon in 2011 (Johnson et al., 2011).



Accounting education itself does not escape from the interaction with technological developments. The National Committee of Inquiry into Higher Education by Sir Ron Dearing (1997) provides the foundation principles of educational change in general. These main principles are: the student must participate in their own learning process, the learning process should be enhanced in a better level, and the results of the learning process that must reflect the needs of the workforce are met (including the general and specific knowledge). The reality of the last embodiment of the principles of the business world is still causing discontent against accounting education at university level in the world (Helliari et al., 2007).

Helliari et al. (2007) managed to capture the phenomenon of a combination of changes in the accounting profession, education, accounting, technology, and the business world, as an opportunity to evaluate the teaching method in accounting. Evaluation is specifically aimed at teaching auditing field or topic. The evaluation is done in order to create innovative teaching methods that will improve the knowledge of accounting, auditing and IT students.

Interesting point to be noted, there are a lot of studies that tested the effect of simulated game effects on the ability and the improvement of educational outcomes in education (McClarty et al, 2012; Perrotta et al., 2013). However, studies that focus specifically on the effect of the simulation game on the level of understanding of accounting students in Indonesia is still not much happening.

Last text books to review the role of simulation games in the context of the accounting system is a book of Dr. John A. Schatzel entitled Accounting System: Thinking, Development and Evaluation with Interactive Simulation and Games (2013). The use of games in education media itself is also a bit much refers to the compatibility of the Technology Acceptance Model (TAM) proposed by Davis et al. (1989), which continues to experience growth every decade.

TAM is based on the Theory of Reasoned Action (TRA) is expressed Ajzen and Fishbein

(1980). TRA states that a person will receive a computer if the computer provides benefits to the users. Based on the TRA, user defined information technology of the individual's perception and attitude that will ultimately form a person's behavior in the use of information technology. TAM also specifically used in the field of information systems to predict the acceptance and use in the work of individual users (Jogiyanto, 2007, 2008).

On the other hand, there is research on simulation games as educational tools that have been shown fundamental relationship between social presence, perceived ease of use, intention to use, *perceived enjoyment*, perceived usefulness and trust (Hassanein, Head & Chunhua 2009). Researcher Schraeder and Bastiaens (2012) also revealed the importance of the games that have high design category immersive gaming environment. Immersive simulation game is a category game that distinguishes high level of *virtual presence* that affect *learning outcomes* of students who test them.

Schraeder and Bastiaens research is in line with research on information technology aspects that influence learning outcomes done by Wangpipatwong and Papisratorn (2007). The previous study of the Papisratorn Wangpipatwong and the topic of the influence of computer attitude to learning outcomes as measured by the change in computer self-efficacy students they tested. The author learned from some researches from Hassanein & Head (2009), Schraeder & Bastiaens (2012) and Wangpipatwong & Papisratorn (2007) as the basis for further construction in preparation for this study.

Background and phenomena depicted in the previous paragraphs, form the basis for this paper to examine the effect of virtual presence and perceived enjoyment on learning outcomes of accounting students at Sanata Dharma.

Therefore, researcher try to formulate a research question "How does the effect of virtual presence and perceived enjoyment on learning outcomes of accounting students in Sanata Dharma?" . This research is expected to contribute to the proposed development of a



TAM 3 model of Venkatesh and Bala (2008), especially from the aspect of adjustment and anchor combined with the model constructs a virtual presence with the learning outcomes expressed by Schraeder and Bastiaens (2012).

The results of this research is also expected to contribute to the entity that uses teaching methods with simulation games. Results of this research is aimed at developing methods of teaching for become more familiar in the use of technology directly for assessment of student work. In particular, this study also provides benefits as an addition to the literature that can be used by developers of information systems, enterprise application developers, and educators to better understand aspects of end-user knowledge of information technology, which in this case are students.

2. LITERATURE REVIEW

James Paul Gee (2011), defines digital games are not just a game itself, but also a series of social interactions in a system where the players interact with each other and with the interaction of the players in the game environment. The concept of the game for training and learning is not a new concept, as it has long done well in education, military and business to education cadet/ management trainee (Veenstra & Fowler, 1994).

Both digital and non-digital simulation games has shown benefits over the last decade. Research predecessor have shown that the activity of the simulation game will achieve an increased focus and an interest in learning of students in the subjects studied. *Sim games* also enhanced their motivation to be actively involved in the implementation of curriculum-based games (Corbeil & Laveault, 2011) and can bridge the understanding of the formal and informal knowledge (Baranowski, 2006; Geurts, et al., 2007 and Parker et al., 2011).

2.1 Learning Outcomes (LO)

The learning outcomes in some literatures are something that represents the students in demonstrating the knowledge, skills and values after the completion of a material or learning programs. Articulation and a clear

description of the learning outcomes are creating the foundation, in evaluation process of teaching effectiveness and learning process itself (Osters and Tiu, 2008).

The concept of the Oscers and Tiu were originally modified from the concept of Kraiger et al. (1993) which revealed that learning in a training material can be grouped into one of three types of outcomes to be achieved, namely: cognitive aspects, ability-oriented aspect, and affective aspects. In the world of learning in their own education, cognitive aspects often become the main target of the achievements in a learning activity.

Kreiger et al. (1993) also stated that the achievement of learning (*learning outcomes*) is different from the learning objectives. Learning outcomes reflect the goals of the instructional designer or the designer's own training materials, as well as with regard to the design of the training material.

2.2 Perceived Enjoyment (PE)

Gahtani and King's research (1999) revealed some additional enjoyment perceived variables from the user of information technology. Perceived enjoyment are variables that predict the level of user comfort when working with certain information technology.

Perceived enjoyment is part of the variable belief, but implicitly disclosed in the literature TAM (Davis et al., 1989). The three indicators used to examine the perceived enjoyment are: the convenience of working with the technology being used, the actual process of the technology that is considered fun for the user, and user preferences to work using the technology.

Wan, Fang, and Neufeld (2007) revealed that the interaction between technology and participants behaviour including perceived enjoyment affect the learning process of students that similar with the learning outcomes itself.

H1: perceived enjoyment has a positive effect on learning outcomes



2.3 Virtual Presence (VP)

Virtual presence's term can have different connotations depending on the context in which the term is used. For example, a virtual presence can be defined in terms of social wealth as an extension in which a medium or media can provide an environment that is social, warm and sensitive to interact (as proposed Rice et al., 1992; Short, Williams, & Christie, 1976).

In terms of realism, other researchers defined as the presence of the extent to which the media can provide a representation of the object look realistic (Hatada, Sakata, and Kusaka, 1980; Heeter, 1995; Neumann, 1990). The second conceptualization share the central idea that the virtual presence was emerged from the current situation presented and controlled by means of technology.

The concept of engagement / involvement (Krugman, 1965; Petty & Cacioppo, 1981) or flow / flow (Csikszentmihalyi, 1990) has links with other conceptualization. These concepts are: transport concept (Held & Durlach, 1992), the concept of assumption reception/ reception modality (Suckfüll, 2004), the concept of full concentration / immersion (Biocca & Delaney, 1995). These concepts focus on users. Here, the virtual presence equated with emotional state.

Emotions are subjective experiences with the affective component, cognitive, motivational, and physiological equipment (Scherer, 1984). These components are less stable over time and is influenced by the current situation or context (Rosenberg, 1998; Schwarz, 1990). According to Slater (2003) and Suckfüll (2004), the experience of being totally present in the virtual environment can be seen as a kind of positive emotions are awakened on the interaction between a user action and perception further feedback through technology that is aligned.

The virtual presence includes feelings of engagement (Palmer, 1995), absorbing something/absorbed (Quarrick, 1989), the activity to be involved/engaged and interested feelings/engrossed (Lombard & Ditton, 1997). Virtual presence by Heeter (1995), the

affective component side, provides a sense of excitement, intensity, addiction, and a spirit of fun/enjoyment.

H2: virtual presence has a positive effect on perceived enjoyment

Talking about education, students know what to do and have control over what happens (the cognitive component) and motivated to act and continue to perform that action (motivational component). Perception of the presence of such learners in virtual environments becomes so deep, and their behavior showed that they think and act like in the real world, as if the virtual environment itself does not exist (Lombard & Ditton, 1997, p. 5). Therefore, learners can experience the behavior of their actions are smooth and the action steps continue to the next action step (completeness physiological aspects).

Based on these explanations above and Bastiaens Schrader (2012) defines a virtual presence as actual subjective emotional state in which the user is fully focused totals in virtual activities in an environment that is mediated. Perceptions of lost time from external situations that tend to interfere with the performance of this virtual environment, can not distract the user from its activities in the virtual environment.

Virtual presence is influenced by the variable nature of individual users which taken into to the learning situation (Commarford, Singer, & Kring, 2001; Heeter, 1995; Held & Durlach, 1992; Hill, 1991; Lombard & Ditton, 1997; Steuer, 1995 ; Witmer & Singer, 1998) and the interaction between the variables of those individual natures toward the design of the virtual environment.

In addition, feelings of learners to virtual presence affects the interest in using games (Moreno & Mayer, 2003) and boost motivation to act and continue to use the game in a positive way (Barfield & Weghorst, 1993). Both research has related with the research of mental effort in learning, and referred to the use of cognitive capacity that actually allocated for the assignment.(Wild, Kuiken, & Schupflocher, 1995).

Schraeder and Bastiaens (2012) showed that the virtual presence with high immersion mediated by cognitive load, has a significant positive effect on learning outcomes. Research from the Bastiaens and Schraeder also aligned with the findings of Dalgarno and Lee (2010) and in contrast with findings from Persky et al (2009), which states no correlation and influence between virtual presence and learning outcomes.

H3: virtual presence has a positive effect on learning outcomes

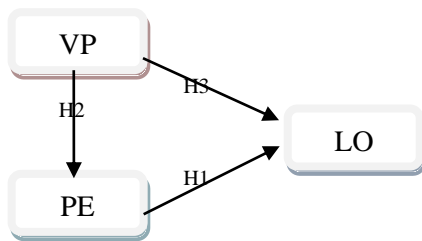


Figure 1. Research Model

3. RESEARCH METHODS

Participants in this study were accounting students. Samples were included in the study are students who have passed the course of Financial Accounting 1 and 2. In this research, the experiments were carried out and questionnaires given to students in the third year who attend Financial Management II and second year student who taking Accounting System subjects on Accounting Department at Sanata Dharma University.

The amount of participants are a total of 214 students which will be divided equally into two groups: the experimental group and the control group. Experiments technique in this research was quasi experiment, where the experiments have treatment, impact measurement and experimental units, but ignoring random assignment to create a comparison in order to conclude the changes caused by treatment (Cook & Campbell, 1979).

The research could not execute a possible randomization in the population, caused by the population (accounting students of Sanata

Dharma) itself which has naturally been formed into groups (classes courses).

Experiments conducted in the form of tests using simulated game “*Who Wants to Be a Millionaire?*” in experiment group, while control group were using multiple-choice tests held on teaching media website *exelsa* –owned by Sanata Dharma University– (www.exelsa.usd.ac.id).

The test results will be changed in the form of a score that would be a proxy assessment of student performance. Performance in the form of scores of students will not be a part of variables to be manipulated in this experiment, but the depiction of the difference between the experimental group and the control group still displayed with hypothesis testing comparison between the control group and the experimental group.

Once the tests were completed, the students will be asked to fill a questionnaire. The questionnaire was used to measure virtual presence, perceived enjoyment, and learning outcomes. Virtual presence and learning outcomes instruments in this research refers to the instruments created by Schraeder and Bastiaens (2012) and the concept of Krieget et al , (1993) where learning outcomes was concluded as a designer instructional purposes training materials, as well as the purpose of the design of the training itself. Perceived enjoyment instruments was inspired from the questionnaire created by Hassanein and Head (2009).

In summary, it can be said that a quasi-experimental design in this study can be formulated in the following forms:

Table 1: Quasy Experiment Design

Group	Treatment	Post Test
Experiment	High Immersive (HI)	O ₂
Control	Low Immersive (LI)	O ₂

There are many methods of analysis that can be used according to need. In the process of measuring learning outcomes and influencing variables in this study, analysis method that used was SEM (Structural Equation Modeling). The method is considered



appropriate for use in accordance with some of the existing references (Chin, 1995 and Hair et al., 2006). To perform inferential analysis of this study, an analysis tool used is Partial Least Square (PLS), the SEM-based variance with WarpPLS 3.0 software.

Indicator test also called Outer measurement model or a model to examine the relationship between the indicators on their construct variables. This indicator is obtained from test output validity and reliability of the model, as measured by the following criteria:

First, convergent validity criteria are measured by the correlation between the scores of indicators with their construct. Indicators considered valid if the individual has a correlation value above 0.50. If there are indicators that are not eligible, this should be discarded.

The second is to use the discriminant validity criteria are measured from cross loading between indicators with the constructs. Indicators declared valid if the relationship with the indicators higher than the relationship with other constructs.

Lastly, the use of composite reliability, where a construct declared reliable if the composite reliability has a point above 0.70

Inner Model or structural model is a hypothesis test, describes the relationship and influence between latent variables based on substantive theory. The model equation can be written as below:

$$\eta = \beta_0 + \beta\eta + r\xi + \zeta$$

η = endogen vector (dependent) latent variable
 ξ = vector exogen (independent) latent variable
 ζ = residual vector

Since PLS is designed for recursive models, the relationship between latent variables can be specified as follows:

$$\eta_j = \sum_i \beta_{ji} \eta_i + \sum_i \gamma_{jb} \xi_b + \zeta_j$$

β_{ji} and γ_{jb} are path coefficients that connect endogenous predictors and exogenous latent variables ξ_b and η_i along index ranges i and b . While ζ_j is the inner residual variable. Inner model is a test of the structural model is

done by looking at the value of R-square as a test of goodness of fit model. There is also significance test of influence between construct by looking at the value of parameter coefficient (p -value) and its significance value t-statistic

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Outer Model Test Result

Measurement model (outer model) was evaluated by convergent validity and discriminant validity of the indicators followed by composite reliability testing. Based on WarpPLS 3.0 test, it was found that the entire cross-loadings are more than 0.5, which means that all the items on each variable has qualified discriminant validity, both in the control group (low immersive game) and the experimental group (high immersive game).

In line with these findings, the convergent validity of the control group and the experimental also has a value AVE (Average Variances Extracted) of more than 0.5 (Table 2). Therefore, it can be concluded that the variables in this study meet the assumption of validity.

On the other hand, the composite reliability testing on the study variables either the control group or the experiment (Table 3) have been qualified passed (more than 0.7).

Table 2: Average Variance Extracted Result

Variable	AVE-LI	AVE-HI
VP	0,543	0,573
PE	0,598	0,609
LO	0,579	0,678

Table 3: Composite Reliability Test Result

Variable	CR-LI	CR-HI
VP	0,543	0,573
PE	0,598	0,609
LO	0,579	0,678

4.2 Inner Model Test Result

Based on the results of the output WarpPLS 3.0, the R-square value for the dependent variable learning outcomes in experiment group (HI) is 0.572, which means that the variable Learning Outcomes in the



experimental group described by variables in the research model of 57%, while the rest is explained by other variables that are not included in the model. R-square in control group is 0.501 (50%), which means that the model of experiment group slightly better in explaining the variables relation between learning outcomes and other variables.

Relations between latent constructs in the research model can be seen from the results estimated path coefficients (path coefficients) and the significance level (p-value). Estimated path coefficients can also be used to show the results of hypothesis testing.

The result of model fit test in Table 4 also showed all value of *average path coefficient (APC)*, *average R-squared (ARS)* and *average variance inflation factor (AFVIF)*, were met the criteria of model fit, in both groups. APC and ARS has value of $p < 0,001$ (significant) and AFVIF value is < 5 .

Table 4: Model Fit Test Result

Fit Indices	LI	HI	Value
APC	0,246	0,241	$P < 0,001$
ARS	0,416	0,473	$P < 0,001$
AVFIF	1,866	1,899	Good

For testing the hypothesis that are proposed in this research, the results can be seen from the p-value. If the p-value < 0.05 , then the hypothesis is accepted. The estimation results of path coefficient to test the hypothesis can be seen in Table 5 that shows the path coefficient values (PCV) in both groups.

Table 5: Path Coefficient Values (PCV) Result

Hypotesis	PCV-HI	PCV-LI	P-value HI	P-value LI
PE→LO	0,108	-0,049	0,126	0,305
VP→PE	0,693	0,544	$< 0,001$	$< 0,001$
VP→LO	0,418	0,209	$< 0,001$	0,012

Based on table 5, it can be concluded that H1 is rejected in both groups, H2 is accepted in both groups. H3 is only accepted in experiment group. This result in H3 indicates that virtual presence is acknowledged whenever the level of high immersive game also increasing.

4.3 Discussion

The result of this study strengthen the findings achieved by Schraeder and Bastiaens (2012). They revealed the importance of the high immersive designed games which set the level of virtual presence and can affect learning outcomes for students who done the tasks in the game. The use of game Who Wants to be a Millionaire showed a positive influence on students' understanding of the learning outcomes they achieved. Virtual presence that appeared at the flow of the game has supported the student's understanding.

They understand the purpose of the material build in the game, such as decision-making, analytical thinking and tactical as well as accuracy. These results were also in line with research from Saunders et al. (2011), which suggests the evidence of virtual presence that affect perceived enjoyment in positive manner.

In other hand, the evidence that perceived enjoyment did not affect learning outcomes are in line with the findings from Lim, Nonis & Hedberg (2006). They found that the numbera, complexity and design activities and the information itself in the game, became the potential distraction and deception for understanding the true meaning of learning outcomes inside the game design and material.

Furthermore, when students playing the game where it build with intention to replace the conventional task, the students consume more memory resources to understand and too focus in tasks and ignore the learning outcomes material (Mayer and Moreno, 2003). Memory consuming can cause the lower feeling of enjoyment and the lost of arousal to enjoy the game (Lombard and Ditton, 1997). In contrast, too much enjoyment when students play the game could also directing the students for ignoring the educational purpose of the game (Rieber and Noah, 1997).



Therefore, the use of simulation games with immersive high payload has the potential to distract the user from the real purpose of the operation of the gaming simulation for educational purposes, and distract from the content of the material in the game. Users become enjoy the game and tend to neglect the content of material that must be considered in the game. Findings from this study indicate that the perceived enjoyment is not in harmony with learning outcomes.

5. CONCLUSION

The results based on quantitative data processing with software WarpPLS shows that only a virtual presence has a positive effect on learning outcomes. Furthermore, this study also revealed that perceived enjoyment in this experimental research, has no positive effect toward learning outcomes.

Interpretation of the discussion and conclusions expressed in this research were expected to consider the limitations that arise. Quasi-experiment method conducted in this research has several weaknesses, namely: the absence of randomization, pre-test is not conducted to determine the initial conditions of the participants, and control toward external variables that affect the experiment process was done in minimum effort.

Learning outcomes can also be paired with other dependent variables related to the target achievement in a simulation game, such as student performance, or academic achievement, although for these variables is more appropriate to use the experimental design that is more robust and requires some level treatment and the time series experiment (time-series).

This research can be developed into more robust design of quasi-experiment research, by developing quasi-experiment model based on time-series. Next research can also use the variable of academic achievement and student performance (Christmastuti and Purnamasari, 2015). On the other hand, tools for displaying

virtual presence can be enhanced in order to bring the user to the condition that maximize virtual presence and situation.

Test hypothesis comparing age and sex in each group in a quasi-experiment can also be a consideration in more in-depth hypothesis testing. Variable enjoyment escalation, virtual knowledge and virtual experience can be the next addition to the research that is still have similarities, by integrating technology acceptance model with a model community of inquiry (Garrison and Anderson, 2003)

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COMPETENCY DEVELOPMENT: A LITERATURE REVIEW ON ITS PROMISE AND LIMITS

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ABSTRACT

This paper aims to review competency paradigm development in the public sector's personnel management in a relation to public service improvement. From its outset, the adoption of competency framework – which is originally a private sector issue – in the public sector have intentions to change less effective officials to be more effective ones. This claim to some extent is challenged by the condition that the works of public servants are substantially different from those of private sector and connected to decision making processes within given volatile situations. By investigating a number of literatures, the paper argues that public service improvement cannot rely merely on competency framework adoption within a public organization or improved competencies of the officials as individuals in a managerial scheme. It requires another feature namely the experience or practice of the officials which maintain relationally and develop discretion capability.

Keywords: *competency; practice; personnel management; public sector*

1. INTRODUCTION

The purpose of this paper is to assess competency paradigm development originated from private sector in the public sector's personnel management in a relation to public service enhancement. The main question is “does competency framework development guarantee such enhancement?”, considering that public sector has different particular characteristics from private sector.

This paper is organized as follows. After this introduction, it presents the way by which competency framework developed in the public sector from its private sector' origin as a promising way of conducting personnel management. It continues with a discussion on

the limits of competency development and the emergence of practice paradigm. Before a concluding remark, a discussion on the preferential option on competencies or practices is carried out.

2. THE PROMISE OF COMPETENCY DEVELOPMENT

Studies on competency development in the public sector (Moore, 1995; Hood and Lodge, 2004; among others) illustrate how competencies are defined and utilized to measure and ensure civil servants' reliability to the intended platform of public service performance. It was David McClelland who initially developed competency, as human characteristics related to job performance, into a test-modeling application in 1973 through his article, “Testing for Competence Rather than ‘Intelligence’”.

Richard Boyatzis, a McClelland's colleague and a patron of competency development, defines a competency as “an underlying characteristic of an individual, which is causally related to effective or superior performance in a job” (1982: 21). Although the origin of competency development has taken place in developed countries (Lodge and Hood, 2005), it diffuses to less developed contexts in line with the demands of globalization and modernity (Townley, 2002).

Competency framework adoptions in the public sector are influenced by the development of human resource management in the private sector, particularly in the United States. Two factors are essential in such development, namely (1) the American psychological testing as personnel recruitment tool since the Second World War and (2) the



increasing concern with behavior as competency since the 1970s (Page et al, 2005).

The most influencing moment of the private sector into personnel management within public administration, however, was the emergent of New Public Management (NPM) mainly in the United Kingdom in 1980s, which imported private sector techniques of management and accounting into public service organization (Dunleavy and Hood, 1994). Competency paradigm then became a baseline by which public sector reform has been conducted, as for example stated here

“The competency of upper-level public servants – the nature and adequacy of their expertise, knowledge, and capacity – is a recurring issue in public administration and a central theme in the ideas of contemporary reformers about enhancing and modernizing state capacity.” (Hood and Lodge, 2004: 313)

The introduction of NPM – along with its tendency to be dominant way in bureaucracy reform particularly among countries of the Organization for Economic Co-operation and Development (OECD) at first (Hood, 1991) and then also among other countries (Galera and Bolivar, 2007; De Vries and Nemeč, 2013) – globally changes in a radical way how public servants conduct the accountability of their work. Formerly the accountability expressed within hierarchical relationship between public servants and their top leader, whereas currently within relationship between public servants and the “customers” of their work, or “public services users” (Dunleavy et al, 2005).

Consequently, personnel management in the public administration utilizes competency approaches under a design to achieve a high degree of satisfactory performance as required by the new trend. According to UNESCO (2015) and FAO (2014), competency framework adoption drives and promises transparency development within organizations too. In this “competency

industry” (Lodge and Hood, 2005: 780), human resource managers within public administration tend to have a stronger position, or to some degree create what so called human resource management regime due to their “specialism in defining what is required for a particular set of posts” (Page et al, 2005: 859).

The increase of competency framework adoptions within public administration then becomes a new trend which shifts the utilization of a more traditional personnel recruitment model. Various jobs or posts of work in this shift are subsequently analyzed in different strands. Sanchez and Levine (2009: 54) provide a brief summary on the differences between a traditional job analysis and competency modeling in six dimensions, as demonstrated in Table 1 below.

Table 1: A Comparison of Traditional Job Analysis and Competency Modeling

Dimension	Traditional Job Analysis	Competency Modeling
Purpose	Describe Behavior	Influence Behavior
View of the Job	An External Object to be Described	A Role to be Enacted
Focus	Job	Organization
Time Orientation	Past	Future
Performance Level	Typical	Maximum
Measurement Approach	Latent Trait	Clinical Judgment

Source: Sanchez and Levine, 2009: 54

Such comparison shows that competency modeling advocates a new way of how it seems more dynamic and gives more promising development or advantages to public service performance improvement.

3. THE LIMITS OF COMPETENCY DEVELOPMENT

As stated above briefly, from its outset, competency framework adoptions in the public sector have intentions to change less effective officials to be more effective ones, especially regarding the demands of “public services users”. It offers a new approach in analyzing posts of civil servants’ works which gives a guarantee of public service improvement.



Nevertheless, despite its promise and worldwide spread, competency based organizational reform is frequently questioned by some scholars for its positivistic and rationalistic approaches. Competency framework adoptions are likely to raise particular threats originated from their privileged rationalist instrument of managerial manipulation (Carroll et al, 2008: 364) or its “methodological individualism” (Chia and Holt, 2006: 638). The measurable criteria, by which the competency paradigm is operating and which promise the high degree of transparency, in reality face complex and dynamic situations occurring in the arena of reform.

One important missing feature within competency paradigm utilization, as indicated for instance by Cooper (2005) and Smets and Jarzabkowski (2013), is relational factor between the agency’s quantifiable competencies and a given complex field where the agency undergoes organizational work. Therefore, competency framework adoption in the public sector may lead to frequently emerging gaps between, in one side, the results of personnel assessment during a recruitment process and, in other side, the results of such assessed personnel’s organizational work after the assessment.

A study by Bolden and Gosling (2006) surveys a number of literature and lists the characteristics brought by competency framework, namely

- (1) the reductionist way regarding management role;
- (2) the generic nature of competencies with less attention to the nature of individuals, tasks, and situation;
- (3) the focus on present and past performance in spite of the requirements linked to the future;
- (4) the way of excluding subtle qualities, situational factors, and interactions; and
- (5) the mechanistic approach to education.

All of these characteristics are considered as the dominant factors of why competency framework adoption in the public sector is evaluated as insufficient mode in terms of creating the realization of the officials’

performance improvement related to public policy matters. By public policy matters mean downwards accountability or responsiveness to what “customers” of the services value as opposed to what senior public servants value.

In such situation, the adoption of competency framework in the personnel management of a public service organization tends to serve “internal interests” linked to its existing actors’ concerns within such organization rather than “external interests” of the people of which a public organization is stand for. In other words, under competency framework, public servants’ loyalty tends to be attached to the organization’s hierarchical structure rather than to people’s actual needs.

4. THE EMERGENCE OF PRACTICE PARADIGM

Responding to the potential problem of competency framework, some scholars, such as Carroll et al (2008) and Raelin (2016), offer practice paradigm as an alternative way out. In spite of focusing on a relatively static position or an inertia associated with observable competencies of the officials as the object of analysis, the scholars emphasize the dynamic processes emerged from the officials’ practices as a generator for public service improvement. In this paradigm, experiences are a significant factor to enhance public servants’ performance. The distinction of competency and practice paradigms is depicted in Table 2 below.

Table 2: Competency and Practice Paradigms: Distinction

Competency	Practice
Rooted in Objectivism	Explicitly Constructionist
Individual Level of Analysis	Inherently Relational and Collective
Quantifiable and Measurable	Discourse, Narrative, and Rhetoric
Unanchored in Relationship and Context	Situated and Socially Defined
Privileges Reasons	Privileges Lived or Day-to-Day Experience
Assumes Intellect Predominantly	Incorporates Embodiment and Emotions

Source: Carroll et al, 2008: 366



As public servants under this paradigm, the officials' practices and experiences in the fields of work, which is in a lot of cases volatile and fast-changing, can lead to the formation of organizational memory among officials within public administration. Organizational memory, according to Walsh and Ungson (1991: 61), "refers to stored information from an organization's history that can be brought to bear on present decisions".

Therefore, with such memory, the officials' past experiences significantly matter in guiding current actions and anticipating imminent circumstances. Moreover, the interactions among those involving in the public service are also influential. Consequently, organizational memory matters in regards to providing interior base for a more high-quality performance development of public sector organization due to its guarantee of relationality happening among individuals and in the context they are living and working (Cooper, 2005; Smets and Jarzabkowski, 2013).

In a statement, Schatzki (2005: 480) illustrates the nature of practices and their relationships to the establishment of "mental states" as follows.

"Practices are non individualist phenomena. It is people, to be sure, that perform the actions that compose a practice. But the organization of a practice is not a collection of properties of individual people. It is a feature of practice, expressed in the open-ended set of actions that composes the practice. The relation of the practice's organization to its participants is that this organization is differently incorporated into their mind. Understandings, rules, ends, and tasks are incorporated into participants' minds via their 'mental states'; understandings, for instance, become individual know-how, rules become objects of belief, and ends become objects of desire."

5. COMPETENCIES OR PRACTICES?

Hence, an assumption related to competency framework in the personnel management, which hypothetically ensures the improvement of public service performance, is challenged regarding its tendency to be rationalist rather than to be reflective-situational linked to the condition that the works of public servants are connected to decision making processes or making discretion within given unpredictable circumstances.

The paper argues that, in this sense, public service enhancement cannot rely simply on competency framework implementation within a public organization or improved competencies of the officials as individuals in a managerial scheme. It requires another feature namely the experience or practice of the officials which maintain relationality and develop discretion capability.

The issue of which this paper wants to emphasize is not only about choosing competencies *or* practices of the civil servants. It is rather a way to develop competencies *and* practices in the public sector simultaneously. Therefore, in order to achieve improved performance, competency development in the public sector is likely to be a project dealing with combining competencies and a set of experiences, of which both of them craft an organizational memory.

Competencies and skills of the civil servants are not only observable and measurable in a range of assessments and their related issues, but are becoming revealed more explicitly and grown in a continuing practices and experiences. To this competency development process, Chia and MacKay (2007: 233) assert that

"Becoming skilled in practice therefore, is not simply a question of deliberately acquiring a set of generalized capabilities that can be transmitted from one individual to another. Rather, skills are 'regrown' ... incorporated into the modus operandi of the developing



organism through training and experience in the performance of particular tasks.”

6. A CONCLUDING REMARK

Competency development in the public sector's personnel management is widely believed as an effective way to improve the performance of the civil servants rather than the traditional one which is based on intelligent testing and latent traits as it is proven in the private sector. However, human resource management related to public sector which focuses solely on competencies apparently impedes the realization of civil servants' loyalty to the people to whom every public service organization first and foremost should deliver its work and to the volatile contexts surrounding them.

The argument of this paper is that it is imperative to improve public service performance in making use of competency framework along with the formation of civil servants' practices and experiences linked to their responsiveness and accountability development. To implement this argument, a certain period of time is needed due to the acts of practicing and experiencing are dependent on a particular span of time.

A further study is prospective here, namely identifying the advantages and disadvantages of such combination of public servants formation due to the fact that, in a democratization era, the public service is closely associated with the relatively unpredictable turnover of a political leader who is usually being a top leader of the body of civil servants, whereas the change of political leader might be influencing the priority agenda of the public administration.

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UNIVERSAL ACCESS TO SAFE WATER: FINANCING THROUGH CORPORATE SOCIAL RESPONSIBILITY PROGRAMS

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ABSTRACT

This paper aims to investigate the role of corporate social responsibility (CSR) in the provision of safe water and the possibility of water infrastructure funding from CSR to reach sustainable development. It examined 38 safe water CSR programs from local, national, and multinational enterprises during 2016 obtained through online media. The results show that the programs can unblock thousands of residents from inaccessibility to water. The great amount of safe water CSR funds programs also makes it a possible financing source for water infrastructure. The study recommends corporations and local governments to integrate safe water CSR programs with existing water supply systems in their areas through two schemes proposed in this article to achieve universal access to safe water.

Keywords: Corporate social responsibility; Sustainable development; Universal access to safe water; Infrastructure funding scheme

1. INTRODUCTION

The direction of corporate social responsibility (CSR) that supports sustainable development has been seen in recent decades. Sustainable development cannot be done by the government itself but rather the private role in overcoming it (Sarkar and Searcy, 2016; Elmualim, 2017).

CSR in the form of economic, environmental, and social aspects of society that object sustainable development as a tool delivered by companies play as the company's contemporary approach (Sarkar and Searcy, 2016; Elmualim, 2017; Szczuka, 2015; Gilberthorpe and Banks 2012). Aspects of sustainable development in the CSR program may include sustainable water, sanitation, climate change, energy-saving, and electricity

supply in rural areas (Lambooy, 2011; Abeysuriya et al., 2007; Trapp, 2012; Benites-Lazaro and Mello-Théry, 2017; Hori et al., 2014; Mukherjee and Tarafdar, 2015).

Focusing on water supply, Indonesia Central Bureau of Statistics data shows (Indonesia Central Bureau of Statistics, 2016) that by 2015 there is still one-third of the population who have not access to safe water. While the government is not able to work alone, the private sector contributes through CSR program, one of which is done by Danone Aqua with Water Access Sanitation, Sanitation, Hygiene (WASH) program started since 2009 (Danone Aqua, 2011).

This paper is purposed to examine the role of CSR in the provision of safe water in Indonesia. Another question discussed in this article is about the possibility of water infrastructure funding through CSR programs to perform sustainable universal access to safe water. There is no debate about the definition of CSR or in the concept of sustainable development discussed in this article. The study uses a random sample of safe water CSR programs conducted by local, national, and multinational companies that are handed over in 2016 and obtained from online media.

The composition of this article consists of an introduction to the study followed by literature review on cases of CSR programs in acquiring sustainable development. The next section is research findings and discussions that analyzes the samples of safe water CSR programs. Financing schemes of water infrastructure based on the cases analyzed are also added to this section. The last section is conclusions of the study and practical recommendations on the water infrastructure financing schemes through CSR programs.



2. LITERATURE REVIEW

Basically, CSR is the responsibility of the company to the surrounding environment that evolved from the process of ethics, environment, and in the recent decades concerns about sustainable development (Kolk, 2016). The company considers its importance to contribute to sustainable development through CSR that takes into account the social and environmental impacts of their activities rather than just looking into the economic aspects (Sarkar and Searcy, 2016; Benites-Lazaro and Mello-Théry, 2017; and Grover, 2014).

Many companies are focusing on environmental aspects around their companies especially in the extractive industries (Szczuka, 2015; Gilberthorpe and Banks 2012; Tang-Lee, 2016; Gardner, 2012). Related to environmental pollution, companies in the mining industry is very risky to have a conflict with local people, so the company emphasizes the importance of community engagement for the success of their CSR strategy.

CSR can be executed as a source finance sustainable development programs (Lambooy, 2011; Abey Suriya et al., 2007; Mukherjee and Tarafdar, 2015; Fryatt; 2012). In India, an infrastructure finance company is able to finance various CSR programs in the areas of health, education, renewable energy, and the environmental issues (Mukherjee and Tarafdar, 2015).

A study in South Africa (Fryatt; 2012) proposed an alternative funding scheme for healthcare sourced from the private sector through CSR mining industry. The company will be more likely to contribute if funding is done through charity or increased CSR than raising taxes.

In the field of safe water and sanitation (Lambooy, 2011; Abey Suriya et al., 2007), the study states that CSR can provide sanitation access in developing Asian countries (Abey Suriya et al., 2007). In the Netherlands (Lambooy, 2011), companies are beginning to realize the importance of water sustainability so that they will assist in the availability of water, water quality issues, water accessibility,

and rising water prices. They also contribute to water supply development in their locality.

3. RESEARCH METHODS

This study analyzes the safe water CSR programs obtained through online media. The criteria used are the programs handed over in 2016. There are 38 safe water CSR programs from local, national, and multinational enterprises. All programs are evaluated to find out which programs are sustainable and which are not. The results are used to propose an applied framework in the use of CSR funds for the provision of appropriate and sustainable safe water infrastructures.

4. RESEARCH FINDINGS AND DISCUSSION

The study succeeded in collecting 38 safe water CSR programs during 2016 from local, national, and multinational enterprises gained from online media. A total of 48 companies and institutions were involved, consisting of 21 private companies, 17 state-owned enterprises, 3 government institutions, and 7 non-government organizations (NGOs).

This paper identifies that unsustainable programs are the programs that are given for one consumption only. There are four programs that are unsustainable, three of them are in the form of safe water distribution through water tank due to the dry season that causes water scarcity and another program of a multinational company is providing sachet purifier, an innovative product to purify water.

The rest of the program is classified as a sustainable program by bringing out water infrastructure development that can be managed and used by the beneficiaries continuously.

The value of the programs is not included in every news releases. However, from the aid given, it is estimated that the smallest value is above Rp 10 million and the biggest value is more than Rp 1 billion.

PT Smart Tbk conducted a CSR program in the form of infrastructure development from searching for water resources, installation, and distribution network to houses in West



Kalimantan that claimed to benefit 1,000 residents in two villages. PT Semen Indonesia (Persero) Tbk builds a 1-kilometer pipeline network in Rembang with a capacity of 8,200 liters and the program is valued at Rp 670 million.

Other CSR programs, such as those conducted by PT Agincourt Resources, which built 10 kilometers of safe water distribution network in South Tapanuli; Adi Sucipto Airport Management, built safe water facilities and infrastructure at Gunung Kidul worth Rp 387 million; PT Semen Bima, built safe water infrastructure in Banyumas worth Rp 250 million; and Bank Mandiri, built safe water facilities and infrastructure in Gunung Sitoli worth Rp 250 million. Giving CSR by these companies is a direct compensation for residents in their business environment (Szczyka, 2015; Gilberthorpe and Banks 2012; Tang-Lee, 2016; Gardner, 2012).

Cooperation between companies and NGOs is conducted by national and multinational companies such as PT Smart Tbk, P & G, Danone Aqua, PT HM Sampoerna Tbk, Chevron Indonesia, Best Western Hotel, and PT Nisan Motor Indonesia. NGOs in the cases play a role in determining the types of programs and objects of CSR recipients in terms of distribution.

What makes CSR programs implemented in cooperation with NGOs more sustainable is the assistance and training to local communities to maintain and manage well-provided facilities and other mentoring and training that can improve social welfare such as waste management and health and hygiene such that operated by Yayasan IDEP Selaras Alam, which became a partner of PT HM Sampoerna, and Habitat for Humanity Indonesia, which became a partner of PT Nisan Motor Indonesia.

The partnership between companies and NGOs in CSR is beneficial for both parties. Companies can get value creation from the NGO's expertise in preparing and implementing programs while NGOs can earn valuable income for their operations (Lodsgard and Aagaard, 2017; Rim et al., 2016).

Related to the management of the grant post-handover, there are two interesting cases. The first is a CSR program of PT Semen Tonasa (Persero) which entrusted the management of safe water facilities post-acceptance to the village forum organization. This village community-based organization consists of nine recipient villages that manage the program by collecting regular usage fees for routine maintenance costs or making improvements from water distribution to houses from self-financing sources or community initiatives. The community is also expected to develop activities as a positive impact of the management, e.g. improving sanitation access and strengthening the economy of the community through the capital already owned.

The second case is a more professional grant management post-handover conducted by PT Antam (Persero) Tbk in cooperation with Lebak municipal water utility (MWU). PT Antam (Persero) Tbk built water distribution in three villages in Lebak Municipality whose management, then, is to be taken over by Lebak MWU. Such professional schemes would be more sustainable than village organizations.

From the above cases, this study proposes two public-private partnership schemes between companies as CSR program providers and local governments.

4.1 MWU Tripartite Scheme

The scheme of cooperation is conducted between the private sector, local government, and MWU. MWU as a municipal-owned enterprise responsible for the provision of safe water in a city has a water processing installation and distribution infrastructure as well as a complete service facility.

The local government as the owner of MWU is a reliable backup as it has been so far. The responsibility of the local government to the water supply for the people will make the infrastructure of CSR programs more sustainable.

Companies can be attracted to contribute to CSR activities by building water



distribution networks to the areas that have not been facilitated. After the infrastructure is handed over, the community will get the convenience in services provided by MWU such as ease of payment and claiming the complaint in case of water leakage or if water does not flow.

This form of cooperation is also expected to gain the trust of private companies in implementing CSR funds. In certain areas, however, there is a possibility of places that are not directly covered by the MWU distribution network. Therefore, this study proposes the following second scheme.

4.2 Village-owned Enterprise Tripartite Scheme

Village-owned enterprise is a business unit owned and managed by the village government. This cooperation scheme involves private companies, local governments, and village-owned enterprises. This is a more institutionalized version of a village community-based organization that will greatly reach remote rural areas that are not reachable by the MWU distribution network.

The village-owned enterprise under the village government makes it under the local government control. This makes excellence in terms of transparency and governance that will continue to thrive.

Such scheme also delivers more appeal for the company to invite public sympathy in value creation.

Some of the weaknesses in this scheme include the possibility of the absence of water infrastructure so that requires more funds in the provision of infrastructure, unskilled human resources, infrastructure facilities supporting the provision of water that does not exist, and the new form of organization in managing water supply. It requires the role of NGOs that become partners of the company to train and prepare all the needs.

5. CONCLUSIONS

Water CSR program is able to open community access to safe water. The great

amount of CSR funds for safe water programs reaching more than Rp 1 billion is evidence of opportunities for funding water infrastructure in unreachable areas (Lambooy, 2011; Abeysuriya et al., 2007; Benites-Lazaro and Mello-Théry, 2017; Mukherjee and Tarafdar, 2015), particularly for regions where national or multinational companies are likely to receive direct compensation from companies (Szczyka, 2015; Gilberthorpe and Banks 2012; Tang-Lee, 2016; Gardner, 2012). The study recommends companies and local governments to integrate safe water CSR programs with existing drinking water systems in their areas through two schemes proposed in this paper to achieve universal access to safe water.

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HORIZONTAL ACCOUNTABILITY OF THE DISASTER-RESILIENT VILLAGE PROGRAM AT D.I. YOGYAKARTA PROVINCE

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ABSTRACT

This research is an explorative-qualitative study and aims to provide an overview of how a joint activity undertaken by several agencies in the Province of D.I. Yogyakarta is accounted. This research is useful for developing the body of knowledge of accounting especially for the public sector accountability. Practically, the research provides input on how public sector organizations, especially government agencies, report their activities in relation to the demands of efficiency and effectiveness of state administrations. This research uses interpretive method and the data were obtained by interview and documentation. After doing the analysis, it is concluded that the joint program called Disaster-resilient Village Program is accounted individually by the province's agencies involved which are The Regional Disaster Management Agency (BPBD) and the Social Service of the province. This model conforms to Wilkins (2002) horizontal accountability model for the first pattern.

Keywords: *Horizontal accountability, public sector organization, Desa Tangguh Bencana/ Disaster-Resilient Village*

1. INTRODUCTION

Public sector organizations are identical to the public interest and aim to improve the welfare of the people through development and public services. Government organizations are required to be effective and efficient in organizing their activities. An effort to

enhance the effectiveness and efficiency of government programs is through cooperation among public sector agencies. The British, Canadian and Australian governments are pioneers in the implementation of programs involving several agencies or departments in managing joint programs (see Ryan and Walsh, 2004). The term such as "join-up" and "shared-program" are popular for identifying such initiatives. Nevertheless public sector organizations such as government are still using traditional financial management systems. The system uses a line-item system for their budget (Ryan, 1993; Glynn and Murphy, 1996; O'Faircheallaigh et al.1999).

The joint program could involve several government agencies. The challenge faced by such programs is related to the accountability between agencies working together. Inter-agency responsibilities which is called horizontal accountability are also required to communicate their activities to the wider community (Mahsun et al, 2011: 170). Five main groups of the user are government agencies, regulatory bodies, constituents, investors and creditors (Anthony, 1999; in Mardiasmo, 2002). In the Provincial Government of D.I.Yogyakarta, a program called Disaster-Resilient Village (or in Indonesian term: *Desa Tangguh Bencana/ Destana*) has been initiated and involves two government agencies which are The Regional Disaster Management Agency (*Badan Penganggulangan Bencana Daerah/ BPBD*) and the Social Department (*Dinas Sosial*). The study is trying to formulate and identify the pattern of horizontal accountability among the agents in reporting the joint program.



This research is expected to be useful for building the body of knowledge of accounting science especially for accountability in public sector organization. This research will provide input on how public sector organizations, especially government agencies report their activities in relation to the demands of efficiency and effectiveness of state administration. Ultimately this research will be useful for central and local government in preparing a reference framework that can be used as a guide for public financial reporting.

2. LITERATURE REVIEW

Public accountability is the obligation of the holder (agent) to provide accountability, presenting, reporting and disclosing all activities to which the principal has the right and authority to hold such accountability (Mardiasmo (2002: 20). In the context of government organizations, public accountability is the provision of information and disclosure of the activities and financial performance of the government to the parties concerned with the report. Accountability is a broader concept of stewardship. Stewardship refers to the management of an activity economically and efficiency without any reporting obligations, while accountability refers to liability by the steward to report or account the activity to the assignor.

There are two types of public accountability: vertical accountability and horizontal accountability. Vertical accountability refers to providing reports to higher authorities, such as accountability of work units to local governments, accountability of local governments to the central government, and the central government to the House of Representatives. Vertical accountability in the government sector is accompanied by a financial statement that provides information on the financial position, budget realization, cash flow, operating results, and changes in the equity of a reporting entity. It is useful to users in creating and evaluating decisions on resource allocation. Horizontal Accountability on the other hand is a kind of responsibility to the

public. Ryan and Walsh (2004) point out that horizontal accountability includes not only accountability to the wider community, but also accountability to other government departments including local governments and non-profit organizations, where the government departments work together on joint programs.

Accountability in public sector organizations is a more complex concept than accountability in the private sector (Sinclair, 1995; Mulgan, 1997; Parker and Gould, 1999). Private sector accountability generally adopts a traditional hierarchical model with a top-down / bottom-up focus expressed in the financial statements of an organization. The complexity of accountability in the public sector can be attributed to the concept of 'new public management' which requires government agencies to link the output of a program to the outcomes written in government policy (Ryan and Walsh 2004). This new form of accountability tends to be more subjective (Sinclair 1995) with an orientation shifting from external to internal and is focusing on accountability on "customers" rather than to the Parliament and the public (Parker and Gould 1999). The question of "Who" or who is responsible extends beyond the boundaries of political reality and includes bureaucrats (Parker and Guthrie 1993), while the question of "for what" has widened beyond fiscal obedience and focuses on the efficiency and effectiveness of a program which can be seen from its output (Politt, 1990; Gray and Jenkins 1993).

The provision of services involving some of these institutions has practical difficulties associated with accounts of governmental institutions that are still structurally functionally traditional (Glynn and Murphy, 1996: 129). This service can also cause tension because of a mental tendency of some departments or sectors who are not willing to share information with other departments (Bellamy 1998). Considine (2002), which compares vertical and horizontal accountability, argues that governments need to apply "entrepreneurship and output-based performance" to overcome the difficulties and



weaknesses of the current accountability system.

Challenges in reporting performance for joint programs are related to the lack of governance framework of the traditional government vertical concept (Ryan and Walsh 2004). The government in the UK with the "Invest to Save" program has encouraged several departments to work together by providing financial incentives for the cooperating agencies in order to provide more efficient, innovative and responsive services (Bellamy, 1998). In practice, however, the UK Government recognizes difficulties in resource allocation and accounting records for the join-up programs. The government then provides new models that emphasize separate funding for key agencies who lead these priority programs. In the model the overall budget is managed by certain agency but the responsibility is held jointly by the ministers involved.

Meanwhile the General Auditor of Canada (2000) proposes a framework for a joint program, in which departments designated to manage horizontal programs have an important role to ensure that issues are managed in accordance with the objectives and obligations of partners working together. Furthermore, Ryan and Walsh (2004) who reviewed the accountability of a joint program in Queensland state government in Australia stated that joint programs run by some public sector institutions have challenges in terms of performance accountability and financial accountability.

Wilkins (2002) provides various alternative options on how those departments are accountable for the joint activities to the parliament. First, each government department is responsible for its own activities. This option is the simplest to do but has the disadvantage that it is difficult to get information about the impact of the whole program. The second option, the department that leads the joint program is responsible for the reporting of the activities undertaken. This option has the advantage of reporting integrated activities but has the disadvantage that the interests of non reporting institutions

are not being accommodated. The third option, a minister who does not lead the cooperating departments, is asked to be the coordinator and responsible for the cooperation program undertaken. This option guarantees fairness and impartiality, but the minister seems to be responsible for something that is not his responsibility. Fourth option, the ministers involved take their responsibilities collectively. While this will result in integrated reporting, this collective governance system is highly unlikely to be implemented (eg by Westminster system which requires self-reporting among the agencies). The fifth option is to put the responsibility of reporting this joint program to the Treasurer of the State / Ministry of Finance or implementing this joint program on a Whole-of-government basis.

3. RESEARCH METHODS

This research is an explorative study with qualitative approach. The qualitative approach is used to express and understand something behind the unknown phenomenon and can provide a more detailed explanation of the phenomenon (Strauss and Corbin, 2009: 5). The data were obtained by interview and documentation. The study is categorized as interpretive (Russel 1996) and the data were analyzed using Grounded Theory approach (Strauss and Corbin, 1998; Efferin, 2002). The validity of the data is done using probing technique (Hartanto, 2013: 116) during the interview.

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Disaster-resilient Village Program

The Regional Disaster Management Agency (BPBD) of the Province of Yogyakarta Special Region was established with the aim of assisting the community in a pre-disaster condition (providing training to the community to have anticipated power), during a disaster (as the main coordinator during a disaster), and after the disaster in reconstructing the community). Furthermore,

The Disaster -resilient Village Program (*Desa Tangguh Bencana/ Destana*) is a result of disaster risk assessment conducted by BPBD of Yogyakarta Province which shows that 301 villages from 438 villages in the 5 districts are still in disaster prone areas. This program was started in 2009 where at that time the NGO (Non-Governmental Organization) managed all of the activities. In 2011 the BPBD of the province is designated as the agency that manages the disaster management and in 2012 the BPBD was officially appointed as the government agency who manages the Disaster-resilient Village Program.

In managing the Disaster-resilient Village Program, the BPBD of the province cooperate with other agencies and NGOs such as PALUMA NGO (at Gunung Kidul District), YP2MU NGO (Bantul District and Yogyakarta City), LINGKAR NGO (Sleman District) and DAMAR (Kulonprogo District). Other form of cooperation made by BPBD with other government agencies is by establishing a joint work with the Social Service of the province (*Dinas Sosial Provinsi*) in strengthening the capacity of the village. The Social Service of the province focuses on creating logistics warehouse in disaster-prone villages.

Organizational Structure of Regional Disaster Management Agency of Yogyakarta Province is regulated on Special Regulation (PERDAIS) of *Daerah Istimewa* Yogyakarta Number 3 Year 2015 about Organization and Working Procedures of Regional Disaster Management Agency of D.I. Yogyakarta province. The purpose of the formation of a Disaster-resilient village by BPBD of the province is to implement disaster management system at village level. The system at this level is done by institutionalization, legislation, planning, funding, and capacity building. Villages that have been established to be resilient villages have the right to make village regulations on disaster management and make plans for the next five years activity. In addition, the village can cooperate with any parties. In the case of difficulties they can ask for assistance to BPBD of the district, BPBD of the province and even to the central/

national BNPB or to anyone who can be asked for help to conduct activities together in the village.

Figure 1 shows how the cooperation process of the Provincial BPBD with relevant technical agencies, private sector, and NGOs in disaster-prone village activities. In Figure 1, BPBD formed a disaster-prone village first and during the development the BPBD does not directly coordinate with other parties such as related technical agencies, the private sector, and NGOs. The village itself will initiate the joint program and contact the relevant parties to cooperate. The NGO usually serves as facilitator (assistant) during the formation of the Disaster-resilient village (*Destana*). Villages that have been established as resilient villages will independently cooperate with those parties, but BPBD does not forget its main function as the main coordinator in disaster management. The village that will carry out the cooperation should make a proposal to the relevant agencies or ministry institutions. The village then makes relevant regulations and plans for the next five years related to the cooperation program with those outside parties.

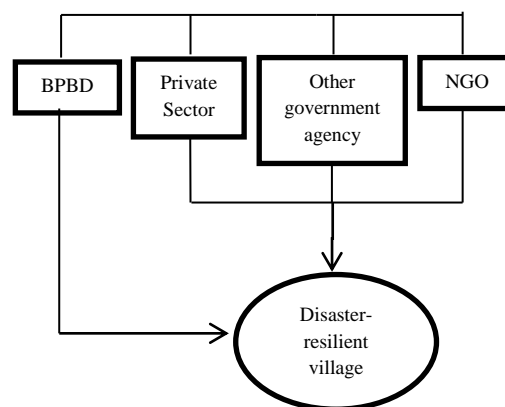


Figure 1: Cooperation pattern of the Disaster-resilient village

An example of Disaster-resilient village is the Village of Hargowilis at Kokap District. The village of Hargowilis cooperates with the Social Service of Yogyakarta Province. The cooperation program of the Social Service in the resilient village is to form a disaster prepared village with the focus of logistics

warehouse. Figure 2 below explains the cooperation process undertaken by the BPBD of Yogyakarta province with the Social Service of the province in disaster management through a village that has been established as a Disaster-resilient village.

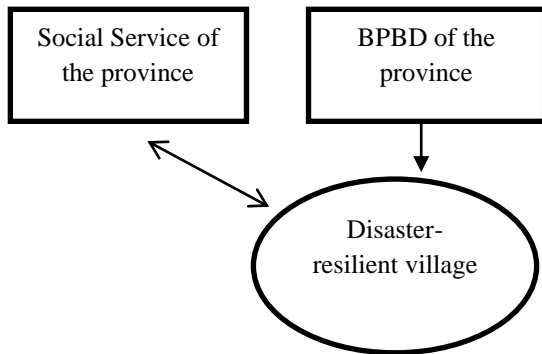


Figure 2: Cooperation of Social Service of the province with BPBD in Disaster-resilient village

4.2 Planning Process and Budgeting of Disaster-resilient Village Activities

The activity plan and budget of the disaster-resilient village activities are proposed in the Planning and Development Forum (Musrenbang). The government of Yogyakarta Province targeted to develop 301 Disaster-resilient villages where by the end of 2017 there have already been 186 villages formed. A further 115 villages will be established within the next five years. The proposal of the program and activities is proposed by BPBD of the province to be discussed in the Regional House of Representatives (DPRD) of D.I. Yogyakarta Province. The proposed activities of the Regional Disaster Management Agency (BPBD) will be discussed by Commission A of DPRD as partners of the BPBD in the provincial parliament.

The program has three funding sources: from the central government (through the National Disaster Management Agency/BNPB), from the province's budget and from the district's government where the village is located. Particularly the program is proposed in the Regional Budget (APBD) of D.I.

Yogyakarta Province and in the State Budget (APBN) via the BNPB activities in the central government. Although it can be funded from 2 sources of budget it is always certain that there is no overlap in financing this Disaster-resilient village activity.

The BPBD of the province proposes funding for its programs and activities which are firstly discussed at the provincial level along with the Regional Government Budget Team (TAPD). The team has elements from the Regional Development Planning Agency (Bapeda), the Administration Bureau, and the relevant Legal Bureau. The budget plan and activities of the BPBD of the province are then submitted to Commission A of the Regional House of Representatives (DPRD) as the working partner of the BPBD D.I. Yogyakarta Province. The Commission A will evaluate this activity and the budget of BPBD activities is to be decided into policy by the Regional House of Representatives.

4.3. Reporting and accountability of disaster-resilient village activities

A robust disaster-resilient village program should be reported by the Regional Disaster Management Agency (BPBD) of the province every month, after having regular meetings discussing implementation, monitoring and evaluation. The BPBD prepares its financial report based on Government Regulation Number 71 Year 2010 concerning Government Accounting Standard, Domestic Affairs Regulation Number 64 Year 2014 and Governor Regulation Number 74 Year 2013 regarding Government Accounting Policy. The letter of accountability is submitted to the Inspectorate and the Office of Revenue Management Finance and Assets (DPPKA) every month. Additional accounting reports which have already accrual-based are submitted every month, every semester and every year.

The realization of the budget of the BPBD of the province can be accessed on the monitoring and evaluation (*Monev*) website of the Local Government of D.I. Yogyakarta Province. The site shows the program budget,

physical target, financial target, and physical realization of the programs conducted by BPBD. After reporting the program of activity to the Local Government every three months the Provincial Governor gathers all the heads of the Regional Work Unit (SKPD) and gives report cards to each SKPD. The report will be red if the three-month performance does not match with the set tags, and will be blue if the performance is satisfactory.

5. CONCLUSION

The initiation of disaster-resilient village is done by the BPBD after conducted a disaster risk assessment. This initiative is a top-down pattern. Right after formed, the village proposes a program and contact and chose the relevant parties to cooperate. The program and the parties should be acknowledged by the BPBD as the official coordinator in disaster management as regulated by the law. This activity represents a bottom-up pattern. Eventually, the activity of the disaster-resilient villages is reported by the agencies involved. The BPBD that has a program of formation and activities such as providing the relevant training reports its activities directly to the Governor of Yogyakarta. Similarly, the Social Service of the province which has a program focusing on creating logistics warehouse in disaster-prone areas reports the program directly to the Governor of Yogyakarta. The pattern of accountability described above is similar to the first pattern of horizontal accountability of Wilkins (2002) which shows that each agency reports its own activities to the principal. Figure 3 below illustrates the pattern of accountability of the Disaster-resilient village programs.

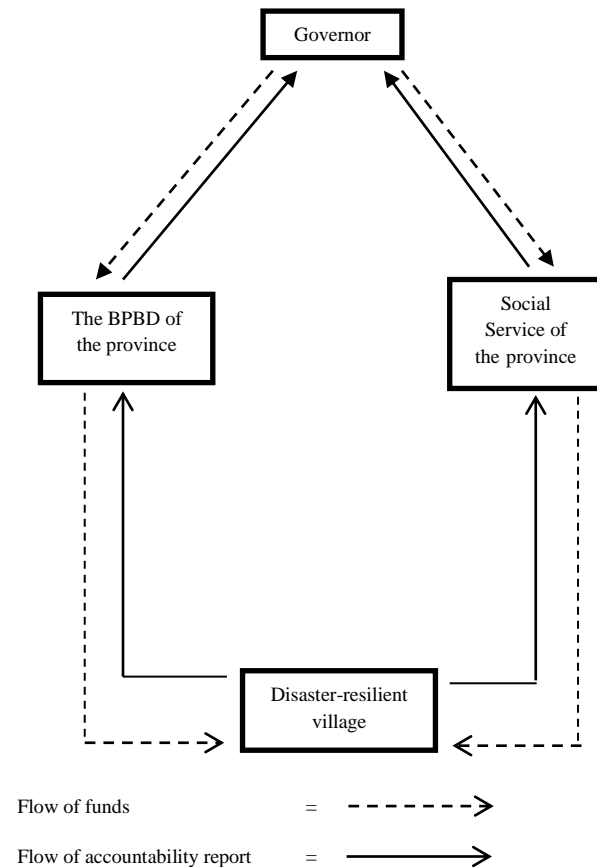


Figure 3. Pattern of Accountability of Disaster-resilient Village Program

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PLAN FOR INTEGRATED MARKETING COMMUNICATION FOR FESTIVALS, CULTURAL AND ART EVENTS IN YOGYAKARTA SPECIAL REGION TO INCREASE FOREIGN TOURISTS' VISIT

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ABSTRACT

This research has two aims. Firstly, to evaluate the effectivity on marketing communication patterns for cultural events in Yogyakarta Special Region (DIY). Secondly, to arrange a new and more effective communication patterns for cultural events around DIY. The new and more effective marketing communication pattern is expected to increase the foreign country tourists' visit to DIY. This research is a qualitative descriptive with approach of case study on the Tourism Department of DIY. The selection of the informants are done through Purposive Sampling. The analysis technique used are Content Analysis, Common Theme Approach, and Emic Approach. The findings shows that the current marketing communication pattern is not effective. The ineffectivity is caused by the selection of place for promoting the events are not in accordance to the target market of DIY's tourism; the contents showed about the events displayed in international exhibitions and paid promotions are minimum; the event's contents is not yet integratedly communicated between one media to another media; and the events' communication around DIY are not informative enough especially with the target market of foreign tourists. The Tourism Department of DIY is suggested to use integrated marketing communication pattern with strategies of DOT (Destination, Origin, Time), BAS (Branding, Advertising, Selling), POSE (Paid Media, Owned Media, Social Media, Endorsers), and POP (Pre Event, On Event, Post Events).

Keywords: *patterns; integrated marketing communication; events*

1. INTRODUCTION

Events are one of many tourism attraction which can be managed for tourist destination for both individual tourist and group tourists. In the Performance Report of Tourism Ministry year 2015, the portfolio of tourism product is divided into three which are nature, culture, and man made tourism product. Tourism Events are one form of man made tourims product whih have art and cultural elements. Events as activities presented to commemorate important periods of human lives be it as an individual or a group tied by culture, tradition and religion is presented with a vertain reason involving the community around a region in a certain time (Noor: 2009). Getz (1997) in Aesthetika (2012) asserts that events give additional points for the community around the tourism site as it attracts tourists.

The Yogyakarta Special Region (DIY) has more or less 197 festivals also art and cultural events enlisted in th Calendar of Events 2016. The big number of events celebraterd per year in DIY is expecter to be one of many tourist's destination which can be developed to attract both nusantara and foreign tourists. Yet in reality, the most of the events do not show optimal results to attract both foreign and nusantara tourists to DIY. The Tourism Department of DIY as the organizer and the organization responsible for tourism, realizes that the tourists visiting DIY priotize other tourist destination and therefore events as a tourism object are only attended as they are on the way on the popular tourist destination. The



events celebration in DIY, also do not significantly attract nusantara tourists. The significant can be seen from the audience census which dominated by the local community.

This shows that there are factors affecting the goal of tourism to not be fulfilled yet. The factors comes from internal problems which is the government as the tourism's leading sector, and external factors which comes from community, tourism industry, and tourist as the consumers of tourism product. One of many things affecting the events is the marketing. In this research, the researcher discusses not about the events' management but the marketing strategy of all events in DIY integratedly and sistematically. Suryadana and Vanny (2015), define tourism marketing as a system which concoordinates in applying policies for companies or groups or tourism industry be it owned by an individual as well as private or owned by the local, regional, national government agencies, to reach tourism satisfaction. The whole activities which is directed to five information to consumers is aimed to satisfy the consumers needs of tourism. On the other hand, Kotler and Keller (2012), define marketing as a community process where individuals and groups gain what they need by creating, offering, and freely exchanged their product or services needed by other people.

Based on many factors affecting the optimum performance of DIY tourism products in form of events, two research questions are formulated as follow: (1) How is the effectivity evaluation on marketing communication pattern of festivals, cultural and art events in DIY nowadays? (2) How is the integrative marketing communication pattern is planned to be more effective for festivals, cultural, and art events in DIY?

The focus of the research is to create the plan of integrated marketing communication pattern for events in DIY, by firstly evaluating the effectivity of the current marketing communication pattern. By formulating the new and more effective marketing communication pattern for events in DIY, the

events are expected to attract more tourist to DIY, especially foreign tourists.

2. RESEARCH METHODS

The research is a qualitative descriptive which is a research aimed for problem solving upon the current existing problems. The approach used is case studies. In line with the approach, the researcher collects, analyzes and comments on the data related to the situation happening in the research site.

This research will be done in Yogyakarta Special Region (DIY), which consists of many research sites: (1) The Tourism Department of Yogyakarta Special Region (DIY); (2) event organizers: ArtJog organizers and Jogja International Street Performance (JISP) organizer; (3) The office of ASITA (*Association of the Indonesian Tours and Travel Agencies*). The research period is from January to April 2017.

The selection of informant in this research uses Purposive Sampling technique, which chooses informant with certain considerations. The informant selections is based on the background and the position to the government's department, offices, and community with expectation that the informant is able to answer the research questions and give necessary data. The informants selected in the research have mastery on DIY tourism in general and especially events tourism product. The chosen informants are as follow:

1. Three employee from Tourism Department of DIY: Mr. Drs. Imam Pratanadi, MT. (The head of Marketing Division), Ms. Dra. Putu Kertiyasa (The Head of Promoting Division), and Mr. Jufri, S.Pt. (The Head of Product Standardization Division).
2. One person each from the event organizers: Mr. Heri Pemad (ArtJog organizer), and Mr. Bambang Paningron (Jogja International Street Performance organizer).
3. One person from the office of ASITA (*Association of the Indonesian Tours and Travel Agencies*) Mr. Herry Rudyanto (The Head of Human Resource Division).



The data collected are primary and secondary. The method of data collections are in depth interview and document observation. The data analysis used are Content Analysis, Common Theme Approach Analysis from all interviews and document observations; the data analysis is based on Emic Approach theory which is related to promoting activity for events done by Tourism Department of DIY.

3. RESEARCH FINDINGS AND DISCUSSION

3.1 Marketing Target of DIY Tourism Market

The Tourism Department of DIY has vision of “The formation of a Yogyakarta to show itself as a leading cultural tourism based in southeast Asia, world classed, competitive, Continuous, and able to support the region’s development for the people’s prosperity”. In realizing the vision The Tourism Department of DIY attempt to implement good quality and quantity of tourist attractions marketing in DIY. The country targeted for marketing of DIY tourism is based on the percentage of foreign tourist census visiting Indonesia of last year’s period.

Based on the percentage, there are ten countries visiting DIY in 2015: Netherland (10,8%), Japan (9,6%), Malaysia (9,1%), France (6,2%), Singapore (6,0%), Australia (5,4%), USA (5,3%), South Korea (3,0%), China (2,5%), and Italia (2,3%). From the data above, 5 out of 10 becomes the target marketing: Netherland, Japan, Malaysia, France, and Singapore.

3.2 Marketing Activity of DIY Tourism and the Evaluation

There are many marketing activity done by the Tourism Department of DIY to introduce tourism product in Yogyakarta to the international world. The promotion done is following the international events in foreign country, promotion through online media and promotion through printing media and electronic media.

3.2.1 Promotion in Foreign Country

One of the main activities in the Tourism Department of DIY is to promote tourism products of DIY to foreign tourists by following the international events in foreign country. Below are the international events done in foreign country which is followed by Tourism Department of DIY along the year of 2016:

No	Nama Kegiatan	Tempat	Waktu
1	Thai International Fair 2016	Bangkok, Thailand	17-21 Februari 2016
2	ITB Berlin 2016	Berlin, Jerman	8-13 Maret 2016
3	Table Top Pariwisata DIY di Thailand	Bangkok, Thailand	3-6 Agustus 2016
4	Matta Fair 2016	Johor Bahru, Malaysia	29-31 Agustus 2016
5	Pameran di Vietnam	Ho Chi Minh City, Vietnam	8-10 September 2016
6	JATA Tourism Expo 2016	Tokyo, Jepang	22-25 September 2016

From the six activities chosen as promoting place for DIY Tourism, only two countries which becomes the target marketing which are Malaysia and Japan. The promotion done in foreign country is supposedly done in the target countries which becomes the focus of promotion. Moreover, the promotion for events in DIY are not yet integrated in international promoting program at foreign country. Therefore the country selection and promotional content selection are not yet effective for events product tourism in DIY.

3.2.2 Online Media Promotion

Online media used by Tourism Department of DIY are in form of website, mobile application, and social media. The website used by Tourism Department of DIY is www.visitingjogja.com. It is an official website by Tourism Department of DIY which contains informations on tourism activities in Yogyakarta. The interface of the website is already attractive but the content is not yet informative for foreign tourist; most of the language used in this websites is dominated by Indonesian. The news content or information given in the Department’s website will be more



effective if there exists selections for several languages especially English and the language of the target country market. The performance test done on the Department's website is done with "Similar Web" program. The test shows that the website performance is low from its visitors which is around 6700 visitors per month. The Department's website visitors are dominated by access from Indonesia 96.88%, Then Singapore 2.07% and Malaysia 1.05%.

Similar finding is found in the Department's mobile application. The application named "Visiting Jogja" had low rate, which indicates the low use of the application by tourist. The content is not yet informative for foreign tourists. On the other hand, the social media used by the Department of Tourism are Instagram, Facebook, Twitter, and Youtube. The social media chosen for tourism promotion is already enough, however the contents distributed through the media are not integrated and informative.

3.2.3 Promotion through Printing Media and Electronic Media

The following are the paid printing and electronic media used by Tourism Department of DIY along the year of 2016:

No	Jenis Media	Tempat	Waktu
1	Iklan Melalui TV Bandara Soekarno -Hatta	Cengkareng, Jakarta	Mei – November 2016
2	Iklan Pariwisata Melalui Majalah Kabare	DIY	Agustus dan September 2016
3	Iklan Pariwisata Melalui Majalah Inflight Lionmag	Inflight Lion Air	September 2016
4	Iklan Pariwisata Melalui Majalah Travelounge	Jakarta, DIY, dll.	Oktober 2016
5	Promosi Pariwisata Melalui Majalah Inflight Garuda (Colours)	Inflight Garuda	Oktober dan Desember 2016

The chosen electronic media is on the TV in Soekarno Hatta Airport with targets for foreign country visiting Indonesia as they firstly arrive in Jakarta International Airport. The current strategy done is good enough, but the promotion will be more effective if the promotion done in the airports of the target countries.

The chosen printing media are already good but only two of them which can be accessed by foreign tourists which are The Magazine of Garuda and Lion Air. To make the promotion more effective, the magazines used for promotion should be the one of the target country. Both magazines and electronic media used by Tourism Department of DIY are contain least information on events product.

3.3 New Marketing Patterns for Events in DIY

The strategy of DOT (Destination, Origin, Time), BAS (Branding, Advertising, Selling), POSE (Paid Media, Owned Media, Social Media, Endorsers) is one of many marketing frame which is synergized with the promoted tourism product, therefore the strategies are suitable as a model for integrated marketing communication for festivals, cultural, and art events in DIY in attempt to increase foreign tourists' visit. The pattern is firstly started by The Indonesia Ministry of Tourism in 2015 which is adoptable by local government. However Tourism Department of DIY are not yet implementing these strategies, therefore the DOT, BAS, and POSE are counted suitable to promote the tourism product in DIY.

Events are activities done in form of shows which is done in changing location and time. Therefore the strategy of DOT, BAS, and POSE will be more effective when added with POP (*Pre Event, On Event, and Post Event*) strategy. The integrated marketing communication pattern for festival, culture, and art events, is also applicable for other tourism products.

3.3.1 The DOT (Destination, Origin, and Time) Strategy

Destination Strategy

Many cultural and art wealth in DIY can be manage to be world class events which can be promoted to attract foreign and nusantara tourists. The government and event organizer must cooperate to prepare international events worth for tourism.

Events in DIY must have high tourists attraction in form of attractive, creative and



innovative presentation, completed with supporting facilities and infrastructure. Events can also be done around Tourist Attraction (DTW) such as the Prambanan Temple, The Yogyakarta Palace, beaches, the Breksi Cliff, Malioboro, etc.

Origin

Tourism Department of DIY must study or identify the motivation of tourist in visiting DIY. Event organizers in DIY should direct the event with the tourist motivation in DIY. The promotion of the event should be done more in the target foreign country of which majority of tourism is similar to the event planned to be done in DIY. For example the Malaysian tourist has tourism motive for scenery, shopping, beaches, food and leisure, people and culture, culture, sports and recreations. Singaporean tourists are attracted to nature and scenery, value for money, distance, culture, and people. Japanese tourists are attracted to affordable luxury, warm hospitality, great beauty of nature and scenery, culture and heritage diversity, easy access: visa free, leisure, business, honeymoon, and etc.

Time

In the events calendar Tourism Department of DIY year 2016, most events are piled in certain months and there are big events which is done almost at the same time. The cause is because of lack of cooperation between the government, the art community, and the tourism organizer. The event organizer for big events in DIY should be distributed in different months so that there will be attractive events in different months besides the small events. The event presenting should be adjusted to the holiday's characteristic of the foreign country target.

3.3.1 BAS (*Branding, Advertising, and Selling*) strategy

Branding Strategy

The Government of DIY uses the brand of "Jogja Istimewa" in every tourism promotion for nusantara and foreign tourists. This brand

is famous for Indonesian because the people knows that Yogyakarta is a special region, but the foreign tourist did not know the specialty of Yogyakarta. Therefore the branding of "Jogja Istimewa" should be combined with the branding of The Ministry of Tourism "Pesona Indonesia" (for national promotion) or "Wonderful Indonesia" (for international promotion). Tourism Department of DIY can also make brand of "Jogja The Capital of Java" because the international world already recognize Java.

One of many strategies effective for events marketing in Yogyakarta is by making Master Event. Many big event in Yogyakarta can be chosen by Tourism Department of DIY as a "Master Event" or "Master brand" which can support smaller events. The smaller events which can be celebrated along with the master event are the ones who have the same themes with the master events or the events are celebrated at the same region or time. The following are some events in DIY which can be chosen as master events for Tourism Department of DIY:

1. Jogja International Street Performance
2. Jogja Fashion Week
3. ArtJog
4. Jogja Air Show
5. Jogja International Heritage Walk
6. Jogja International Batik Biennale
7. Malioboro Night Festival
8. Asia Tri Jogja

Advertising Strategy

Tourism Department of DIY currently has not promote event product tourism for foreign tourists. Therefore, the Tourism Department of DIY should optimize the chosen master events to the tourism target country. The promotion can be done through printing media in form of national magazine or TripAdvisor in the target country, and plane magazines such as Garuda Indonesia flight, Air Asia flight, Lion Air flight, Singapore Airline flight, Fly Emirates flight, etc. Other than printing media, electronic media such as TV or Videotron can be used as promoting media in the target country.



Selling Strategy

This strategy can be done by many parties where the government is cooperating with event organizers and tourism industry organizers to sell tourism package to the target country when the Tourism Department of DIY is attending international exhibitions.

Some master events which already have certain date of celebration can sell their tickets to many parties such as ticketing agency or combine their events with tour package. The government and event organizers can also cooperate with banking industries and Start Up business in selling the tickets therefore the foreign tourist can directly buy the tickets.

3.3.2 POSE (Paid Media, Owned Media, Social Media, and Endorser) strategy

Paid Media Strategy

The use of media must be adjusted with the platform suitable for tourism promotion in the target country. Therefore before designing the advertisement, the Tourism Department of DIY must have data on suitable media and the database of the majority foreign tourist motivation for the target country. The following are the paid media options to promote DIY's master event:

- 1) Outdoor and indoor media: Taxi or Bus Shelter Advertising, Billboard, Lightbox Advertising, and LCD Screen Advertising.
- 2) Printing Media: Flight magazines, tour magazines, national magazines in the target country market.
- 3) Electronic media: international TV station such as CNN, Metro TV, National Geographic, TV Series, and other commercial television including the airport TV at the tourism target country.
- 4) Online Media: Facebook Advertising, Instagram Advertising, and Youtube Advertising.

Owned Media Strategy

Tourism Department of DIY has implemented good strategy in relation of using official website with the name www.visitingjogja.com and mobile application

named Visiting Jogja. However, the two media should be complemented with online and offline Electronic Maps (eMaps), Electronic Brochures (eBrochures), and Electronic Books (eBooks) with the contents of tourist attractions in DIY including the events product tourism. The media must be complemented with many language features, especially English. Every information issued by the media including event promotion must be presented in at least two languages Indonesian and English so that it can be read by foreign tourists.

Social Media Strategy

The use of social media must be adjusted to the platform which is majorly used by the target countries. Here are the social media platform used by target country market which can be accessed through the "*We Are Social*" website on the period of 10 Maret 2017:

- 1) Netherland Target Market: Facebook (73%), Youtube (70%), Instagram (28%).
- 2) Japan Target Market: Youtube (74%), Twitter (46%), Line (42%).
- 3) Malaysia Target Market: Youtube (68%), Facebook (67%), Instagram (47%).
- 4) France Target Market: Facebook (60%), Youtube (60%), Twitter (24%).
- 5) Singapore Target Market: Youtube (79%), Facebook (72%), and Instagram (43%).

The social media used by the Tourism Department of DIY are mostly the same with the platform popularly used in the target country, however the promotion content or information still need improvements. The content in the social media must be attractive and uses English for foreign tourists' needs. Then, the promotion on all medias must be integrated with one another. Moreover, the social media and other online media must promote the events since the Tourism Department of DIY is attempting to develop event tourism product.

Endorsers Strategy

This strategy promotes products through public figure. Most of the endorser used for



promotion comes from youtuber where netizen can easily access. The video made by the youtuber can also be downloaded and spread through other social media. Here are the endorsers of the five target country which can be accessed through “Top Youtuber Channels” in 15 March 2017 with A Class category or the Best Category of subscriber and viewers:

- 1) Belanda Target Market: *Youtuber* Martin Garrix
- 2) Jepang Target Market: *Youtuber* HikakinTV, Hajime or Avex.
- 3) Malaysia Target Market: *Youtuber* Astro Gempak
- 4) France Target Market: *Youtuber* Cyprien or Norman Fait Des Vidéos.
- 5) Sigapura Target Market: *Youtuber* JianHao Tan or Clicknetwork

3.3.3 POP (Pre Event, On Event, and Post Event) Strategy

Pre Event Strategy

Pre event strategy are the preparations done by management of a certain master events in cooperation with the Tourism Department of DIY before the master event is celebrated. The activities which can be done for pre events are:

- 1) Promoting master events at maximum 6 months before the celebration.
- 2) Making small events which supports the master events and preparing creative, attractive, and innovative master event. Also doing public relation by inviting journalists, blogger, writers, and youtubers.
- 3) Selling merchandise related to the master event months before the celebration date.
- 4) Cooperation with hotels for accommodation needs, banking companies, ticket agencies and start up companies.

On Event Strategy

The strategy involves the activities done in the day of the events. One of the important things to do is by facilitating data input system to identify the visitors' country. Knowing the visitors' countries will allow the promotion for next year events. Other things to pay attention

for is the giving of facilities supporting the events such as toilets, parking lot, etc. Event organizers must also cooperate with security and Public Relation Department, and also culinary industry organizer.

Post Event Strategy

This strategy is done after the end of the event. In order to visitors to prolong their stay in DIY after the event, the Tourism Department of DIY and event organizers can provide small events cooperating with the Tourist Attraction Organizers (DTW) and invite the visitors to join the small events, or even providing the small events free of charge. Moreover, the event organizers can also give merchandises to the participants who are interested in joining the next year's event.

Similar things to be done by event organizers is evaluating the whole process of the events' celebration and repair the mistakes of the event and keep the good performance of the event for next year celebration.

5. CONCLUSION

The Tourism Department of DIY is not yet effective in marketing the event tourism products because of several factors. Therefore the Tourism Department needs to implement more effective pattern used by Ministry of Tourism Indonesia in promoting their tourism attractions by using DOT, BAS, POSE, and POP Strategy. These strategy are accounted suitable for the promotion of festivals, culture, and art events in DIY as an attempt to increase the visit of foreign tourists to Yogyakarta.

The success of these strategies must be supported by cooperations from all parties involved, namely, the government, tourism industry organizers, community or event organizers, and the general public of DIY to synergically coordinate and doing integrated promotion. With the cooperation and synergy from all parties, the promotion content through many form of promotions will be integrated and similar. In relation to integrated promoting pattern, the promotion done both directly and indirectly will come out the same through many media.



For managerial implication, the integrated marketing communication needs to be adopted by Tourism Department of DIY as the leading sector of all tourism in Yogyakarta Special Region (DIY). Therefore, a special function should be created for the management of Tourism Department of DIY in handling the events. Alternatively, adding the task to the current structure of the Tourism Department can be done to handle the events as this product becomes the main priority to be developed by the Tourism Department of DIY.

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PINEAPPLE GREETING ART BUSINESS PLAN

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ABSTRACT

The purpose of this research is to create an accurate and complete business plan of Pineapple Greeting Art as a guide for owners to start up the business. Business plans were prepared with functional approach to provides the stage of action to run a business of Pineapple greeting art which then will be simplified to a business model canvas nine block building that encapsulates the core aspects of a business, and explains how this core factors in business can be aligned and mutually support each other. The method used in this business plan is survey and direct observation, which is used for operational and financial plan. Questionnaires and interviews are used to formulate a marketing plan. The data analyzed relevant financial feasibility of Pineapple greeting art business.

The results of the financial analysis shows that the break even point of Pineapple greeting art business is 515 greeting cards or equivalent Rp31.432.959,99 with a payback period of 13 months. The results of the feasibility analysis shows that this business is feasible indicated by the value of positive NPV and IRR is more than the value of risk free rate in the third scenario normal conditions, optimistic, and pessimistic.

Keywords: *business plan, business model canvas, business feasibility analysis*

1. INTRODUCTION

Joko Widodo, president of Indonesia, optimist that future creative economic can be the backbone of the economic in Indonesia. It is different with other sectors which depend on natural resources exploitation, creative economic power focus on natural resources speciality (*Badan Ekonomi Kreatif Indonesia, 2015*). Nowadays, there are many young people who have their own business with their own creativity to create unique and innovative products, so that they can sell them with high price. A reason why a business can be failed and has low productivity

is because of the bad maintaining product. There are many cases about a new business which maintained by someone or two who have bad management. Actually, a new business can give significance benefit as long as the owner has the capability to maintain the product, brand, or their customers (Shekhawat, 2016). There are a lot of arts with their own attractions and lovers; one of them is paper art. In Indonesia, paper art is classified as a new art and its development is still limited. However, consumer's interests and enthusiasm are very high. Consumer's enthusiastic in paper art product makes the writer wants to develop a business in this field so that it can fulfill the unfulfilled market's needs and wish lists.

Barringer and Ireland (2016) stated that business plan is a written explanation which related to the goals of the new business and how to achieve them. Business plan are included four management pillars, those are (1) Operation management is a process management or system in creating a product and/or preparing facilities includes several activities which related to interpreting, capacity planning, scheduling, stock managing, quality controlling, and decision making for facilities placement, (Jacobs, 2015); 2). Human resources management is a process to get, train, value, and give compensation to employee, take care of the relationship, health, safety, and employee's justice. The important aspect in human resources management are recruitment process, selection, training, performance assessing, compensation, and safety for the employee (Dessler, 2015); 3) Marketing management is an education and art in choosing the market target and also in achieving, protecting, and make more customers come to a company or organization by creating, delivering, and communicating the competitive value product (Kotler & Keller, 2016); 4) Financial Management is a managing activity to increase the budget and capital usage effectively to



maximize the shareholder's income (Scarborough dan Cornwall, 2015).

The arranged business plan will be simplified as a business model. Canvas model business is another business model suggested by Osterwalder and Pigneur. Canvas business model consists of nine blocks which represent the way of thinking about how a company produces the money. Those nine blocks are customer, value proportion, channel, relationship with customers, income flow, main resources, main activity, main college, and budget structure. Those blocks are included as four main aspects in business which are customers, bargaining, infrastructure, and finance (Osterwalder dan Pigneur, 2010).

The main goal of business plan is to build or develop the business activity which will help the owner to increase their consumers. It is related to the increasing income and how to manage the business activity to get good quality products and services. Therefore, the appropriate and complete Pineapple greeting art business plan is made as the manual for business standpoint. In this business plan, the analysis level is done in micro analysis level which is from the internal aspects of company as the main technique and macro analysis which is from the background and business plan supporting aspects.

2. RESEARCH METHODS

Business plan is included as a qualitative research. The data that will be used in the business plan is the primary data which gathered by the researcher. The data is gathered by doing survey and direct observation in order to get it to arrange the budget and operational plan, while the data for customer's perspective to the product is done by giving questionnaire to them through social media and email. To formulate the human resources plan, the researcher use secondary data by doing librarian research. She uses *Undang-Undang Tenaga Kerja*, *Surat Keputusan Gubernur*, and related human resources books.

Data analysis techniques used in this research are functional approach and nine block building business model. From the survey, observation, and questionnaire distribution, the researcher will make a business plan based on functional approach which is operational plan,

marketing plan, human resources plan, and budgeting plan that will be the manual for Pineapple greeting art business model development in the future which illustrated from nine block building of canvas business model.

3. RESEARCH FINDINGS AND DISCUSSION

3.1 Vision and Mission

3.1.1 Vision

Be the biggest greeting art company in D.I.Yogyakarta and Central Java

3.1.2 MISSION

Build a business in greeting art field that giving good services for the customers.

- Prioritize the product quality with a competitive price
- Make a marketing network that can expand the market

3.2 ORGANIZATION STRUCTURE

Figure 1. shows the organization structure that will be applied in Pineapple greeting art business. The owner as the director and person in charge for responsibility, manager will help for the daily activity. Manager will lead marketing staff, production staff, and finance staff.

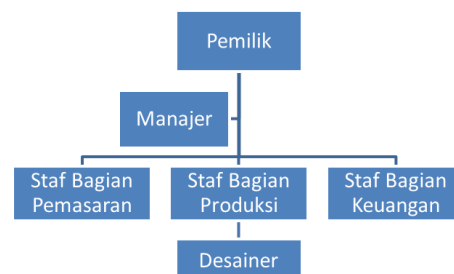


Figure 1: Organization Structure Plan for Pineapple Greeting Art

3.3 Operational Plan

3.3.1 Location

In order to decide the location, the owner done a survey to decide the potential area, then analyzed the areas according to several criteria. Table 1. shows the location analysis

as the operational store. The location is on the side of Babarsari main street which closed to 4 big universities and 2 apartment and several residence and hotels which match with Pineapple greeting art marketing business target.

Table 1: Location Analysis Result

No	Characteristics	Relative Importance (1-low, 10-high)	Trading Area Score (1-very unbeneficial 5-very beneficial)	Location Score (Importance × Score)
1	Demography	6	5	30
2	Income per capita	6	4	24
3	Sale	8	5	40
4	Education level	8	5	40
5	Age distribution	8	4	32
6	Sum of competitors	4	3	12
7	Competitors' strength	4	4	16
8	Demography projection	4	5	20
9	Parking slot	10	4	40
10	Accessibility	8	5	40
TOTAL				294

3.3.2 Layout

The layout will be adjusted with the width of the rented home store. The rented home store is 44m² and it will be divided into two main areas, those are production area and display and selling area. Figure 2. shows the layout of Pineapple greeting art store.

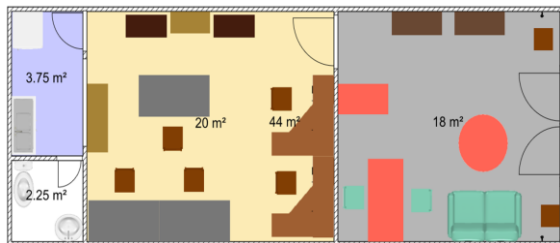


Figure 2: The Layout of Pineapple Greeting Art Store

3.3.3 Operational Activity

Store's operational activity is started from 8.00 until 21.00. The production process which will be applied in producing greeting card is hybrid process. Therefore, the store can fulfilled variety and custom request from the consumer along with Pineapple greeting art's

value which are unique, exclusive, and personal. Figure 3. illustrates the operational activity of Pineapple greeting art business.

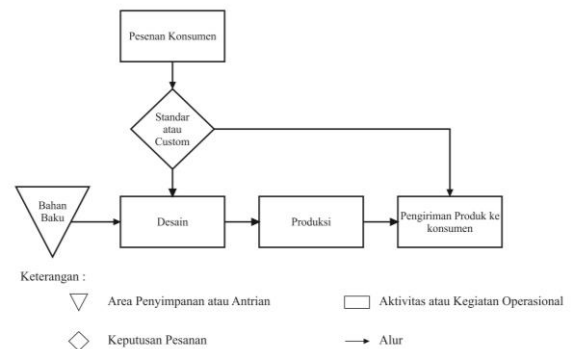


Figure 3: The Illustration of Operational Activity

3.3.4 Human Resources Plan

The employee's needs will be adjusted with the operational activity of Pineapple greeting art business, target of product request, job expense, and length of production time. Based on those factors, the total employees needed are 8 people who are consist of 1 manager, 2 accountants, 1 marketing, and 4 production staffs who are divided into 2 designers and 2 production staffs. Job analysis



was done according to business operational activity which developed as job description.

The working hours is explained in the

Description	Total	Percentage
Gender		
Male	16	34,04%
Female	31	65,96%
Age		
Age 18-23	33	70,21%
Age 24-35	14	29,79%
Job		
Students	37	78,72%
Employees	10	21,28%
Recent Education		
Senior high school	31	66%
D3	1	2,13%
S1	12	25,53%
S2/Profession	3	6,34%
Income/Money Pocket		
< Rp1.000.000,00	16	34,04
Rp1.000.000,00 - Rp2.000.000,00	24	51,10%
Rp2.000.001,00 – Rp3.000.000,00	2	4,26%
Rp3.000.001,00-Rp4.000.000,00	2	4,26%
>Rp4.000.000,00	3	6,34%

recruitment process. The employees are working for 7 hours per 6 working days in a week, along with *Undang Undang Tenaga Kerja No.13 Tahun 2003 Pasal 77 Ayat 2a*. The working hours will be divided into 2 shifts, the first shift is started from 08.00 until 15.00 and the second shift is started from 14.00 until 21.00. The employees should work based on the schedule arranged by the manager every month. Not only working hours information, but also furlough information which is 12 working days per year after working for 12 months continually for the company. The furlough will be given by giving permission letter and should be confirmed by the owner. It is applying the government's rule in *Undang Undang Tenaga Kerja No.13 Tahun 2003 Pasal 79 Ayat 2c*. Other than furlough, the employees have the rights to absent if they are sick but they have to submit the prescriptions. If the employees are absence with no specific reason, they will get a memorandum. It will be given 2 times, and for the third times the employees do not come without notification, they will get fired.

The Pineapple greeting art employees will get compensation agree with *Surat Keputusan Gubernur Daerah Istimewa Yogyakarta*

No.235/KEP/2016 tahun 2016 which stated that the minimum salary in Sleman is Rp. 1.448.385,00 because Pineapple greeting art is operate in Sleman. Other than the main salary, the employees will get bonus and health assurance. Bonus calculation and incentive will be adjusted with the company's monthly income. The contract will be delivered verbal and non-verbal. The contract will be signed by two parties on a revenue stamp which amount is 6000 and copied into two.

3.3.5 Marketing Plan

To formulate the marketing plan, the researcher conducted a survey using questionnaire which results were presented in Table 2.

Table 2: Research Respondent's Description



Respondent always giving gifts to friends/partner		
Yes	32	68,09%
No	15	31,91%
The important moment when respondent always give gifts		
Birthday	39	73,59%
Anniversary	7	13,21%
Graduation	4	7,55%
Religious celebration day	2	3,77%
Others	1	1,88%
Budget prediction used to buy the gift for friends/partners		
< Rp50.000,00	11	23,40%
Rp 50.001,00 – Rp100.000,00	24	51,10%
Rp100.001,00 – Rp150.000,00	5	10,64%
Rp 150.001,00 – Rp200.000,00	3	6,34%
> Rp200.000,00	4	8,52%
Reasons to choose the product as a gift for friends/partners		
Quality	15	25,42%
Price	7	11,86%
Function	22	37,29%
Request	11	18,64%
Uniqueness	4	6,79%
The most favorite product as a gift for friends/partners		
Clock	8	12,50%
Doll	10	15,63%
Clothes	20	31,25%
Shoes	1	1,56%
Flower	6	9,38%
Cake	4	6,25%
Book	4	6,25%
Chocolate	4	6,25%
Make up	3	4,68%
Bag	4	6,25%
Willingness to buy Pineapple greeting art		
Yes	40	85,11%
No	7	14,89%
Wishing price by respondent		
<Rp50.000,00	29	61,70%
Rp50.001,00 - Rp100.000,00	14	29,78%
Rp100.001,00 - Rp150.000,00	2	4,26%
> Rp2.000.000,00	2	4,26%

3.3.5.1 Segmentation, Targeting, and Positioning

Segmentation will help the marketing activity of a product because the owner understands well the potential consumers. The marketing group chosen by Pineapple greeting art business is niche, which is a group of consumers who are not as big as massive group but willing to pay higher price in order

to fulfill their needs. Table 3. Presented the detail segmentation and marketing target for Pineapple greeting art based on demographic and attitude, and marketing target for Pineapple greeting art business.

Table 3: Segmentation and Marketing Target

Segmentation Var.	Consumer Target
Demographic	
Age	Age 18-35 years old
Gender	Male and Female
Psychographic	
Social class	Middle to upper class
Attitude	
Benefit	Prioritize the quality

The survey result became a main factor in choosing the product which will be given as a gift were function (37,29%) and quality (25,42%) of a product. Pineapple greeting art was not only focus on function and product quality but also in the unique and personal design. This is one of the positive point presented for the customers. By seeing the consumer's needs an added by the company's specially, the company will produce a high quality of unique and elegant product.

3.3.5.2 Marketing Diffusion

Marketing diffusion is a media which can be used as a basic to formulate the marketing strategy. In order to do and optimize the result of marketing plan, there are 4 marketing diffusion variables which relate and support each other, those are product, place, price, and promotion.

a. Product

The offered product by Pineapple greeting art is greeting art with 2 size variations, those are 18,5 x 13,25cm and 14,8 x10,5cm. Every greeting card produced has their own design as requested by the consumers. Consumers can attach their names or pictures in cutting art on the ordered greeting card. The sample is showed in picture 4.



Picture 1. The Offered Product

b. Price

The pricing is done by Pineapple greeting art by doing a survey to certain products, then they conduct a survey to the same product in the market, then they conduct a survey by giving questionnaire as a media to do the pricing for the offered products. There were 29 respondents stated that they were willing to buy the offered product with the price was \leq Rp50.000,00. From the calculation with the cost of goods sold added by the expense cost for production and data had by Pineapple greeting art, so the price for 14,8x10,5cm is Rp50.000,00 and for 18,5x13,25cm is Rp80.000,00.

c. Place

Consumer's accessibility to get the product is one of the factors that affect the consumer's buying interest. Pineapple greeting art will open a store in Babarsari Street No.5 Kelurahan Catur Tunggal, Kecamatan Depok, Sleman, D.I. Yogyakarta. Other than that, to achieve broader market Pineapple greeting art has a website to help consumers to order the products without coming to the store but order them with the feature in the website which will be processed by Pineapple greeting art staff and the products can be delivered to the consumers' address or they can pick them up in the store.

d. Promotion

Promotion is done through social media, website, and other promotion medias. Nowadays, information can be accessed through social media. Pineapple greeting art will use facebook as a social media for communities along with the target consumers.

Other than facebook, social media used by Pineapple greeting art is instagram. Instagram is a social media used by many stores to promote their products. Pictures uploaded in their social media become more interesting. Not only giving easier access to buy the products, Pineapple greeting art also give complete information related to the products such as price, location and contact number.

3.3.6 Budget Plan

3.3.6.1 Beginning Capital

Needed beginning capital is Rp. 203.702.000,00. Overall, the beginning capital is from the owner. Total budget for beginning plan is based on survey of resources prices which support the Pineapple greeting art operational business. Table 4. Showed the details of needed list.



Table 4. Beginning Capital

No.	Description	Unit	Price	Total
1	Renting homestore for 5 years	1 unit	Rp110,000,000.00	Rp110,000,000.00
2	Business Permission		Rp 3,000,000.00	Rp 3,000,000.00
3	Name Board	1 buah	Rp 500,000.00	Rp 500,000.00
4	Interiors and Exteriors Renovation		Rp 5,000,000.00	Rp 5,000,000.00
Store Equipments				
5	AC Panasonic CS-XC9QKJ 1PK, 660W Econavi Alowa	2 unit	Rp 3,600,000.00	Rp 7,200,000.00
6	Computer All in One Lenovo C20-00-YAID WIN10 (LED)	1 unit	Rp 4,475,000.00	Rp 13,425,000.00
7	Computer Intel Core i3 3240 3.4GHz Desain Graphic	2 unit	Rp 8,274,000.00	Rp 16,548,000.00
8	Printer HP DJ2135 Print Scan Copy	1 unit	Rp 665,000.00	Rp 665,000.00
9	Chairs	9 buah	Rp 325,000.00	Rp 2,925,000.00
10	Waiting chair	1 set	Rp 1,100,000.00	Rp 1,100,000.00
11	Table	10 buah	Rp 300,000.00	Rp 3,000,000.00
12	Display Shelves	3 buah	Rp 1,500,000.00	Rp 4,500,000.00
13	Document Shelves	2 buah	Rp 650,000.00	Rp 1,300,000.00
14	Telephone and WIFI	1 set	Rp 600,000.00	Rp 600,000.00
15	Dispenser Polytron PWC 777-Hitam	1 unit	Rp 2,000,000.00	Rp 2,000,000.00
16	TV LG LCD 32 Inch (32LF550A)	1 unit	Rp 2,839,000.00	Rp 2,839,000.00
17	Cleaning tools	1 set	Rp 300,000.00	Rp 300,000.00
Tools				
18	Mechine KNKZING 24" Klic-N-Kut Maxx Air	1 buah	Rp 19,000,000.00	Rp 19,000,000.00
19	Mechine Knife KNKZING Maxx Air	5 buah	Rp 600,000.00	Rp 600,000.00
20	Paper	20 lembar	Rp 200,000.00	Rp 200,000.00
21	Cutter	1 set	Rp 500,000.00	Rp 500,000.00
22	Stationary	1 set	Rp 500,000.00	Rp 500,000.00
Marketing				
23	Website		Rp 8,000,000.00	Rp 8,000,000.00
Total				Rp203,702,000.00

3.3.6.2 Income Projection

Based on Business Planning and Financial Forecasting A Start-up Guide by Ministry of Small Business and Economic Development in calculoating the selling business in new business can be done by calculating the break event point for target unit in the business. To achieve BEP, Pineapple greeting art should sell 515 greeting cards with average price is Rp61.100,00. Another factor in calculating the income projection is based on business production capability. From the survey, Pineapple greeting art has 85,11% potential consumer. Those who can buy greeting card with the price is \leq Rp50.000,00 and 61,70% can buy the greeting card with the price is $>$ Rp50.000,00 is 48,30%. From this data, the researcher calculate the income projection as follows:

Production Capability	38 Greeting cards
\times Potential Consumer Percentage	85,11%
= Total sold greeting cards	32 Greeting card
Total sold greeting cards	32 Greeting card
\times Potential Consumer Percentage who are able to pay \leq Rp50.000,00	61,70%
= Total greeting card with size 14,8x10,5cm sold	20 Greeting card
Total greeting card with size 14,8x10,5cm sold	20 Greeting card
\times The price of greeting card with size 14,8x10,5cm	Rp50.000,00
= Income projection per day for selling greeting card with size 14,8x10,5cm	Rp1.000.000,00
Total sold greeting cards	32 Greeting card
\times Potential Consumer Percentage who are able to pay $>$ Rp50.000,00	48,70%



= Total greeting cards with size 18,5x13,25cm sold	12 Greeting card
Total greeting cards with size 18,5x13,25cm sold	12 Greeting card
× The price of greeting card with the size 18,5x13,25cm	Rp80.000,00
<hr/>	
= Income projection per day for selling greeting card with size 18,5x13,25cm	Rp960.000,00
Income projection per day for selling greeting card with size 14,8x10,5cm	Rp1.000.000,00
+ Income projection per day for selling greeting card with size 18,5x13,25cm	Rp960.000,00
<hr/>	
= Income Projection per day	Rp1.960.000,00
Income Projection Per Month (25 working days) :	Rp49.000.000,00

3.3.6.3 Budget Projection

Pineapple greeting art business' budgeting projection is divided into three scenarios, those are optimist, normal and pessimist scenario. This calculation done by using speculation as below:

- a. It is a 5 year project.
- b. An income tax from gross profit is 1%.
- c. Equipment depreciation using straight line method and used for 5 years.
- d. The interest is 6,5% as deposit in a year in Bank Negara Indonesia.
- e. Normal scenario selling projection is 5,34% on the second until fifth year. This is decided by the average of national economic increasing in 2012 until 2016.
- f. Optimist scenario selling projection is 6,23% on the second until fifth year. This is decided by the target of national economic increasing up to point 6% in 2018 and based on national economic increasing in 2012 until 2016.
- g. Pesimist scenario selling projection decreased into 4,88% on the second until fifth year. It is because, for the last 5 years from 2012-2016, the lowest national economic growth is 4,88%.

- h. NPV calculation is done by using risk free rate which have the same interest as deposit in a year which is 6,5%.
- i. Based on the highest inflation in 2016 which is 4,45%, therefore increasing budget projection spent each year is 4,5% and it is applied for all three budgeting projection scenarios.

For each scenario, cash flow calculation will be done in 5 years (Attachment). Even the capital budget is given by the owner, the researcher still count the interest which in this case, the amount is gone because if the spent money for capital usage saved in a bank in the form of deposit will make the total interest is Rp13.240.630,00 per year. Other than that, Break Event Point in the form of unit and rupiah, Payback Period, Net Present Value, and Internal Rate of Return calculation were done in order to know that this business is appropriate to be done. The result can be seen in table 5. NPV score in normal, optimist, and pessimist scenarios showed that positive NPV and IRR are bigger than risk free rate score, which showed that this business is appropriate to be done and developed. The score in table 5 was achieved if the 800 greeting cards selling target was achieved.

3.3.7. Canvas Business Model Of Pineapple Greeting Art

The result is done by using functional approach, then simplified as nine block building canvas business model which consisted of 9 aspects as shown in Figure 5.

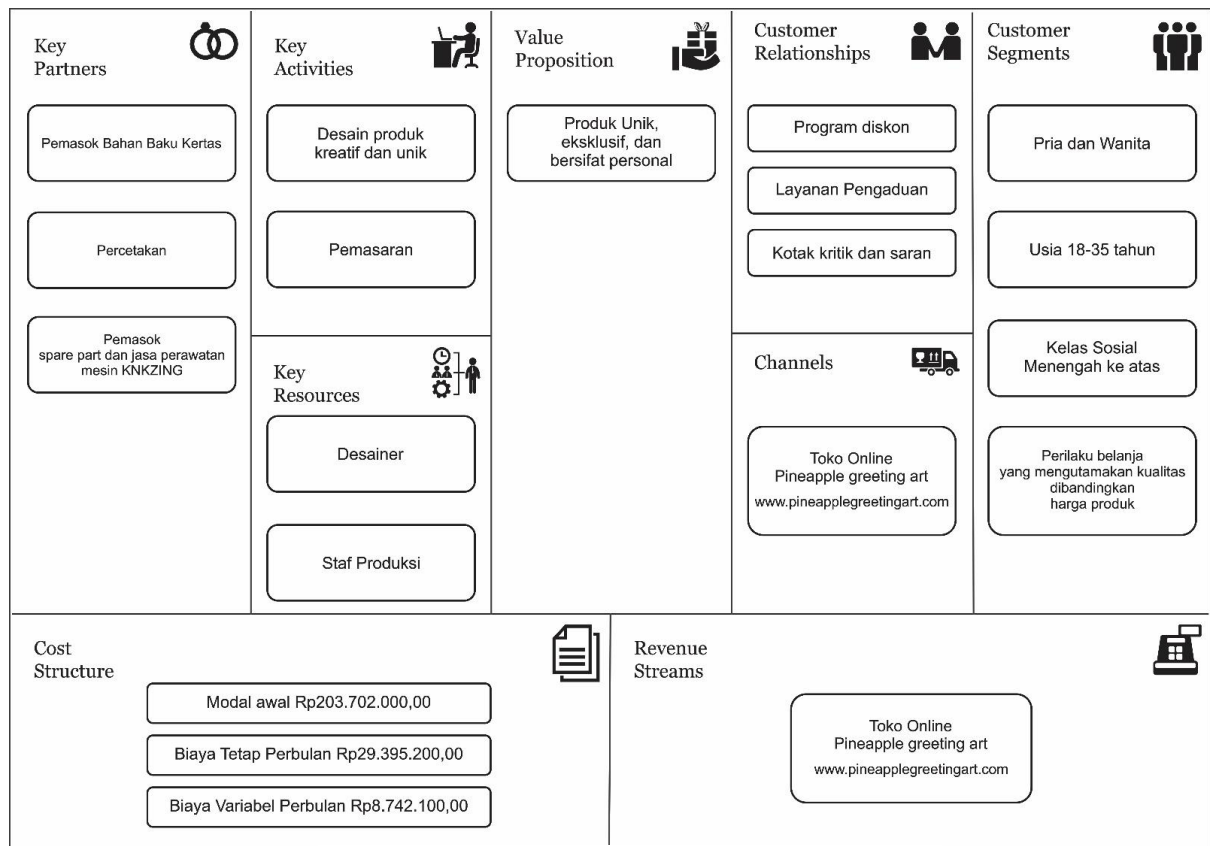


Figure 5: Pineapple Greeting Art Business Model

Table 5: BEP, PP, NPV, and IRR calculation

Skenario	Rumus	Normal	Optimis	Pesimis
BEP dalam Unit	$\frac{\text{Biaya Tetap}}{\text{Harga jual per unit} - \text{Biaya Variabel per unit}}$	515 Kartu Ucapan		

BEP dalam Rupiah	$\frac{\text{Biaya Tetap}}{1 - \frac{\text{Biaya Variabel per unit}}{\text{Harga jual per unit}}}$	Rp31.432.959,99		
PP	$m + \frac{a - b}{c - b} \times 1 \text{ tahun}$	1,1 tahun atau 13 bulan		
NPV	$\sum_{t=1}^n \frac{B_t}{(1+i)^t} - K_0$	Rp521.453.308,17	Rp549.814.130,40	Rp228.189.290,95
IRR	$a = \sum_{t=1}^n \frac{B_t}{(1+IRR)^t}$	76%	78%	52%



Keterangan:

a = Jumlah investasi awal
b = Jumlah kumulatif arus kas pada tahun ke - n
c = Jumlah kumulatif arus kas pada tahun ke n + 1
i = interest rate yang ditentukan
m = Tahun terakhir dimana jumlah arus kas masih belum bisa menutup investasi awal

n = umur yang diharapkan dari sebuah proyek
t = tahun
 B_t = keuntungan tahun ke-t
 K_0 = Investasi awal tahun ke-0

4. CONCLUSION

Pineapple greeting art business plan arranged as a model for the owner to develop the business to apply the formulated plan and strategies and adjusted with the recent marketing condition. The result shows that Pineapple greeting art business will achieved score of selling 515 greeting card or Rp31.432.959,99 with Payback Period for 13 months. The analysis of business rate showed that this business is good to be develop supported by positive NPV score and good IRR score which bigger than risk free rate in normal, optimist, and pessimist scenarios.

Business plan is not done by creating applicative strategy and business model, therefore the researcher suggested that business plan should be done frequently so that this business can compete in the dynamic marketing and can be a long term business. In this research, industry analysis has not been done, therefore, it will be great if the owner can conduct industry analysis to the business. Other than industry business, SWOT analysis is also good to be conducted in order to know the internal and external supporting material which are very important to formulate future plan for the business.

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A QUALITATIVE STUDY: EMPLOYEE EMPOWERMENT IN CREATIVE BUSINESS COMPANY

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ABSTRACT

Empowerment by companies is often used as a tool to strengthen employee's capability and commitment. Employee empowerment is one mean to support each individual to carry on their responsibility in improving their performance and in achieving organization's purpose. Creative economy needs to be improved since it has huge potential in giving significant economy contribution. A company engaged in creative industry is implementing employee empowerment as one way for an organization to participate effectively. This research is aimed to find out how employees' perception on employee empowerment and its effects in the office. This qualitative research used case study approach. The respondents of this research were 14 employees of creative business. The data in this research was analyzed using data clarification based on the variety of the data, then connected them with the information from some literatures, documents, surveys, interviews, and observations. The analysis results showed that the employees had their own views on employee empowerment in the office, such as being responsible of their job, having initiative, independency, and creativity, taking direct participation, and delegating their authorities. The employees claimed of experiencing the positive effects, such as being more motivated, being more creative, and improving their performances. Employee empowerment gave contribution on how to communicate and how far potential employees can be dug deeper. Its negative effects were lack of monitoring and conflict, and employees' effort to solve the conflicts in the empowerment.

Keywords: *Pemberdayaan karyawan, bisnis kreatif, tanggung jawab*

1. INTRODUCTION

The role of human resource is one of the capitals who hold highest position in achieving the companies' purposes. To achieve a success in a company, it is important to think of the technology and human resource. In increasing a company's productivity, it is needed to undergo activities which can improve the employees' performances; one of the ways is by implementing employee empowerment since it is one way to support each individual to carry on their responsibility in improving their performance and in achieving organization's purpose. The principal is that the employees respond it more creatively whenever the responsibility is given, motivate to contribute more, and get satisfaction from their job. Therefore, a company often applies employee empowerment to boost the employees' performances, motivations, commitments, and productivities (Walton, 2002, p. 76). With employee empowerment, the employees are expected to increase their performances and achieve the company's goals.

Nowadays, the growth of creative economy is the best choice to maintain the economy in global crisis. Creative economy needs to be developed since it has huge potential to contribute a significant economy. Regarding the important role of economy, The President of Indonesia has released *Peraturan Presiden Nomor 28 Tahun 2008 tentang Kebijakan Industri Nasional* which is valid since 7th May 2008. The government assigns some organizations in the sub-sector creative industry which is growing during 2015-2019 (Berawi, 2016).



The benefit of an empowerment is raising the possibility for employees to be more responsive and adaptive in responding the changes of business field (Swenson, 2000). To be empowered is important if an organization wants to increase the company performances and to influence the performances in the organization (Kirkman et al., 2004). It positively affects the satisfaction of employees' performance in a company.

2. LITERATURES REVIEW

Concept and definition of employee empowerment is a friction of authority and responsibility for employees in the hierarchical lower position. The employees are expected to have power, authority, acknowledgement, status, responsibility, and dedication to execute the new tasks. Kirkman and Rosen (2002) state that empowerment is a group of people who work dependently to each other in order to achieve their goals in which every member takes responsibility in achieving their goals. This empowerment involves the employees since they have to take initiative in responding to their job independently related to motivations and supports from the management (Raub & Robert, 2010). The principal is that the employees respond it more creatively whenever the responsibility is given, motivate to contribute more, and get satisfaction from their job. Empowerment includes any initiatives taken in their direct participation (Psoinos & Smithson, 2002; Wilkinson, 2002; Wall et al., 2004). Greasley and Bryman (2008) say that empowerment is designed to delegate authorities of the supervisor to their subordinates and to share responsibilities with them. These help to increase the status and recognition from the empowered employees.

There are many benefits from empowerment implementation for the employees and organizations, i.e. the employees have their own jobs, their trust to the organization, self-development, and an increase of their satisfaction, motivation, creativity, loyalty, and organization, willingness to take jobs, and a boost in their

performances. Akin (2010) state that a decrease of works stresses can boost employees' hopes and optimisms (as cited in Erkutlu, 2012). The benefit of an empowerment is raising the possibility for employees to be more responsive and adaptive in responding the changes of business field (Swenson, 2000). To be empowered is important if an organization wants to increase the company performances and to influence the performances in the organization (Kirkman et al., 2004). It positively affects the satisfaction of employees' performance in a company. Especially, an empowerment is claimed to contribute in increasing the results of an organization since there are boosts at employees' performances and productivities (Glassop, 2002; Hamilton et al., 2003). The positive effect of an empowerment creates communication in a teamwork and openness to the other jobs (Ford, 2005). Potential is an experience that is developed together (Kirkman & Rosen, 2000). The negative effect is the lack of monitoring leads to some problems (Bowen, 2008). Besides, an empowered team has a huge risk of conflict which harms the performance of the team (Bergman et al., 2012; Langfred, 2007; Kotlyar & Karakowsky, 2006).

Conflict can be defined as interests and goals incompatibility (Jehn, 1995; Korsgaard et al., 2008; Wall & Callister, 1995, as cited in Jiang, 2016). There are two dimensions of conflict, namely cognitive conflict, which is rooted in substance of duty, and affective conflict which comes from the emotional relation of individuals in a team (Guetzkow & Gyr, 1954). Cognitive conflict refers to discrepancy of arguments between members related to their point of views, opinions, and ideas. On the other hand, affective conflict refers to their personal discrepancies or emotions. A conflict happened in a team can decrease their solidarity and effectiveness in solving their tasks (Langfred, 2000). It shows that an empowered team is susceptible to be harmed by the conflict since they depend on the trust in a team when they arrange the jobs and interact to each other.



Kotlyar and Karakowsky (2006) claim that in an empowered team, cognitive and affective conflict can turn into something positive if there is an accompaniment from the leader. A trust in a team depends on the majority of the team who are effectively involved in the leadership of the team (Bergman et al., 2012). There is a possibility that the team members have different perception on their empowerment (Chen & Kanfer, 2006). There might be some members who take control of the leadership which harm the trust of the team (Bergman et al., 2012). There might also be some members who can choose to limit the authority of each individual and depends on each other so that it ruins the trust of the team.

3. RESEARCH METHODS

This research used qualitative research as it was aimed to understand a phenomena in its natural setting where the researcher did not manipulate the phenomena (Leady & Ormrod 2005; Patton 2001; Saunders, Lewis, and Thornhill 2007). This qualitative research was trying to dig and understand the different perceptions of the respondents. In a qualitative research, the most used approach was case study. Yin (2015) defines case study as a research approach which explores a phenomena from any sources. It is in line with the statement from Sarwono (2006) which says that a qualitative research uses non-probability technique in picking the sample where it is based on the researcher's belief. One of these techniques is purposive sampling where the researcher decides to conduct a research with a purpose (Sekaran, 2013). The amount of the participants in this research was 14 from different department who worked in teams. Deeper interviews followed to get more information.

In gathering the data, the researcher used several techniques. They are interview which allows the researcher to collect data from different respondents in any situations and contexts, observation which eases the researcher to observe the respondents' behavior, and document analysis to get the whole picture of the subjects' views from the

literatures and any other media made by the related subjects.

In analyzing the data, the researcher used interactive data analyzing technique by Miles and Huberman as cited in Herdiansyah (2012). There were several steps, namely data gathering which was aimed to verify if the phenomena exists, data reduction where the data was merged into one script, display which had clear theme, and conclusion in qualitative analysis which refers to answer the research questions.

4. RESEARCH FINDINGS AND DISCUSSIONS

This research was following the procedures of data gathering and steps of conducting a research. In order to give clear picture of employee empowerment in creative business companies, the researcher conducted interviews with 14 respondents from different divisions, namely project manager (PM), design division (DSG), technical drawing division (TD), and general division (GN). The result from the interviews of their perceptions on employee empowerment was their feeling of having responsibilities in managing their jobs. Referring to this result, it could be summed into several classes, namely the employee empowering itself, its positive effect, its negative effect, and its conflict.

1. Employee Empowerment

Pemberdayaan adalah tanggung jawab atas pekerjaan yang dilakukan. – Respondent B.

(Empowerment is a responsibility of the assigned duty)

The responsibility is not only limited to their job, but also to the company and clients. Maintaining the job is a part of responsibility. The employees are expected to be responsible for their behavior in the office and other working situations. Being responsible means taking all responsibilities and jobs in accord with the rules. A company should evaluate and monitor every job and responsibility assigned to the employees. Therefore, trust was given to the employees in the organizations to build



their responsibility as the expectation of the company. The bigger responsibility given to the employees, the bigger integrity employees get to have loyalty and bravery to take the responsibility.

Pemberdayaan, karyawan dituntut untuk berpikir bebas, bersikap mandiri terhadap peran masing-masing. – Respondent A

(In an empowerment, the employees are expected to think independently and be autonomous towards each role.)

The employees were expected to be autonomous in carrying out their jobs and making decisions. They were supported to take initiatives to discover and invent new products to improve their performances. They needed to own skills to find possibilities, ideas, and to develop their ideas to solve problems.

Pemberdayaan itu penting karena mengkreaitifkan karyawan. Bisa memotivasi karyawan– Respondent F

(An empowerment is important to activate the employees' creativity and to motivate the employee)

Maintenance of creativity is a challenge yet a requirement for a company to win a competition. It is important to trigger their creativity so that they could apply, analyze, and practice with their intellectual. Motivation is also needed to realize their new idea. Besides, the environment also plays a great role in deciding how big their creativities are.

Pemberdayaan karyawan, memberi kesempatan kepada karyawan untuk berpartisipasi langsung, baik itu mengidentifikasi masalah, dan membuat kebijakan. – Respondent E

(Employee empowerment gives possibilities for the employees to directly participate in identifying problems and making decisions.)

Participation meant that the employees were regard as the working partners of the company. It meant that the employees

involved in the emotional aspects which encouraged them to contribute in achieving the company's goals. Participation was a process of communication of the employees in making decisions, only that they were involved in the identification of the problems, the monitoring and evaluation of their jobs, reporting, and giving suggestion in solving the problems.

Melimpahkan tugas dari atasan, memperdayakan karyawan diperlukan untuk membentuk pola pikir karyawan agar sejalan dengan yang diharapkan perusahaan. – Respondent G

(Delegating jobs from the supervisor and empowering the employees are needed to build the employees' mindsets to be in line with the company's expectation)

Delegating authority from the supervisor in a company was a part of employee empowerment in which the supervisor gave their trust and job to the employees. It had to be based on objective considerations about their ability, proficiency, honesty, and skills so that they can achieve the company's expectation.

2. Positive Effect of Employee Empowerment

Dengan adanya pemberdayaan dapat menimbulkan motivasi dan komitmen terhadap pekerjaan.- Respondent E

(With an empowerment, it grows our motivation and commitment in our job)

Motivation was energy and power to boost the employees' enthusiasm and perseverance in their work. It came from the opportunity to go forward and develop for the employees. It was connected to the self-satisfaction which created supportive working environment.

Dampak positif, karyawan memiliki kemampuan merespon pekerjaan yang diberikan. - Respondent I

(The positive effect is the employees have the ability to respond to the job delegated to them)



The employees were more responsive to their jobs and had the feeling of ownership towards their jobs. Putting attention on the value of their jobs related to the value system of individuals. The employees were aware with their jobs and believed that they were doing something important.

Menolong karyawan untuk merasa bahwa kontribusi mereka memiliki arti.
– Respondent D

(Helping the employees to feel that they already gave meaningful contributions)

The employees felt to give contribution to the company in achieving the targets.

Bisa saling mendengarkan, mengutarakan pendapat, share dengan karyawan lain, bertukar pengalaman dengan karyawan lain. – Respondent K

(We can listen to each other, give opinions, and share our experiences with the other employees)

Communication in the empowerment was an important tool for the employees to build more positive relation among them. In supporting and improving employee empowerment, effective communication was needed so that the empowerment could run as expected. Communication was a process of exchanging facts, ideas, and opinions with the other employees. Thus, the communication became important since it involved them in the company and motivated them to improve their performance and commitment.

Semakin kesini semakin puas dibandingkan awal bekerja karena merasakan potensi saya terpakai. Karyawan diberikan kebebasan untuk memberikan keputusan. – Respondent M

(Nowadays, I became more satisfied compared to the first time I worked here since I felt that my potentials were channeled maximally. The employees were given freedom to make decisions.)

The employees felt respected by channeling their potentials, especially those

who have good quality to be maintained. They focus more on their capability in doing their jobs.

3. Negative Effects of Employee Empowerment

Ada kekurangan dalam hal pengawasan yang dilakukan, terutama dalam proses produksi. – Respondent A

(There were some weaknesses in the monitoring, especially in the production process.)

The negative effect felt by the employees was lack of monitoring since it was important in the empowerment. This empowerment was a part of giving the employees freedom and responsibility of their own jobs, but monitoring was needed to minimize errors in the production process which harm the result.

Berbeda pendapat dengan teman-teman yang lain. – Respondent L

(Different opinions with the other employees)

Other negative effect of the empowerment was conflict. The conflict experienced by the employees came from the distinct opinion from each other, and the feeling of quick satisfaction.

4. Conflict in Employee Empowerment

Konflik merupakan proses belajar mengenal karakter, baik karyawan maupun proyek. – Respondent E

(Conflict is a learning process to understand the character of other employees and the project.)

Konflik bagi saya bagian dari seni mengelola pekerjaan. – Respondent F

(For me, conflict is an art of maintaining the job.)

Conflict was actions and reactions by the employees. It made the plans and conditions were not in accordance with the other parties. It was a process of controlling their running jobs. They could be more ready to recognize if any problems appeared and solve them.



Conflict can turn into something positive if it was maintained and controlled since the organization was a merged of different divisions who interact with each other. The different visions, behavior, values, and perceptions can led to conflict. Conflict was steps taken in order to lead disputes to a solving such as peace, agreement, positive and creative mindset, or aggressiveness.

A. Employee empowerment could be summed up from the results about their perceptions on employee empowerment itself:

1. Responsibility.

As it is stated by Kirkman and Rosen (2000) that a group of individuals who work together and depend on each other to achieve their goals in which every member be responsible in achieving the goals.

2. Initiative and independency

These were supported by Raub and Robert (2010) who state that empowerment involves the employees since they have to take initiative in responding to their job independently related to motivations and supports from the management. It motivated the employees to think independently. The company gave chances to the employees for exploring their abilities.

3. Creativity

It in line with Walton (2002) who says that the principal is that the employees respond it more creatively whenever the responsibility is given, motivate to contribute more, and get satisfaction from their job to boost the employees' performances, motivations, commitments, and productivities.

4. Direct participation

Empowerment includes any initiatives taken in their direct participation (Psoinos & Smithson, 2002; Wilkinson, 2002; Wall et al., 2004).

5. Delegating the jobs

Greasley and Bryman (2008) say that empowerment is designed to delegate

authorities of the supervisor to their subordinates and to share responsibilities with them. The employees were getting ready with their mindset to do the jobs and put their maximum effort in achieving the goals of the individuals. Teams, and organizations.

B. The positive effects of employee empowerment based on the result:

1. Be more motivated, creative, and perform better

The employees have their own jobs, their trust to the organization, self-development, and an increase of their satisfaction, motivation, creativity, loyalty, organization, willingness to take jobs, and a boost in their performances (Akin, 2010, as cited in Erkutlu, 2012).

2. Responsive and adaptive

The benefit of an empowerment is raising the possibility for employees to be more responsive and adaptive in responding the changes of business field (Swenson, 2000).

3. More contribution

Especially, an empowerment is claimed to contribute in increasing the results of an organization since there are boosts at employees' performances and productivities and respond towards the organization and flexibility (Glassop, 2002, and Hamilton et al., 2003).

4. Communication

Ford (2005) state that the positive effect of an empowerment creates communication in a teamwork and openness to the other jobs.

5. Potentials

Kirkman dan Rosen (2000) state that potentials are experiences to be developed together.



C. The negative effects of employee empowerment based on the results were:

1. Lack of monitoring and evaluation

The negative effect is the lack of monitoring leads to some problems (Bowen, 2008).

2. Conflict

Negative effects could happen if there was a conflict among them. An empowered team has a huge risk of conflict which harms the performance of the team (Bergman et al., 2012; Langfred, 2007; Kotlyar & Karakowsky, 2006).

D. If there was a conflict, the result was:

Conflict can be defined as interests and goals incompatibility (Jehn, 1995; Korsgaard et al., 2008; Wall & Callister, 1995, as cited in Jiang, 2016). The conflict experienced by the respondents was cognitive conflict which came from the substance of duty.

5. CONCLUSIONS

Based on the result, it could be concluded that employee empowerment had benefits for the employees and the organization. By implementing employee empowerment, the employees did their job more responsibly which meant they owned commitment and responsibility. Empowerment also tended to improve their initiative and independency to identify and assume the ownership of their jobs. The employees were supported to be more creative when they were given responsibility since they could participate directly in the company. The supervisor delegated the jobs to build their mindsets in accomplishing their jobs maximally.

The positive and negative effects experienced by the employees were they felt motivated, creative, and performed better. The employees were more responsive and adaptive towards their office and working environment since they were expected to give contributions in the company. Communication was needed to build relation and openness among the

members. Employees' potentials were dug from their experience in handling their previous jobs. The negative effect was caused by lack of monitoring and evaluation which led to conflict.

In an empowerment, a conflict could not be denied though it was not a problem for the employees. Conflict was one tool for them to communicate. This obviously encouraged improvement and positive change of the employees and the organizations to be better.

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BUSINESS PLANNING OF *APOTEK MERAH* JL. LAKSDA ADISUCIPTO KM. 9 YOGYAKARTA

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ABSTRACT

A shift in orientation of pharmaceutical services from drug oriented to patient oriented and the increasing market size become a national pharmaceutical industry considerable opportunities for the development of the pharmacy business in Indonesia. This research aims to produce a proper and complete business plan as a guideline for the development of the Merah drugstore located on the street of Laksda Adisucipto 9 kilometers, Yogyakarta. Research in business planning level functional analysis using the method descriptive analysis of the human resources, operational, financial and marketing plans that will be developed in the Merah drugstore. In addition to the descriptive analysis of the business plan, the study also analyzes the feasibility of financial investment, business competition analysis using Porter's Five Forces Model and SWOT analysis to formulate strategies that will be used in the development of the pharmacy business. From the analysis of financial investments, the value of NPV is positive and IRR is greater than the required interest rate with an investment payback period of 2,26 years. The results refer that the business plan for the development of Merah drugstore are profitable and feasible. SWOT analysis and business competition showed that the pharmacy business competition is very tight so it requires a low cost leadership strategy and differentiation of pharmaceutical services by conducting market and product development to gain competitive advantages.

Keywords: "Apotek Merah", business plan, financial investment analysis, SWOT analysis, business competition analysis.

1. INTRODUCTION

Business plan is defined as a written document consisting of company's plan to make the best use of business opportunities of

the company's external environment, describing the company's competitive advantage, also explaining various steps which need to be done in realizing the business opportunities (Wheelen & Hunger, 2004). The definition of business plan contains supporting concepts such as planning, business opportunities, competitive advantage and business plan operational which includes the steps needed for the company to exploit the formulated business advantage and turn it to be a real and benefitting business.

In developing a business, a company must pay attention on the external and internal environment because it is significant for the company's continuation. The analysis on external environment is done for deciding business advantages and disadvantages outside the company. Identification, supervision, and evaluation upon external advantages and disadvantages is significant for the success of strategy planner in carrying out his/her business strategy. There are several external factors affecting pharmaceutical business, namely: a shift in orientation of pharmaceutical services from drug oriented to patient oriented, the market size of pharmaceutical national industry and pharmaceutical market base on drugs, the position and role of "Apotek Merah" as pharmaceutical server in pharmaceutical industry in the province of Special Region of Jogjakarta (DIY), as well as pharmaceutical business rivalry of both direct and indirect rivalry.

The internal environment of "Apotek Merah" in this thesis consists of: the pharmacy's vision and mission; the pharmacy's resources such as its building, tools, education and preparation of its personnel; its service hours; financial report in form of profit lost



statement of year 2015 and 2016 which gives descriptions on how profitable the pharmaceutical industry based on its cost of goods sold, the main cost product, operational charge and tax charge of the period.

Based on external and internal environment of the pharmacy, an indication was found on the chance of “Apotek Merah”’s business development through wider pharmaceutical services. Therefore, the main problem in this research is on how to create appropriate and complete business plan for the development of “Apotek Merah”. Thus, The existence of appropriate and complete business plan as a road map for “Apotek Merah” business development is the aim of this research.

2. METHODOLOGY

The business planning for “Apotek Merah” has several functional analysis levels, those are functions from business plan which will be carried on by “Apotek Merah” including functional plan of human resources, functional plan of pharmacy operational efficiency, functional plan of pricing strategy, and functional plan of pharmacy financing. Source and method of data sampling is done using primary and secondary data which are collected through direct observation on “Apotek Merah” as well as interviews and Focus Group Discussion (FGD) with *key person* related to data identification, data analysis, strategy determining, and implementation of business development plan.

The data analysis method consists of descriptive analysis, analysis on business rivalry and SWOT analysis. Descriptive analysis describes and analyzes on human resourcing plan, pharmacy operational plan, money marketing and investment which will be implemented in “Apotek Merah” business development. Analysis on business rivalry analyzed the rivalry occurring in pharmaceutical business using five power models of Michael Porter in determining general strategy in winning the rivalry. On the other hand, the SWOT analysis assesses the strength and weakness on “Apotek Merah” also assessing on benefits and

threats which may occur; therefore alternative strategy can be made to be implemented during the development of business. Aside of the effort mentioned in analysis methods, risk management is also introduced and Exit Strategy, which is a method that can be used in managing potential risks, especially risks caused by the company funding.

STRATEGY AND PLANNING

Research results from observations and interviews are the biography and the history of the pharmacy also the problems which have been encountered by the pharmacy which led them to move their company to another location as well as developing the pharmacy with the guide of business plan.

The Pharmacy Business Plan

Business plan arrangement is made based on problems encountered by the pharmacy also the analysis on operational aspects, human resources, marketing and financial aspects which has been implemented and will be developed in “Apotek Merah”. Business plan arrangement is done through Focus Group Discussion (FGD) with aspects to be analyzed, including:

1. The Pharmacy Operational Plan

“Apotek Merah” plans to move into new location upon the end of the rent for room used for business on the year 2018 and several problems coming from the pharmacy’s operational costs. The results from FGD shows that the determining of new location is still operating on Laksda Adisucipto Street, KM.7 to KM. 9 with criteria:

- a. New location is on the side of the street with enough parking space.
- b. The room for business is around 8 X 10 meters.
- c. New location is free from flooding.
- d. New chosen location is still on Laksda Adisucipto Street KM. 7 to KM. 9 with considerations of the loyal customers which “Apotek Merah” already has and the



home care service around the location has already doing well.

- e. The cost of competitive rent room

The increase of the pharmacy's operational cost is analyzed through:

- a. The planning of pharmaceutical inventory based on needs
- b. The selective distributors selections for pharmaceutical inventory
- c. The good storing of pharmaceutical inventory
- d. The distribution an information services of drugs by the pharmacists

2. The Human Resourcing Plan

The human resourcing plan in "Apotek Merah" describes the plan related to the employees needed to continue the business and the specification needed for the employees as well as their training and development and the implementation of employee rewarding system. The human resource (SDM) employed for "Apotek Merah"'s development will keep on using the current employee, with a qualified pharmacist to support maximum services for the pharmacy.

3. Product Distribution Plan

To increase product distribution and pharmaceutical services, "Apotek Merah" plans to use marketing mix for their distribution strategy.

a. Product

The inventory of complete drugs and medical tools in accordance with drugs and medical tools development in pharmaceutical industry with good quality and originality also pleasant pharmaceutical services, are the products of "Apotek Merah" which will be implemented to gain competitive advantages compared to other pharmacies and other competitors.

b. Price

To attract consumers or customers, strategy to determine price used by "Apotek

Merah" is the low cost leadership. The strategy gives low marginal price. Thus, "Apotek Merah" takes 5% for OTC and 15% for ethical drugs and prescription. Exception for ethical drugs and prescription, other than the 15% margin determined by the pharmacy, the consumers or patients will be charged with pharmaceutical service cost at Rp. 1000,00 per item.

c. Promotion

Promotional strategy which will be implemented in "Apotek Merah"'s development is by installing the pharmacy's attractive neon box name placard which can be seen clearly by customers. The pharmacy will also promote some of the drug's price and medical tools through personal selling.

d. Place

The location of the pharmacy is on strategic place that is on Laksda Adisucipto Street with enough parking space which contributes' to customer and patient's easy access toward the pharmacy.

e. People

The pharmaceutical services given by "Apotek Merah" are directly handled by professional pharmacists (not staff or other worker) who have good and friendly communicative skills.

f. Process

The services given would be fast and precise, good explanation on the drugs' usage, free drug or prescription consultation, clear working shift of pharmacists and supporting staff, the existence of professional pharmacists during open hours, able to accept prescription from outside the pharmacy, complete and representative drug inventory, and also home care services for the elderly customers.

g. Physical Evidence

Physical presentation and supporting facilities available at "Apotek Merah", are the cleanliness of the pharmacy and the availability of trash bin, there is wide and comfortable waiting room with TV, AC or fan, dispenser,

weight scale and health magazine, and the organized drug display.

4. The Pharmacy Financial Plan

Financing plan for “Apotek Merah”’s development other than using personal cash, the pharmacy will do fund borrowing from Bank Perkreditan Rakyat (BPR) Karang Waru Pratama. The budget for the pharmacy’s development which came from personal cash will be Rp. 200 million and the Rp. 100 million comes from the fund borrowed from BPR with loan interest 13,2% per year. Therefore the buget plan for “Apotek Merah”’s development will be Rp. 300 million. The budget will be used for 5 years rent cost for Rp. 150 million, Rp. 100 million for drug inventory, and Rp. 50 million for drug shelf and display shelf installment.

Method used to analyze money investment in “Apotek Merah” are Net Present Value (NPV) method, Internal Rate of Return (IRR) method, and Payback Period (PP) method. Investment analysis begins with arrangign income statement projection of “Apotek Merah”, then, arranging cash flow, and analysis on money investment fairness.

1). Income Statement Projection

In arranging income statement projection of “Apotek Merah”, sales projection is firstly build, the projection of drug and medical tools sales in form of cost of goods sold (HPP) and operational cost projection is arranged using exponential smoothing predictional method based on financial reports of the year 2015 and 2016. After that, measurement on mistakes of prediction or projection are done with mean absolute percent error (MAPE) method. From the measurement result, HPP and opreational costs of “Apotek Merah” projection mistake is gained; for sales is 14,23%, HPP 9,32% and for operational costs is 6,21%. The results of projection or prediction measurement are then used to arrange the income statement started from year 2017 to 2021. The income statement projection of “Apotek Merah” of year 2017 to 2021 can be seen from Figure 1:

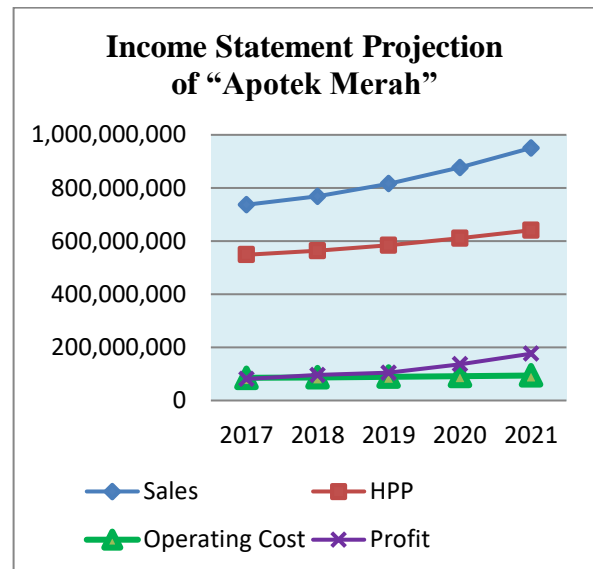


Figure 1: Income Statement Projection of “Apotek Merah”

Earning net margin projection of “Apotek Merah” on year 2019 is estimated Rp. 104.339.000,00; the earning net undergoes a descent if the earning net of that year is converted into the earning net of 2016. The chance of net descent is high because “Apotek Merah” will move to a new location by 2019. Moving to a new location affect patient and consuments who sometimes are not willing to access the pharmacy (on their new location), they will mostly prefer to fin alternative pharmacy for the pharmaceutical services, therefore the descent of earning net. The pharmacy’s descent of earning net is predicted to be temporary because with the process of good socialising with customers will surely accelerate the pharmacy’s growth. The statement is proven with the net projection of year 2020 and 2021 since the earning net keeps rising.

2). Cash Flow Report of “Apotek Merah”

Calculation and arrangement of “Apotek Merah”’s cash flow is started on the year of 2019 with assumptions of revenue and expenses is in form of cash. Based on the income statement projection and the assumption, the report of cash flow can be arranged for year 2019 to 2021 as seen in Table 1. as follows:



Table 1: Cash Flow report of “Apotek Merah”

No	Explanation	2019	2020	2021
1.	EBIT	125.699	158.284	198.723
2.	- tax	8.160	8.770	9.503
3.	+ depreciation	16,667	16.667	16.667
4.	NCF	134.206	166.181	205.887

3). Pharmacy’s NPV, IRR and PP Calculation

By using 10 % of return rate, NPV investment of “Apotek Merah” is Rp. 114,031,074.00 above the beginning investment which is Rp. 300,000,000.00 therefore, it can be concluded that the business plan on “Apotek Merah” is profitable and worth to can be carried on.

Internal rate of return (IRR) value of “Apotek Merah” can be calculated with *Microsoft Excel* program. From the calculation, IRR value is gained of 29%. The IRR value is larger than the return rate which has been conditioned by the pharmacy’s owner which is 10%. It can be concluded, therefore, that the business plan is profitable and worth to can be carried on.

The value of PP calculation is done by adding the current value (PV) from the pharmacy’s cash flow revenue and compared with the beginning investment; from the process, the time lapse to return the beginning investment can be found. From the calculation of time lapse period of returning beginning investment in the business plan is 2.26 years. Since the pharmaceutical business is a long term Investment, therefore, the return cost of 2,26 years is considered acceptable.

Based on the three method of analysis, money investation appropriateness is concluded to be profitable and can be realized for the development of “Apotek Merah”.

Analysis on the Pharmacy Business Rivalry

1) Entry Barrier

Entry barrier for pharmaceutical business is considered low cost. It does not need extremely high cost to run the business and the process of government permission is not difficult. The appearance of new pharmaceutical business causes both direct and indirect rivalry. The Government’s policy from the Regency’s Department of Health does not give limits of distance between pharmacies and its ownership, this definitely affects the business rivalry.

Strategy identification and monitoring are needed in winning the rivalry, also power and chance exploits are needed to arrange the strategy in encountering the new business rival potentials. For example, lowering price for the items sold and increasing good quality pharmaceutical services.

2) Bargaining Power of Customer

In general, bargaining power of customer for pharmaceutical business is high. The cause for the high bargaining power of customer is the high number of pharmacies around the region which can be easily accessed by customers. The consumers can easily choose or decide which pharmacy can satisfy their needs and they can easily move to another pharmacy whenever their needs are not satisfied.

3) The existence of alternative product or services

Along with the people’s increasing awareness to do preventive method against sickness, “Apotek Merah” is facing heavy rivalry from modern shops which sells free drugs or health supplement. ON the other hand, National Health Insurance System through BPJS is currently implemented which will decrease the customers needs to buy and demand for drugs, medical tools, and pharmaceutical services at the pharmacy.

4) Bargaining Power of Supplier

The main supplier for drugs and medical tools at “Apotek Merah” is Pedagang Besar Farmasi (PBF). The single PBF or single

distributor has enough bargaining power of supplier in investing drugs and medical tools. The reason is because there are only few single distributors which supply drugs and medical tools directly from the producer and therefore they can press drug and medical tool producing which is relevant with their producing system.

5) Pharmaceutical Rivalry

The rivalry in pharmaceutical business is tight. The rivalry does not only occur between pharmacies but also drugstore, modern store which provides free drugs and health supplements along with other medical facilities such as hospitals and clinics. One of the many strategy in facing the rivalry is lowering the sale's price and differentiation of pharmaceutical services. Maximum effort on pharmaceutical services and sales programs also determining competitive price will create good and positive image for the pharmacy.

SWOT Analysis on "Apotek Merah"

After business appropriateness analysis is done, the business plan for "Apotek Merah" is considered benefiting and can be realized. The rivalry analysis also created low cost leadership general strategy and pharmaceutical services differentiation. The next steps to be done is the strategy arrangement using SWOT to gain competitive strength against rivals or competitors. The SWOT analysis is done by identifying strength-weakness-chance-threat variables, giving weight and rate, arranging internal external matrix and SWOT matrix. From the analysis results, business position of "Apotek Merah" is gained from Matrix IE which shows Growth and Build because it is located on position IV. The best strategies to be implemented is intensive (market penetration, market development, and product development) or integration (backwards integration, forward integration and horizontal integration).

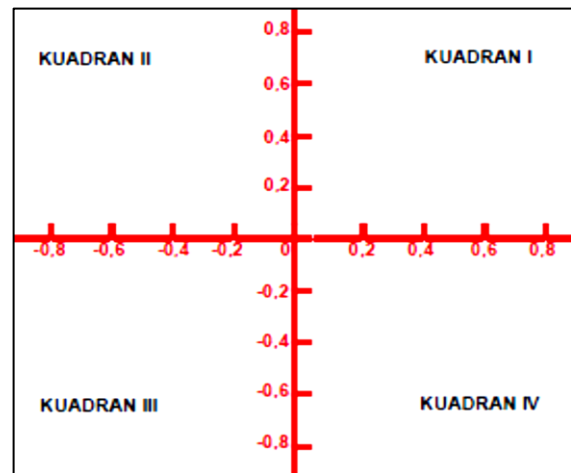


Figure 2: SWOT Matrix of "Apotek Merah"

Based on the SWOT Matrix above, "Apotek Merah"'s position is located on I (expansion) therefore, selection on intensive growth strategy which the exploits of every strength and chances is needed. The position directs on Strengths – Opportunities (SO) strategy, which are:

- 1) Sales increase through comprehensive pharmaceutical services, directly from the pharmacist and determining competitive price.
- 2) Increasing the cooperation with producer and supplier to gain good quality product and efficient distribution so that the pharmacy will have competitive strength on price and service compared to the competitors.

Risk Management

Risk Management is needed to identify potential risks which will be faced and how to solve the risk potentials so that the pharmacy will not suffer detriment (especially financial detriment), as seen in the following Table 2.:

Table 2: Risk Potential Management of “Apotek Merah”

No.	Risk Factors	solution / management
1.	Drugs and medical tools inventory are broken or expired	The drugs and medical tools inventory is using mix method of FIFO and FEFO
2.	High rivalry caused by new pharmacy business	For survival, strategic plan are needed such as: 1) Managements of complete, high quality, and original drugs and medical tools by checking and controlling them periodically. 2) Determining policy of low costing leadership. 3) Developing the human resources (especially pharmacist) continuously to keep the pharmaceutical services which is comprehensive and distinct from other rivals (differentiation of pharmaceutical services) 4) Maintaining good relationship with suppliers and distributors. 5) Providing several promotion programs to increase sales, such as free checking blood sugar, cholesterol, and uric acid or providing home care program.
3.	Risk of natural disasters	All Risk insurance garancy from PT. Dayin Mitra Abadi
4.	High turnover of pharmacist Turn over	1) Tight recruitment of pharmacist to gain loyally high human resources. 2) Continuous training to increase the worker’s competence in pharmaceutical service 3) Employee management which is open minded and constructive which encourages creativity in working without them wait for the leader’s command 4) Reward for high achieving employee and Punishment for employees who break the pharmacy’s rules.
5.	Risks on cooperation contract yang which does not fgo along with the previous agreement, Those contracts are such as rent contract for working space, contract cooperation with suppliers or distributors	Employment contract is examined and must be defined clear, and must be understood by both parties involved. Public notary could be invited when necessary.

From risk potentials above, “Apotek Merah” tries to use four methods to manage the potential risks, those of which: avoiding risks; preventing loss; decreasing loss and risk transfer through transferring possible risks to an insurance company.

Exit Strategy

Sometimes, entrepreneurs cannot predict what will happen in doing their business, sometimes they even cannot attend on their business everyday. Exit strategy is made to avoid this problem. Exit strategy which can be reached by “Apotek Merah” in case they found difficulty on company costing or financial difficulties which cannot be repaired so that the pharmacy suffers from business with pharmacy bankruptcy with liquidation of apothecary business.

ACTION PLAN

Action plan of “Apotek Merah”’s business plan will be conducted in 2018 with details written in Table 3:

Tabel 3: Time and activities of “Apotek Merah” in 2018

NO	KEGIATAN	BULAN												
		1	2	3	4	5	6	7	8	9	10	11	12	
1.	Pencarian dan Penetapan Lokasi Baru													
2.	Kontrak Sewa Ruang Usaha													
3.	Perijinan Apotek													
4.	Mencari Tenaga Apoteker dan Training													
5.	Persiapan dan Penataan Tempat di Lokasi Baru													
6.	Sosialisasi Pindah Lokasi kepada seluruh Stakeholder													
7.	Operasional Apotek Merah di Lokasi yang Baru													
8.	Monitoring dan Evaluasi													

The search for “Apotek Merah”’s new location is done since the beginning of the year to gain several alternative locations which accomodates the pharmacy’s criteria. Time allocation for new location searching will be around 4 months, which will be continued with location determining of 1 month from few existing alternative locations.



The rent contract with the space owner in 5 years for permission to do business. This contract must be publicly notariated by considering things that is beneficial for both the renter party and business space owner.

The pharmacy's government permission for new location needs long time to be finished, it will be around 4 to 6 months. The pharmacy's government permission consists of: The management of the company disturbance permit; checking of water by local health department; recommendation from the Organisasi Profesi (IAI); and the management of the pharmacy's permission letter.

Employee recruitment for pharmaceutical employee or pharmacist will be given time around 4 months. The recruitment and selection of pharmacist is done in order to maintain the pharmaceutical services in "Apotek Merah" with the guidelines from the valid KEPMENKES.

Preparations and arrangements on the new location will need time around 2 to 3 months, started from the business space's cleaning and repainting, drug shelves instalment, the instalment of electricity and work operational plot based on the layout of the previous building.

Socialization to the pharmacy's stakeholder on the business' moving location which is done directly by saying to each patients, consumers or supplier / drug distributors who come to the "Apotek Merah" and by installing announcement banner at the pharmacy's building.

"Apotek Merah"'s operational at the new location is hoped to be started on October 2018 in accordance with the expiration of permission letter for the pharmacy of that month.

Monitoring and evaluation on the pharmacy's operational will be done as soon as "Apotek Merah" gained new permission letter from the the Regent of Sleman and the pharmacy had started operating in the new location.

Person in Charge

Each employee is in charge on the task based on their given job description. All personell is responsible to the pharmacy's

Manager Pharmacist which is also the owner of the pharmacy.

The Pharmacistis Manager fully responsible towards the management and the business' continuation starting on the pharmacy's operational, finance and sales, human resources also pharmaceutical services and drug reporting to the local Health Department.

The Pharmacist Assistant is responsible for pharmaceutical services whenever the Manager Pharmacist is unavailable. Besides that, the Pharmacist Assitant is responsible in making reports on narcotics, psikotropics and prescription also reporting to the local Health Department.

The chasier and general helper is responsible for the pharmacy's operational continuation from financial and cleanliness aspects. All personel from each job desks must give their work reports to Pharmacist Manager per the end of months to evaluate their work performances.

2. Work Performance's Indicators

Performance indicators is made so that every personel or employee works according to the job description and they can reach the targets which must be reached.. the performance measurment is based on the activities done by each personel. The performance meaurment fomr each activity are as follow:

- 1). Operational Technical Activities.
 - a. Service time and quality given to the patients or consumers (fast, appropriate, and careful).
 - b. The inventory continuity of drugs, medical tools, and other pharmaceutical stuff in the pharmacy.
 - c. Making reports on operational performance and report on drugs periodically per month.
 - d. Making financial reports and the pharmacy's development per three months.



2). Pharmaceutical Services Activities

- a. Documenting the counseling and drug information services to the patients or consumers (PIO).
- b. Documenting the homecare services.

3). Other supporting activities which contributes to the continuity of the pharmacy's operational such as checking the availability of medicine pouch, etiquette and small money for the patients' or consumers' changes.

Minimum performance measurement is equal to the normal scenarion on the financial projection. Whereas to widen the market, the pharmacy must be able to reach efficiency and keeping the drugs quality and the pharmaceutical business so that the pharmacy's mission will keep on developing and its continuity can be achieved.

3. Strategy Implementation of 7-S

Framework-MC. Kinsey

After altrenative strategy is gained, the next step on strategy implementation is using 7-S *Framework-MC. Kinsey*. The implementation of 7-S *Framework-MC. Kinsey* is followed by tactics or actions consisting of:

Strategy: the chosen strategy is low cost leadership and pharmaceutical service differentiation with doing market and product development.

Skill : to implement the strategy, professional skills and competence of pharmacists are needed. Tactics : the experience of the owner of Manager Pharmacist, be it on pharmaceutical fields especially pharmaceutical business is the main capital in developing the competence of the employee.

Shared Values : prioritizing and respecting shared values such ashonesty, discipline and commitment will ensure "Apotek Merah"'s proseprity and continuity.

Staff : tactics : recruitments, selections dan employee development of "Apotek Merah" with competence base such as good communicative skills, honest, and can be

trusted and also the mastery of product knowledge in the pharmaceutical field.

Style : Tactics : implementing management style, the analytical, which is orienting on results and the achievable purpose by doing reasonable analysis approach.

System : For system, several evaluations are needed related to the operational and the pharmacy's finance. It is hoped that the pharmacy's finance and the individual finance are not mixed up to indicate the pharmacy's business development.

Structure : "Apotek Merah" has three main structures: operational, administaration and finance, and pharmaceutical services. Tactics to ensure this strategy is by adding professional pharmacist into the structure.

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APPENDICES

The Future of Regional Economic Integration in ASEAN and the EU after Brexit



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Introduction

- ASEAN Economic Community (AEC) since January 2016
- Expanded market access opportunities, but also increased competitiveness
- New phase of economic integration in SEA

- European Union as Success Model of economic (and to some extent political) integration
- Now some serious challenges (Euro Crisis, Refugees, Brexit)

Introduction

Research Questions

- What will be the impact of the AEC for the ASEAN member states?
- What will be the economic future of the European Union (after the Brexit)?
- What Predictions can be made about the economic perspectives of ASEAN and the EU?

Comparison EU-ASEAN

ASEAN - EU Snapshot

ASEAN's Macro-Economy

- GDP (2011): US\$2,112.4 Bn* (€1,643 bn)
- GDP per capita: US \$3,376 (€2,626 bn)
- GDP Growth: 5.7% and 6.4% in 2011-2012
- Population: 600 million



* IMF Forecast



EU's Macro-Economy

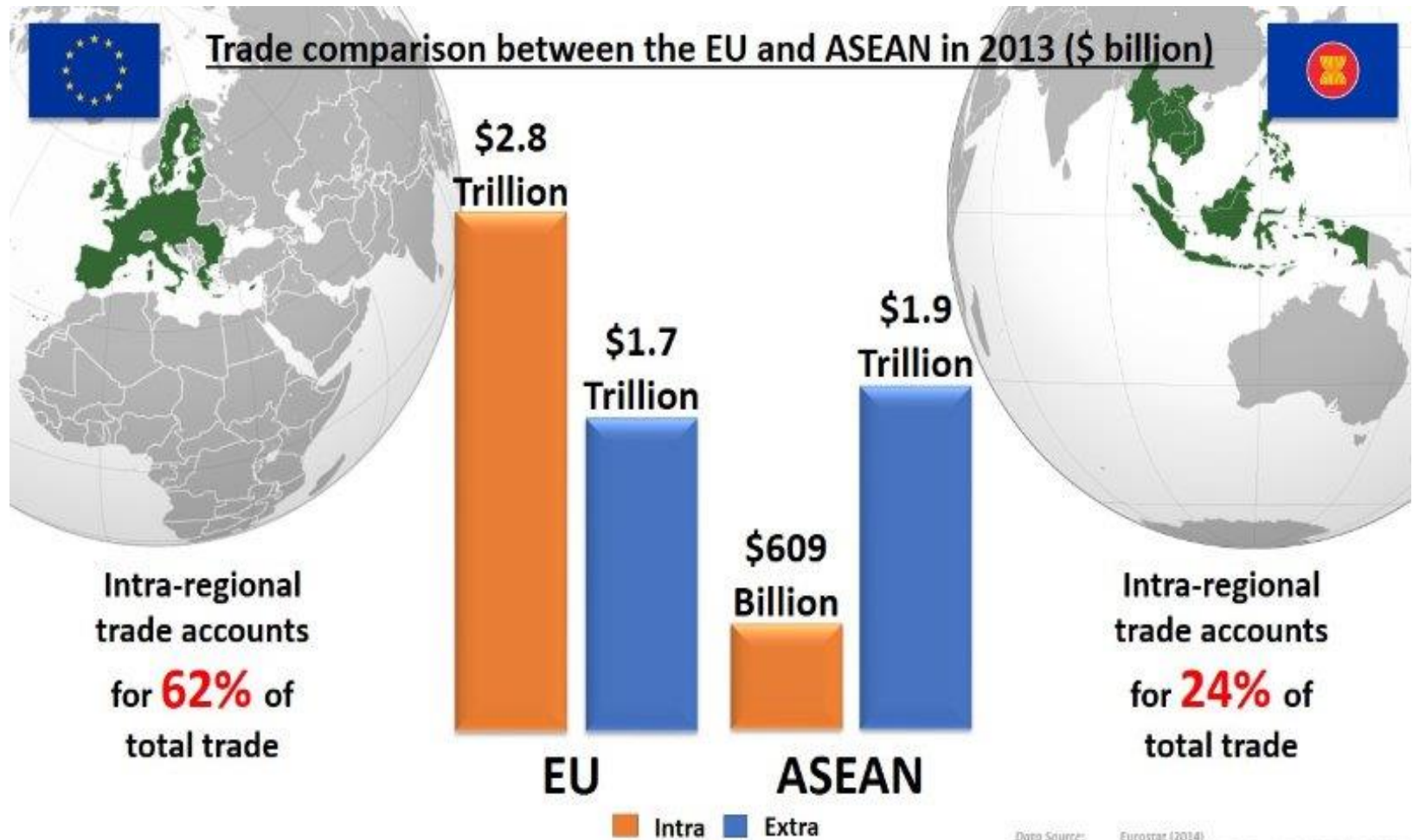
- GDP (2011): € 12,650 bn
- GDP per capita: € 25,200
- GDP Growth: 1.5% and -0.3% in 2011-2012
- Population: 501 million

Source: European Economic Forecast 2013 & Eurostat

Comparison EU-ASEAN

- EU: Highly formal, legalistic, institutionalized, **supranational** regional organization that has authority on common decision-making in several areas such as trade, economics, agriculture, etc.
- ASEAN: Informal, legally non-binding, very little institutionalized **intergovernmental** regional organisation with no own authority, (non-binding decisions, consensus-oriented decision-making, principle of non-interference, no implementation mechanism)

Comparison EU-ASEAN



Data Source:

Eurostat (2014)
ASEAN Community in Figures Special Edition (2014)

Asia-Pacific generally has less intraregional flows than in Europe or North America

■ Asia-Pacific
■ Other regions

Share of cross-border flow activity that occurs intraregionally

%

Region¹

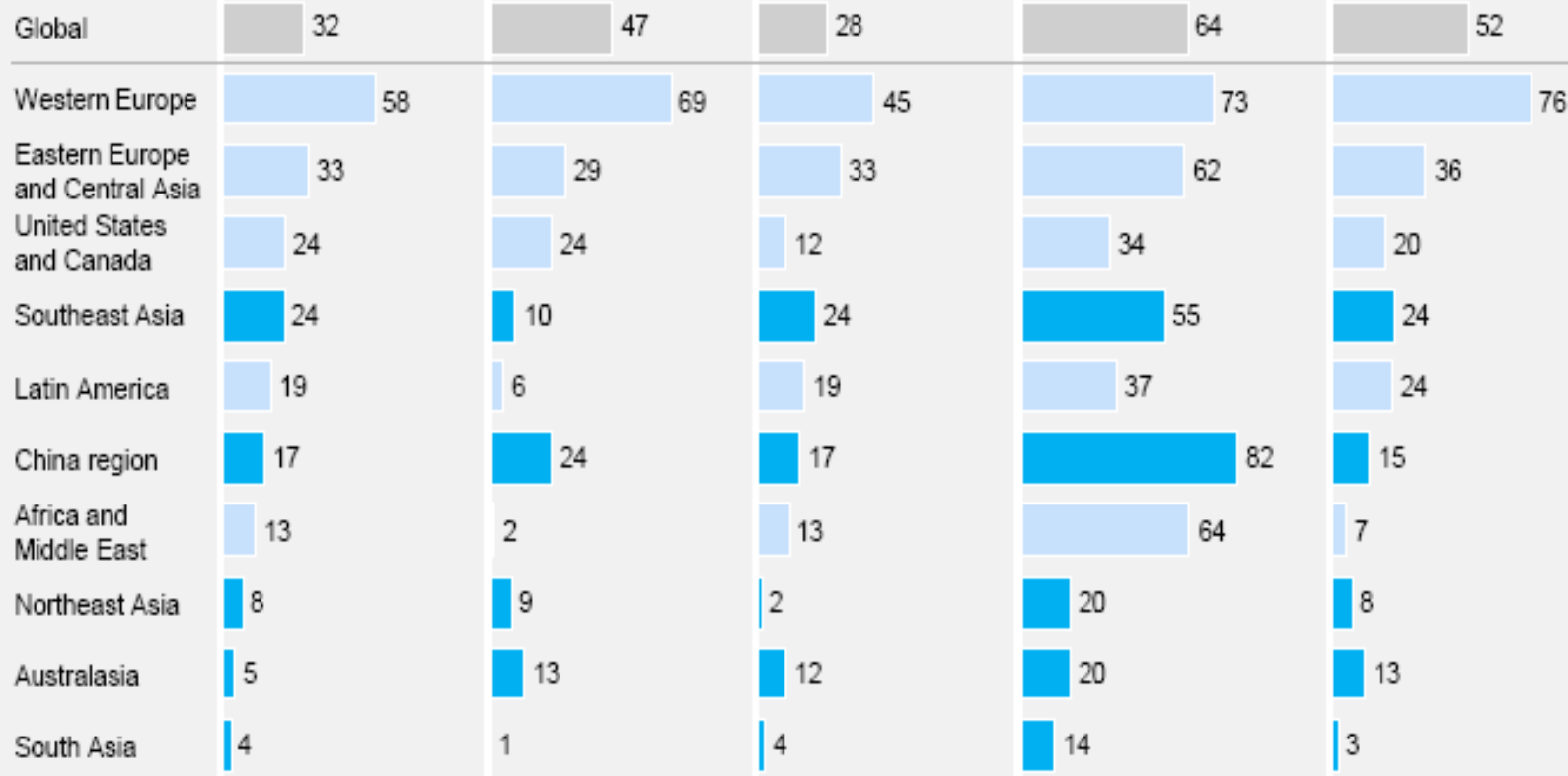
Goods
2011

Services
2011

Financial
2012

People
2010²

Data and
communication
2013³



¹ Northeast Asia includes Japan and South Korea; Southeast Asia includes 21 countries such as Singapore, Indonesia, and the Philippines; South Asia includes 8 countries such as India, Pakistan and Bangladesh; China region includes China, Hong Kong, Taiwan and Macao.

² Measured by number of travelers.

³ Measured by Internet bandwidth.

SOURCE: World Development Indicators, World Bank; Comtrade; IMF Balance of Payments; World Trade Organization; Telegeography; McKinsey Global Institute analysis

PART I: AEC



Which ASEAN countries will the AEC benefit most?

- Countries with a degree of intra-ASEAN trade will benefit most from the AEC
- Today intra-ASEAN trade is approximately 25% of total trade, growing around 10.5% per annum, and expected to reach 30% of total ASEAN trade by the year 2020.
- Infrastructure to support intra-ASEAN trade growth is lagging behind compared to other regions

Intra-ASEAN Exports and Imports

Intra- and extra-ASEAN trade, 2015
as of November 2016

Country	Intra-ASEAN exports	
	Value (US\$million)	% Share to total exports
Brunei Darussalam	1,239	19.5
Cambodia	819	9.3
Indonesia	33,577	22.3
Lao PDR	2,646	71.2
Malaysia	56,169	28.2
Myanmar	4,444	36.4
Philippines	8,537	14.6
Singapore	118,271	32.3
Thailand	61,926	28.9
Viet Nam	18,064	11.1
ASEAN	305,693	25.9

Source: ASEAN Secretariat

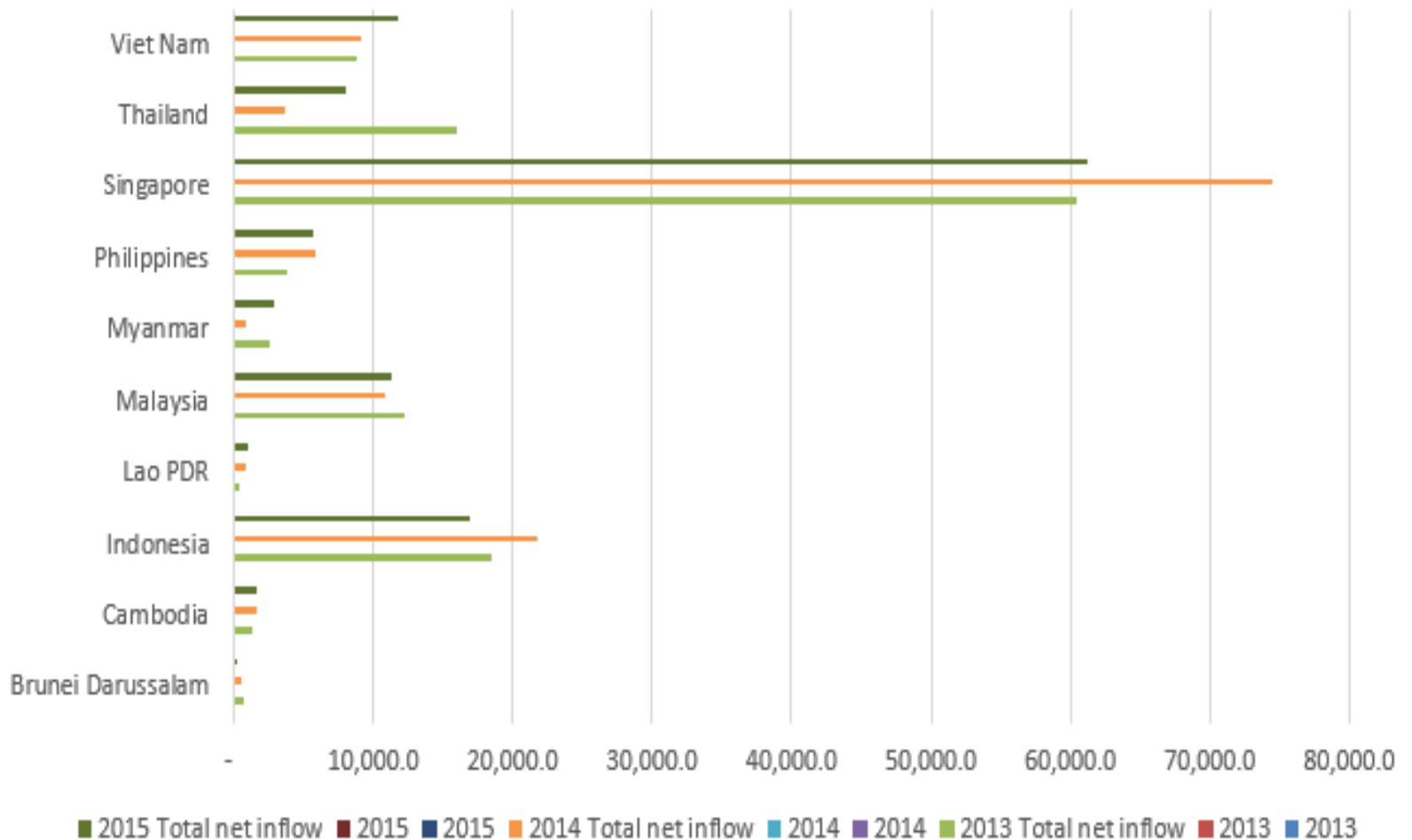
FDI in ASEAN

Foreign direct investment net inflows, intra- and extra-ASEAN

Country	2013 ^{2f}			2014			2015		
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow	Intra-ASEAN	Extra-ASEAN	Total net inflow
Brunei Darussalam	(58.0)	783.5	725.5	141.2	427.0	568.2	86.7	84.7	171.3
Cambodia	298.8	976.1	1,274.9	372.5	1,354.0	1,726.5	425.4	1,275.6	1,701.0
Indonesia	8,721.1	9,722.7	18,443.8	13,083.7	8,726.7	21,810.4	9,499.0	7,417.8	16,916.8
Lao PDR	104.6	322.1	426.7	137.9	775.3	913.2	221.8	857.3	1,079.2
Malaysia	2,187.5	10,109.9	12,297.4	2,284.0	8,591.3	10,875.3	2,719.0	8,570.6	11,289.6
Myanmar	1,186.8	1,434.1	2,620.9	683.6	262.6	946.2	2,230.6	593.8	2,824.5
Philippines	(41.7)	3,901.5	3,859.8	137.1	5,677.5	5,814.6	66.2	5,658.0	5,724.2
Singapore	4,556.2	55,823.4	60,379.6	5,214.1	69,206.2	74,420.3	3,416.3	57,868.5	61,284.8
Thailand	528.2	15,407.8	15,936.0	(1,466.8)	5,187.0	3,720.2	1,413.7	6,613.8	8,027.5
Viet Nam	2,078.6	6,821.4	8,900.0	1,547.1	7,653.0	9,200.1	2,153.5	9,646.5	11,800.0
Total	19,562.2	105,302.3	124,864.5	22,134.5	107,860.6	129,995.1	22,232.2	98,586.6	120,818.8
ASEAN 6 ^{1f}	15,893.3	95,748.7	111,642.0	19,393.3	97,815.7	117,209.0	17,200.9	86,213.3	103,414.2
CLMV ^{1f}	3,668.9	9,553.6	13,222.5	2,741.1	10,045.0	12,786.1	5,031.3	12,373.3	17,404.6

FDI in ASEAN

FDI ASEAN member states 2013-2015

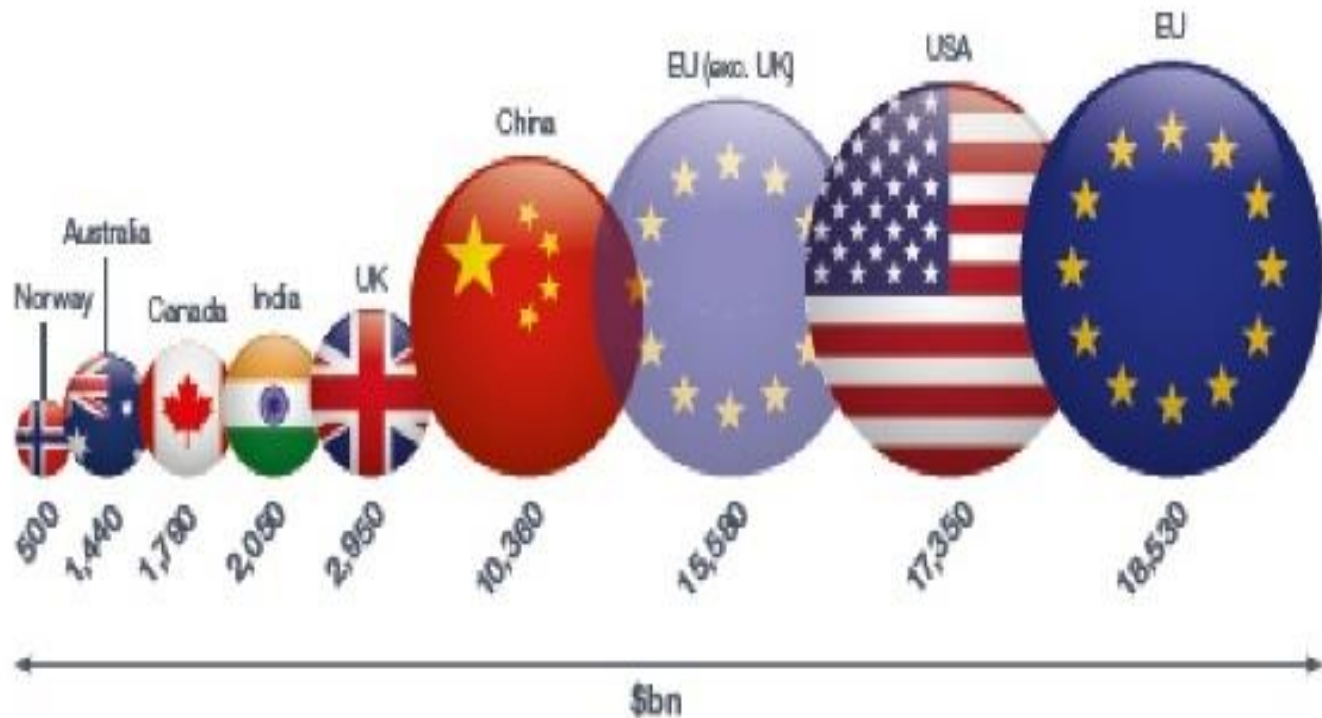


PART 2: EU after Brexit

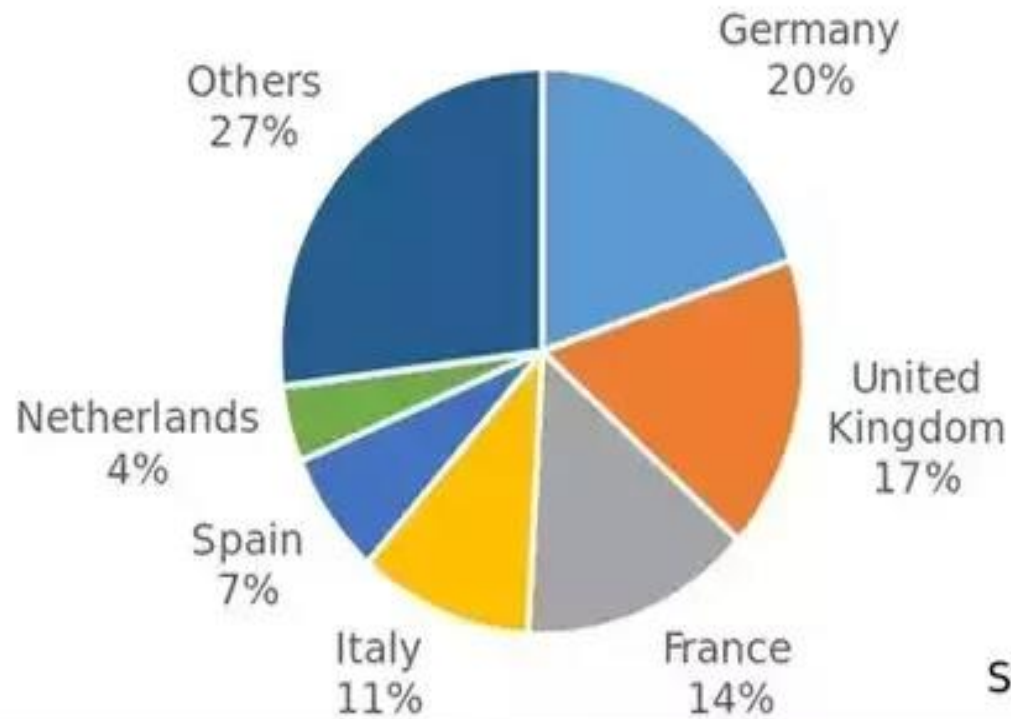


The EU as a global Economic Power

Size of economies (GDP, \$bn)



2015 GDP (nominal) in the EU



Source: IMF

Economic integration as cornerstone



Economic and Monetary Union (EMU)
enshrined as an objective in the EU Treaties



19

member
states

The euro area – Countries share the euro as their currency, ECB sets interest rates.

28

member
states

The single market – elimination of trade and competition barriers; free movement of goods, services, capital and people

28

member
states

Enhanced policy coordination – countries maintain control over economic policy, but coordinate at EU level

Euro-Scepticism in Western Europe

- Among the most wealthy countries in the world, but recently relatively slow economic growth rates (1-2%), ageing populations, rising immigration, and nostalgia of the “good old times”
- Globalization and its consequences as threat for less qualified workers, decline of traditional industries (“rustbelts”)
- Rise of populist, nationalist, anti-EU movements/ parties



Currency Crisis

Several Eurozone member states

- were unable to repay or refinance their government debt
- or to bail out over-indebted banks under their national supervision

Reasons:

- Easy credit conditions during the 2002–2008 period that encouraged high-risk lending and borrowing practices
- Global financial crisis of 2007–08
- International trade imbalances
- Real estate bubbles that have since burst



Currency Crisis 2

- Eurozone is a currency union (i.e., one currency)
- But no fiscal union (e.g, different tax and public pension rules)
- Limited the ability of European leaders to respond
- Indebted countries needed the help of other Eurozone countries or the IMF (credits)
- The European Central Bank contributed to solve the crisis by lowering interest rates and providing cheap loans of more than one trillion euro in order to maintain money flows between European banks

Current Negotiations with EU4

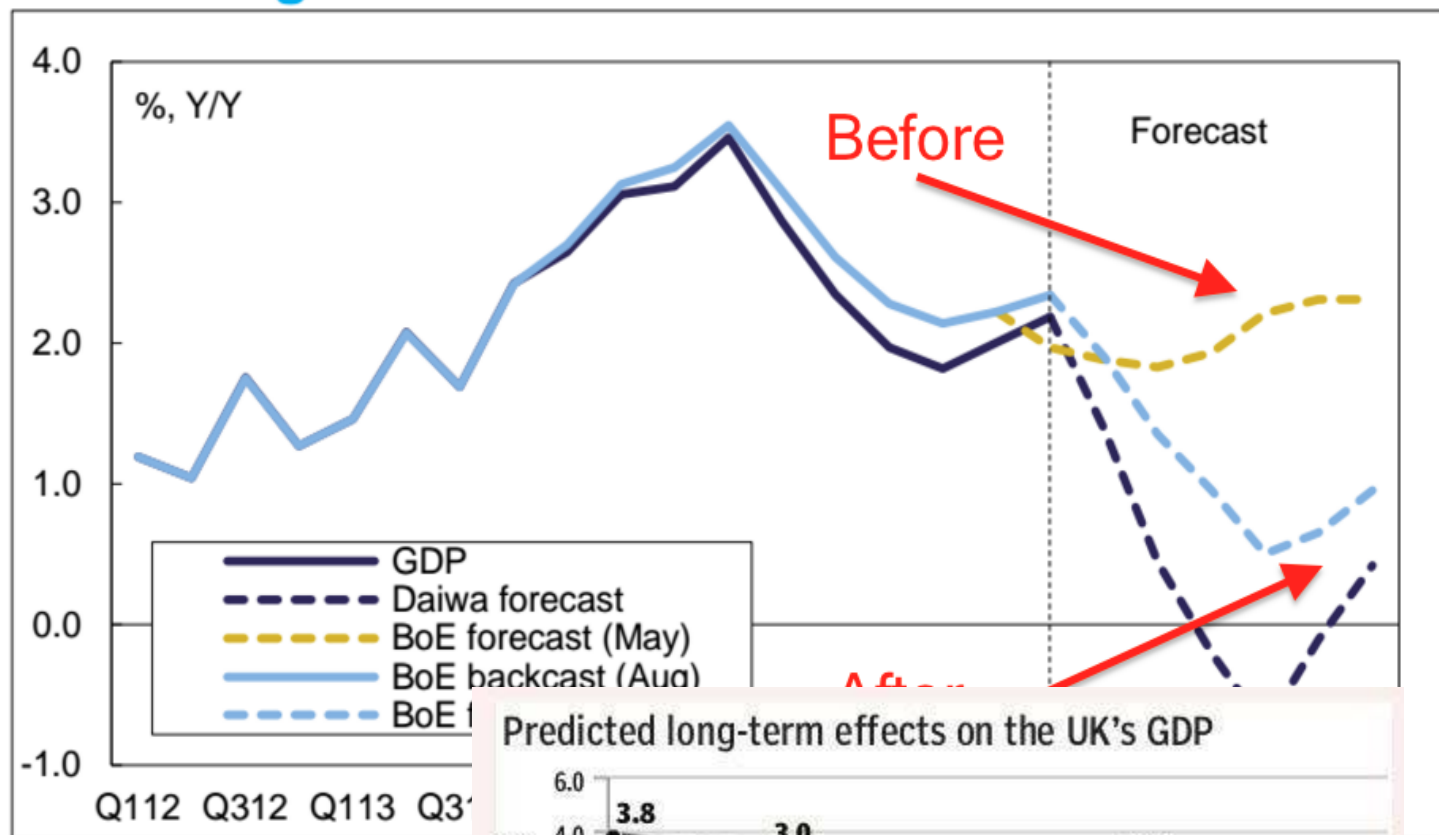
Options for the UK

4 OPTIONS

- **Full access to the single market** (as the European Economic Area [EEA = Norway, Iceland, Liechtenstein] or Switzerland) — free movement of *goods, services, capital and labour*.
- **In a customs union** (as Turkey) — by definition a customs union *only applies to goods*. Access for services and anything else would be under separate agreements including the WTO's. The UK would apply EU tariffs on goods from the rest of the world
- **Free trade agreement** with the EU — this can cover considerably more than trade in *goods*, including *services, regulations, “mutual recognition”* (for example of standards and inspection), and *dispute settlement*. The UK would apply its own tariffs on goods imports from the rest of the world
- **No special relationship** with the EU — the UK would apply its own tariffs on goods from the EU as well as the rest of the world

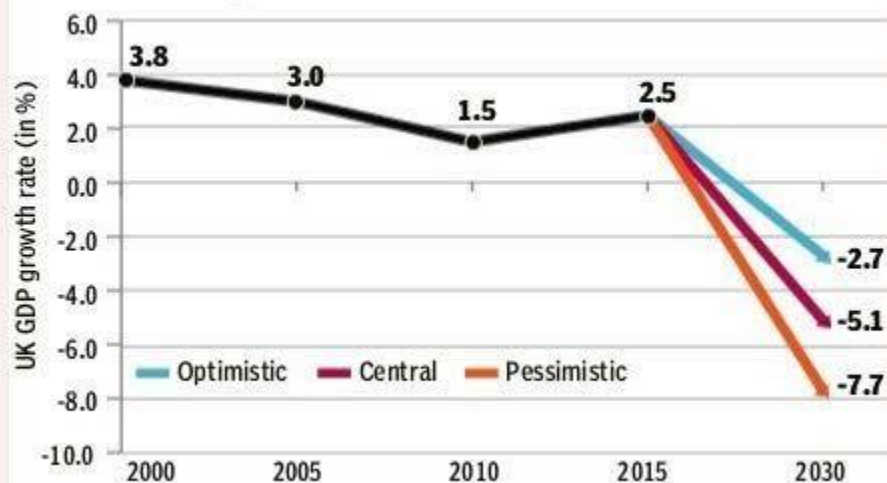
10 EU policies or processes	No Brexit	Soft Brexit		Hybrid	Hard Brexit		
	Full EU membership	EFTA EEA	EFTA Switzerland	Continental partnership	CU with Turkey	FTA with Canada	WTO rules
Single Market (SM) access?	Yes	Yes	Partial	Yes, but	No	No	No
Free labour mobility?	Yes	Yes	Yes	Limited	No	No	No
Part of SM rules?	Yes	Yes	Partial	Yes	No	No	No
Say in SM rulemaking?	Yes	No	No	Partial	No	No	No
Bound by ECJ SM decisions?	Yes	Yes	Partial	Yes	No	No	No
Duty-free access in goods?	Yes	Yes	Yes	Yes	Yes	Yes	No
Market access for services?	Yes	Yes	Partial	Yes	No	Partial	No
Part of EU commercial policy?	Yes	No	No	Yes, Possibly	Yes	No	No
Part of EU agricultural policy?	Yes	No	No	No	No	No	No
Contribution to the EU budget?	Yes	Yes	Yes	Yes	No	No	No

UK: GDP growth and forecast



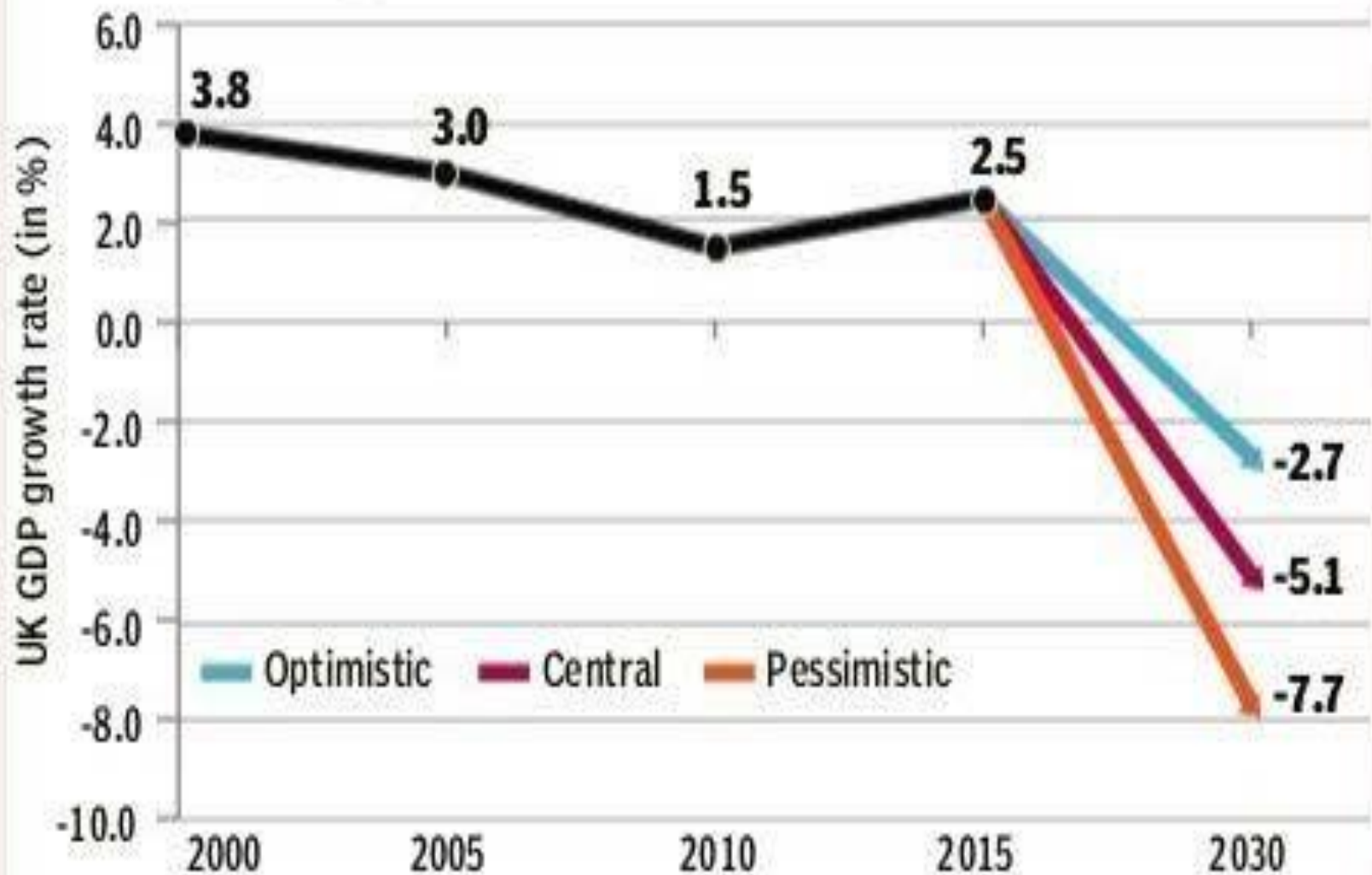
Source: BoE, Thomson

Predicted long-term effects on the UK's GDP



Source: OECD (2016), World Bank

Predicted long-term effects on the UK's GDP



Source: OECD (2016), World Bank

Brexit is negative for the EU

- Largest Military power will leave the EU.
- Second largest economic power will leave the EU
- Reduction in political power, because the EU loses 10% of its people and more than that politically
- The EU budget will be affected. The other members must pay even more to cover the costs of UK contribution
- English language will be less used in the EU institutions. Ireland and Malta aren't powerful enough to keep it. French, German and Spanish will probably rise in influence
- Ireland will suffer the most from the Brexit (economically, but also because of the Northern Ireland issue)
- Brexit will weaken those forces in the EU that favour greater integration

Brexit provides the EU with new opportunities.

- The UK was the most reticent of the EU members when it came to discussing reform
- Without the UK, it will be easier to make progress on long needed reforms
- Now more easy to develop its own foreign and security policy (Macron proposals)
- Rise of Frankfurt/Dublin/Paris as new financial centers at the expense of London
- Other Europeans became more aware of how important the EU is to them
- Since Brexit no further rise for anti-EU movements in other European countries, more voters go to the polls

PART 3: Economic Perspectives for the EU and ASEAN

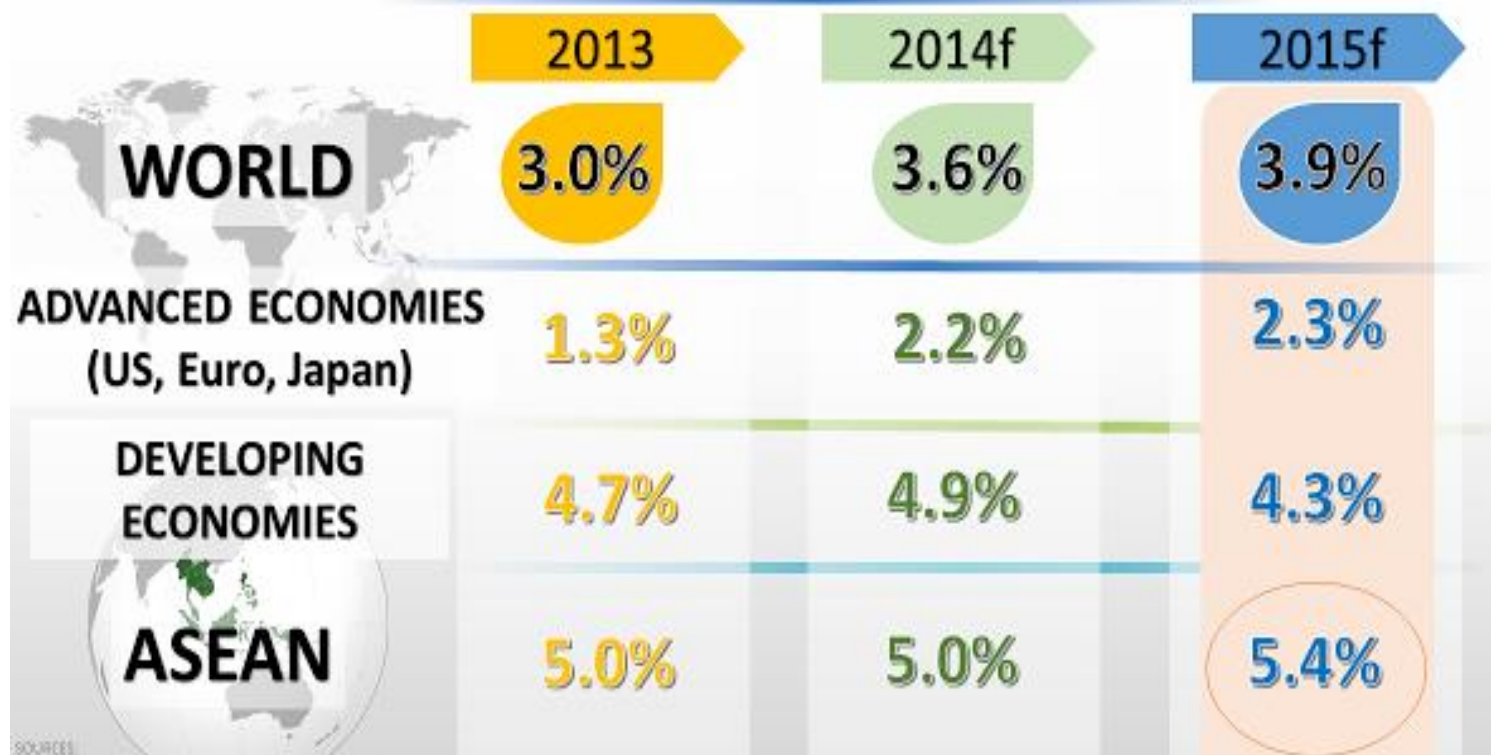


Perspectives

- In contrast to the EU, the AEC has greater potential for economic growth with rising population, rising incomes, growing consumer sophistication, and improving infrastructure
- The expected increase in the intra-ASEAN trade will be very important due to a predicted rapid expansion of the number of people with middle class income in ASEAN
- Over the medium to long term, ASEAN is expected to remain among the fastest growing regions in the world – not least to the process of regional integration

Perspectives

GDP GROWTH OF **ASEAN** VS. OTHER MAJOR ECONOMIES REAL GDP GROWTH, YEAR-OVER-YEAR (Y-O-Y)



SOURCES:

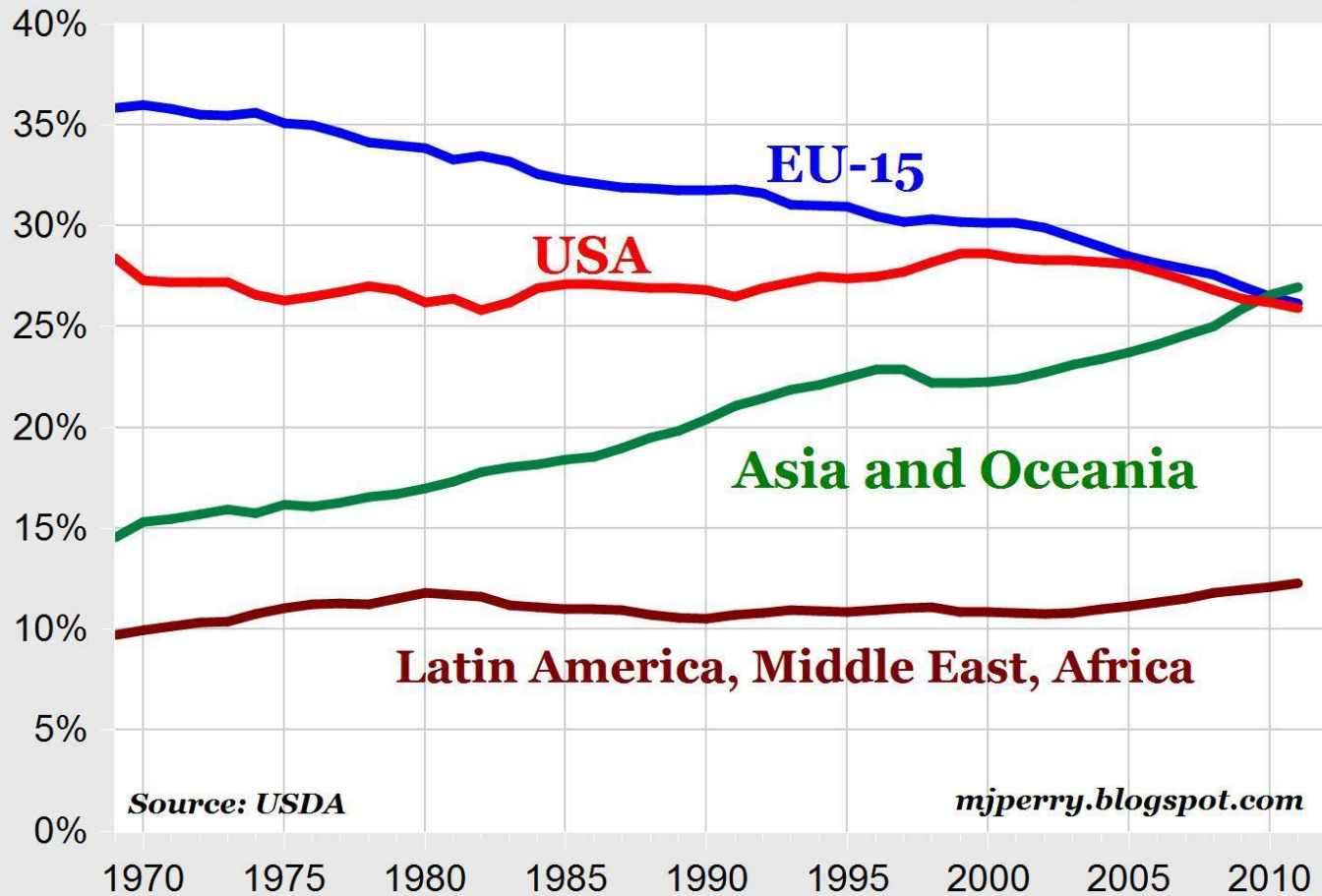
World Map: <http://www.cba.com.sg/par-grow-world-map-1.html>

ASEAN Map: http://commons.wikimedia.org/wiki/File:Association_of_Southeast_Asian_Nations_N28orthographic_projection029.svg

Date: IMF's World Economic Outlook, April 2014; ADB's Asian Development Outlook, April 2014. As cited in Taringo, A. (2014). Asian Economic Community: Implications for the Philippine Economy (Powerpoint Slides), Marketing and Opinion Research Society of the Philippines, Mandalang City, Philippines.

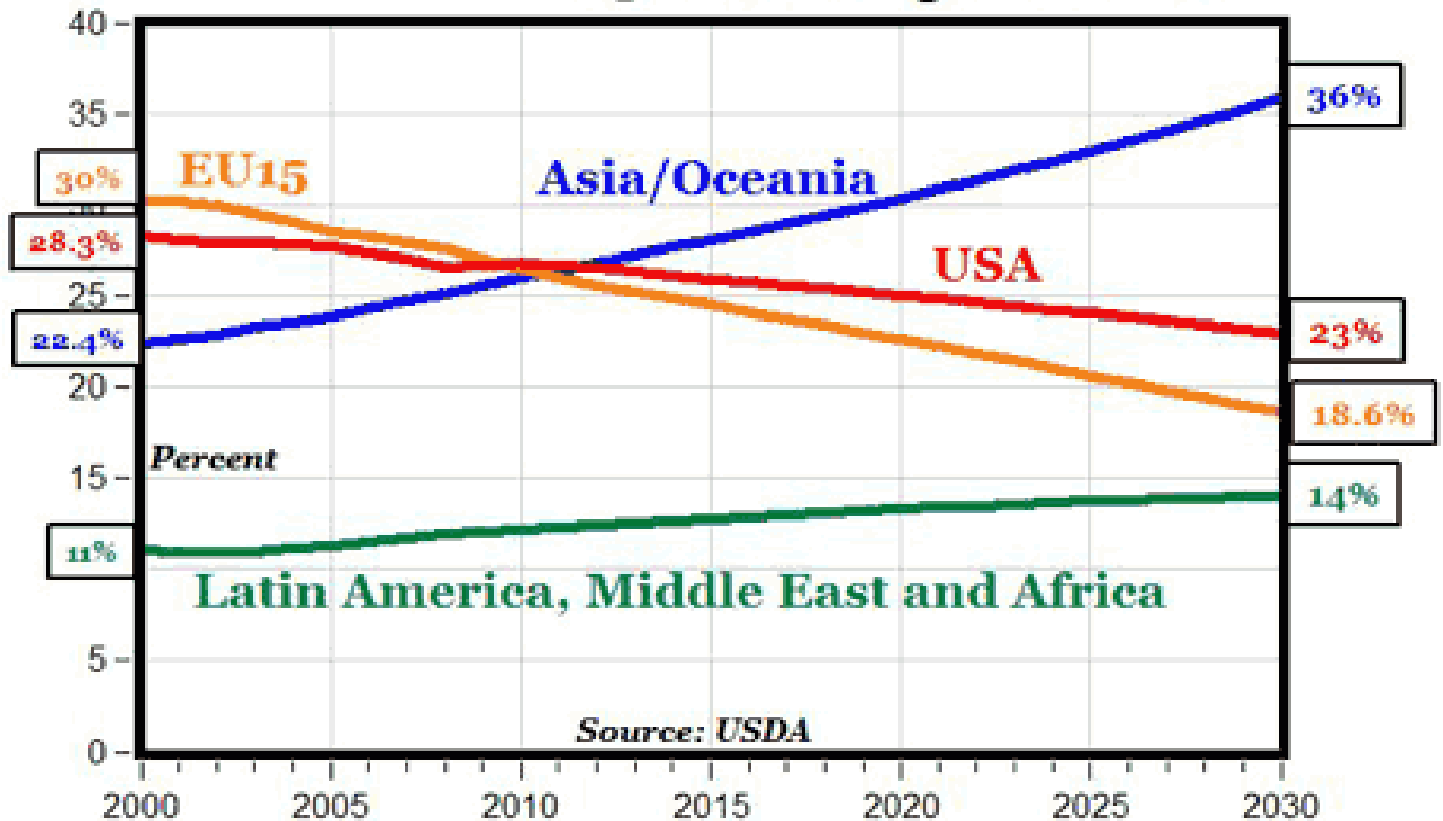
Perspectives

Shares of World GDP, 1969-2011



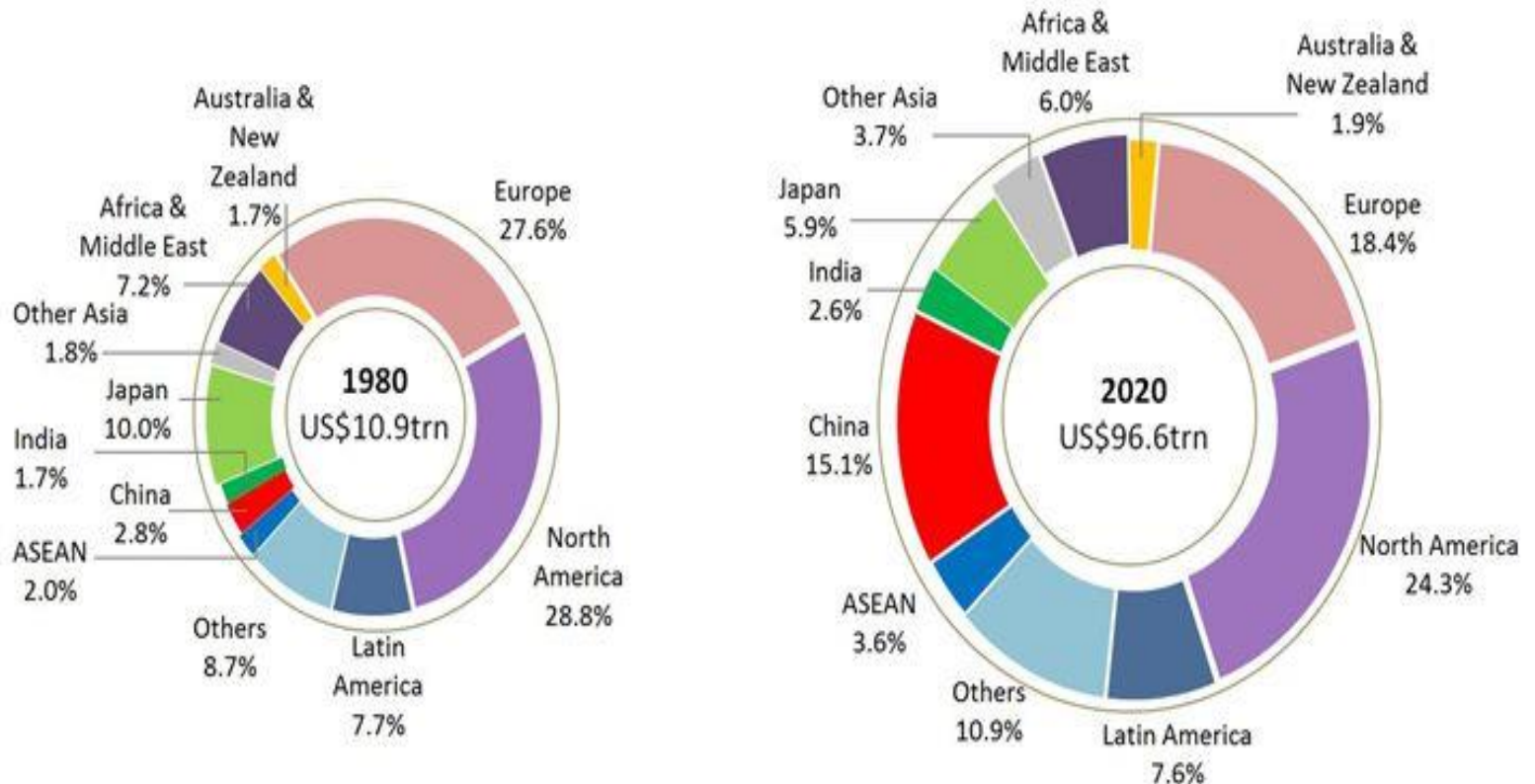
Perspectives

Share of Real World GDP 2000 - 2030 (Projected)



Perspectives

Figure 1: Global GDP by Region, 1980 vs. 2020



Source: IMF World Economic Outlook Database, October 2013;

Conclusion

- ASEAN will continue to be one of the most rapid growing regions in the world
- The AEC will foster intra-ASEAN trade and offers economies of scale to attract foreign investors
- The EU will stay a global economic super power, but will be occupied with its internal struggles (including Brexit) in the near future
- Brexit will be more a damage for the UK's economy than for the EU, which is nevertheless weakened
- Re-launch of EU-ASEAN FTA negotiations

Transforming And Shaping Communities Through Sustainable Social Entrepreneurship

Tamako Watanabe
Specialist of Social Impact Business
The Japan Research Institute, Lmted.

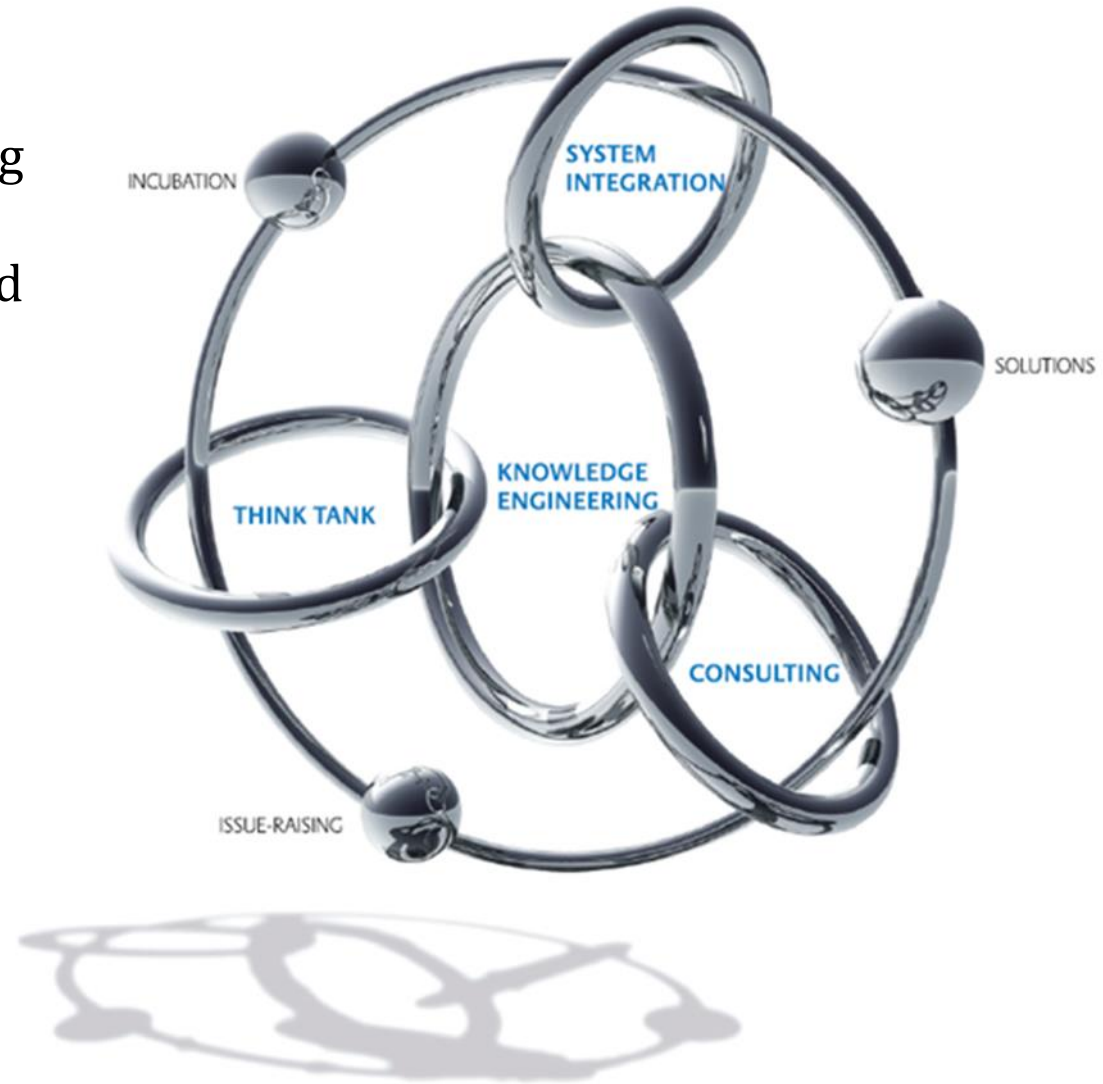
Introduction

Think Tank and “Do tank”

- Economic research and making policy proposals
- Incubating new businesses and market for our community

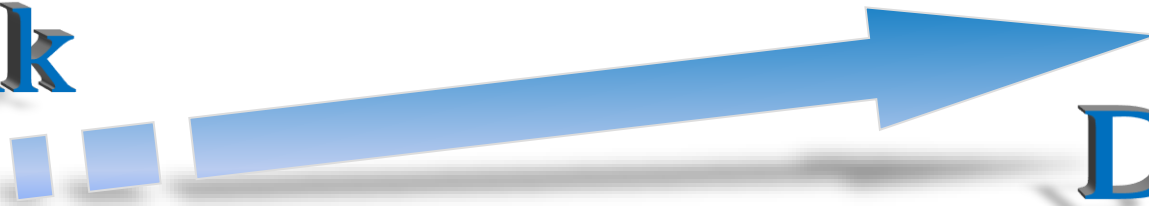
Business Consulting

- Business consulting
- Global market research



Introduction

Think



Do

Propose of hypothesis of business model

Establish consortium

Product out & Test marketing

Start up project

Implementation

New Societal Systems

Social Innovation

Leading Edge Businesses

Agriculture

Transportation

Elderly Care

Green Energy

Smart City

ESG

Global Expansion

Contents

- 1. Study of Social Entrepreneurship and Innovation Ecosystem**
- 2. Case of Transforming Society ~Florence~**
- 3. *New Movements to Boost Up Social Entrepreneurship in Japan***

Social Entrepreneurship and Innovation Ecosystem

Study of Social Entrepreneurship and Innovation Ecosystem

- In-depth country-level studies on social entrepreneurship and innovation ecosystem in six Asian countries
China, Japan South Korea, Singapore, Thailand, and the Philippines
- A part of wider comparative study between the Latin American Pacific Alliance countries (Chile, Columbia, Costa Rica, Mexico and Peru)
- Detailed analysis of 12 social enterprises from Asian regions



<https://publications.iadb.org/bitstream/handle/11319/8070/Study-of-Social-Entrepreneurship-and-Innovation-Ecosystems-in-South-East-and-East-Asian-Countries-Regional-Analysis-Japan-Kingdom-of-Thailand-People-Republic-of-China-Republic-of-Korea-Republic-of-the-Philippines-and-Republic-of-Singapore.pdf?sequence=1&isAllowed=y>

Social Entrepreneurship and Social Innovation Movement

South Korea and Singapore:

- Mature ecosystems under strong government leadership
- Challenges in fostering sustainability and innovativeness

China and Japan:

























- Bottom-up development type of ecosystem, responding to the social needs unmet by the government and businesses
- Chinese ecosystem has a huge growth potential

Thailand and the Philippines:

- Poverty alleviation efforts by the government
- intermediaries play unique roles



Maturity Level of Ecosystem Development

	Public Sector	Specialized Intermediaries	Academia	Financial Support Programs
Benchmark – Green	A Social Enterprise Law enacted	More than 3 intermediaries, referred by key players interviewed for this study, in each of the following support areas: 1) HR, 2) product & services, 3) info and other support	A social entrepreneurship diploma course (undergraduate/graduate) established	More than 3 organizations (excluding public agencies), referred by key players interviewed for this study, in each of the following areas: 1) grantmaking, 2) mainstream financial institutions, 3) impact investing funds
Benchmark – Yellow	A SE Support Agency established	1-2 intermediaries referred in each support area	A social entrepreneurship course w/out diploma established	In between above and below.
Benchmark – Red	None of the above	No intermediary referred in more than one support area	None of the above	Absence of players referred in two or three areas
Japan				
China				
South Korea				
Singapore				
Thailand				
Philippines				

Social enterprise cases that increased its motivation for profit-making

Mission Motive
 Stakeholder accountability
 Income reinvested in social programs or operational cost

Profit-Making Motive
 Shareholder accountability
 Profit distributed to shareholders

	Traditional Nonprofit	Nonprofit with income-generation < 50% business revenues	Nonprofit with income-generation >50% business revenues	Social enterprise* *The narrow definition All profits reinvested in the business	Socially responsible business Mission-driven for-profit	Traditional for-profit Pure profit orientation
	Purely charitable funding from grants, donations or endowment	Yawaragi (JPN)	Florence (JPN) Woozoo (KR)		Earth & People (CHN) Kennemer Foods Int'l (PH) Travelers Map (KR) Rags 2 Riches (PH) Betr Barista (SG)	
	Mae Fah Luang Foundation (Doi Tung Development Project, TH)					
	Leping Group (CHN)					
					Daichi wo Mamoru Kai (JPN) Opendream (TH)	
Social Impact Motivation	High	High	High	High	High	Low
Profit Motivation	Low	Low to medium	Medium	High	High	High

Common Characteristics and Challenges for Social Enterprise

Growth Stage

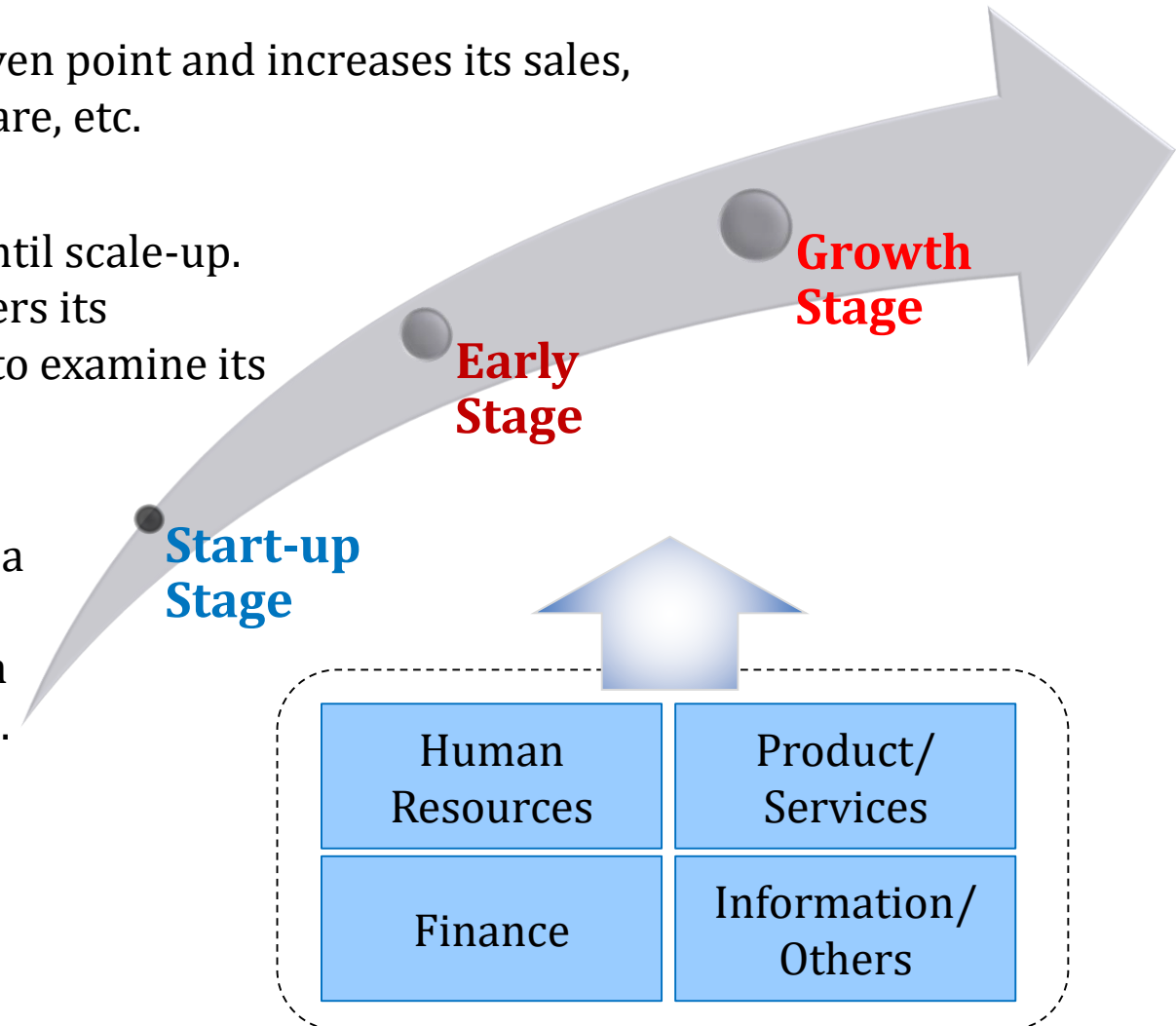
- The business surpasses the breakeven point and increases its sales, number of beneficiaries, market share, etc.

Early Stage

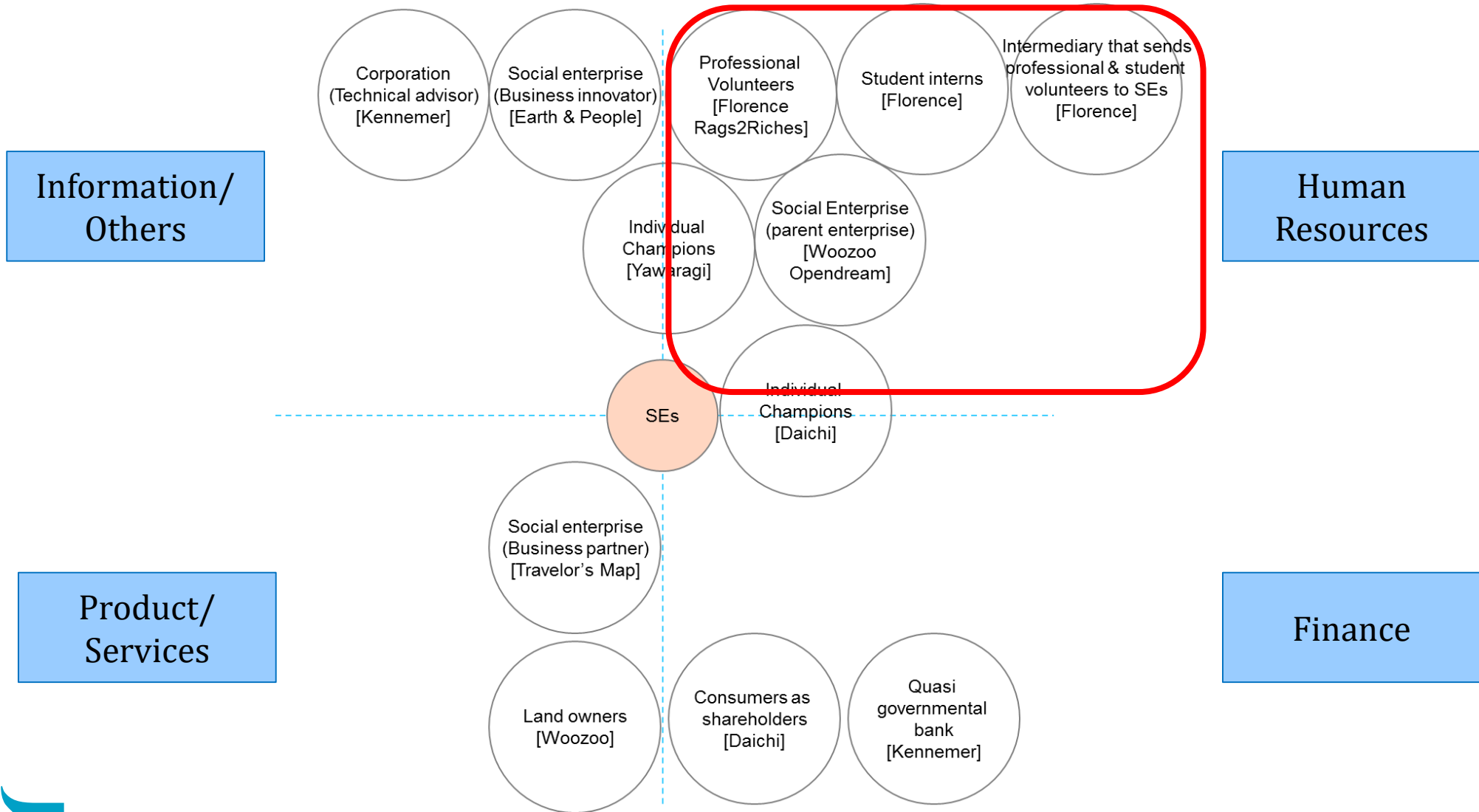
- A period from business initiation until scale-up.
- An entrepreneurial team first delivers its products/services in a test market to examine its business model.

Start-up Stage

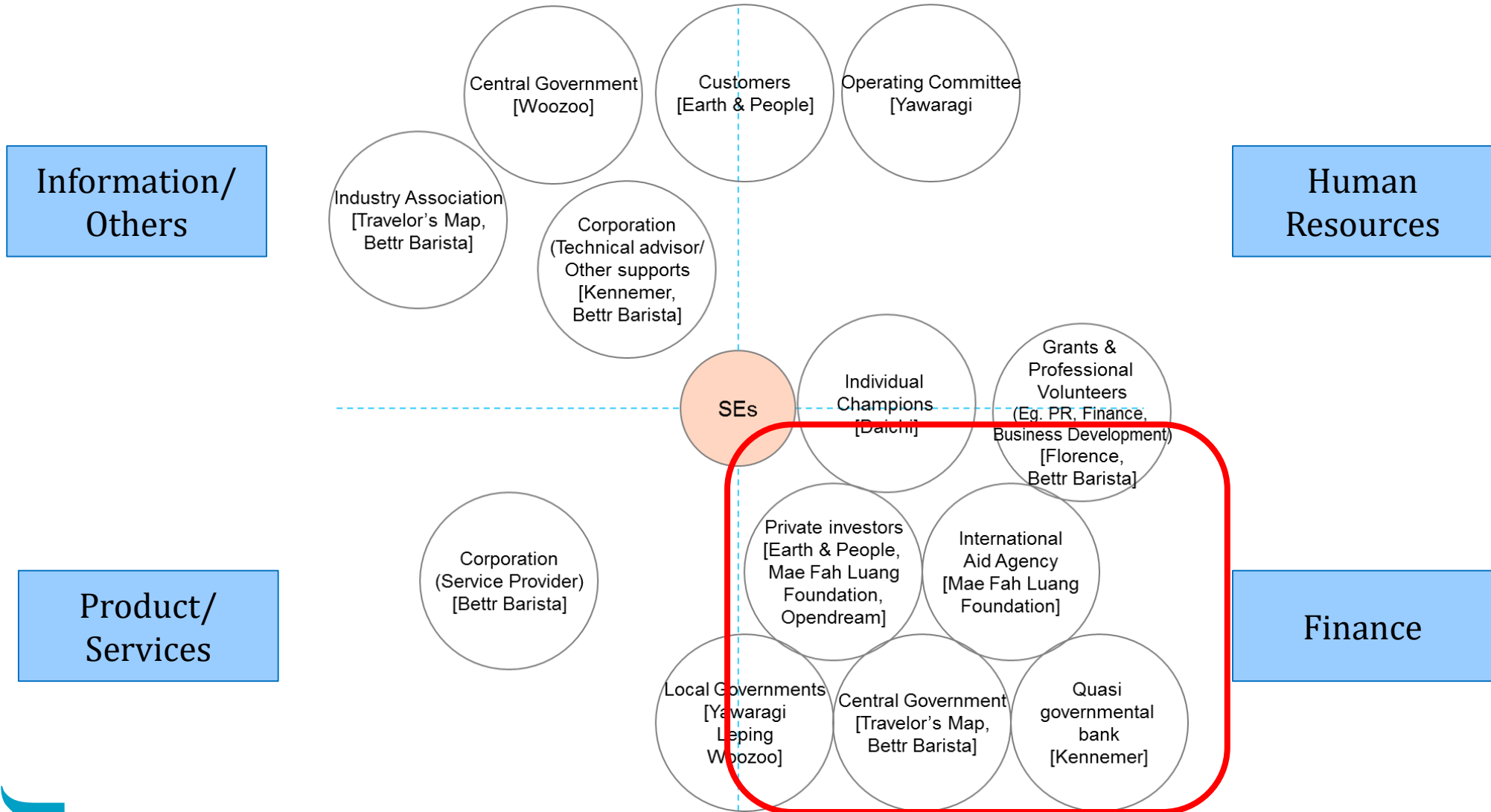
- A preparation period for setting up a business.
- An entrepreneurial team develops a business idea and a business model.



At Start-up Stage

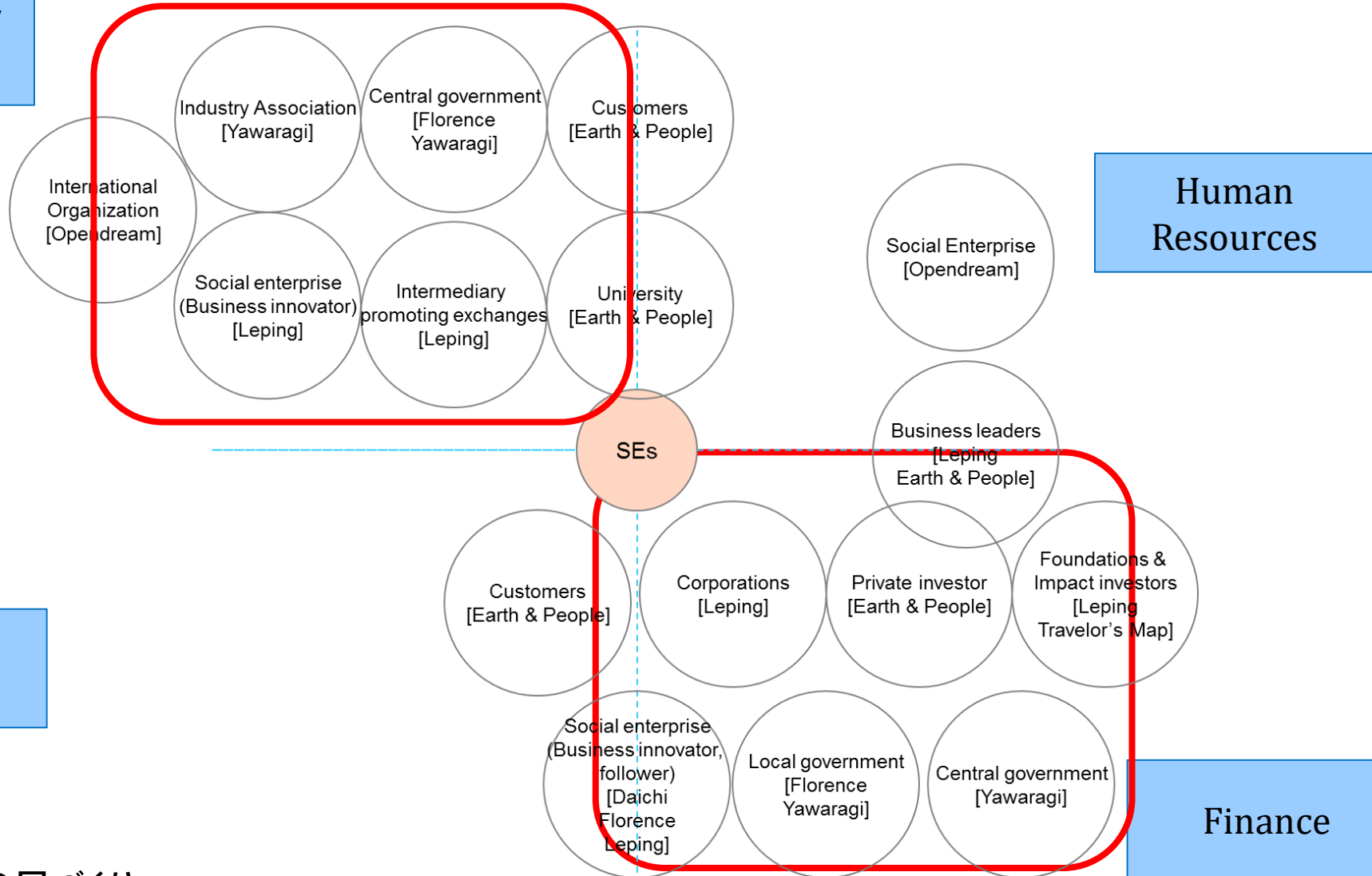


At Early Stage



At Growth Stage

Information/
Others



Product/
Services

Human
Resources

Finance

Transforming societies

New Market Creation



Travelers'MAP

New approaches in their markets when they started

Systemic Change



Change in public policies or public support systems triggered by social enterprises

Scale Out
Impacting
greater number

Ecosystem Creation



Build own ecosystems for developing social enterprises and stakeholders in the same group

Scale Up
Impacting
law and policy

Case of Transforming Society *~Florence~*

About Florence

Description	An innovator of new business models that address child-care related social issues. Started Japan's first home-based care for sick children, small-scale nurseries, and nurseries catering to disabled children
Founded	2004 (Tokyo, Japan)
Founder	Hiroki Komazaki
Legal format	Not for Profit Organizatino (NPO)
Num. employees/volunteers	344 (including part-time, as of September 2015)
Geographical reach	Tokyo, Chiba, Kanagawa and Saitama prefectures, Japan



Major social challenges that Florence tackles

Severe lack of nurseries for working parents in Japan

- Only 2% of the Japanese working parents use babysitters compared to 41% in the U.S. and 17% in France(*1)
- Despite high demand, local governments face great difficulty in securing land for building nurseries
- As of 2015, a total of 23,167 children ended up on wait lists and could not enter nurseries
- A large number of working parents, especially mothers, are forced to give up the opportunity of continuing or returning to work

Less enough facilities for caring sick children

- Japanese nurseries do not accept children who have a fever over 99.5 degrees Fahrenheit (37.5 Celsius) or are in their recovery days from infectious diseases
- Only 3% of the total number of nurseries provides care for sick(*2)
- Working mothers are often forced to take days off from

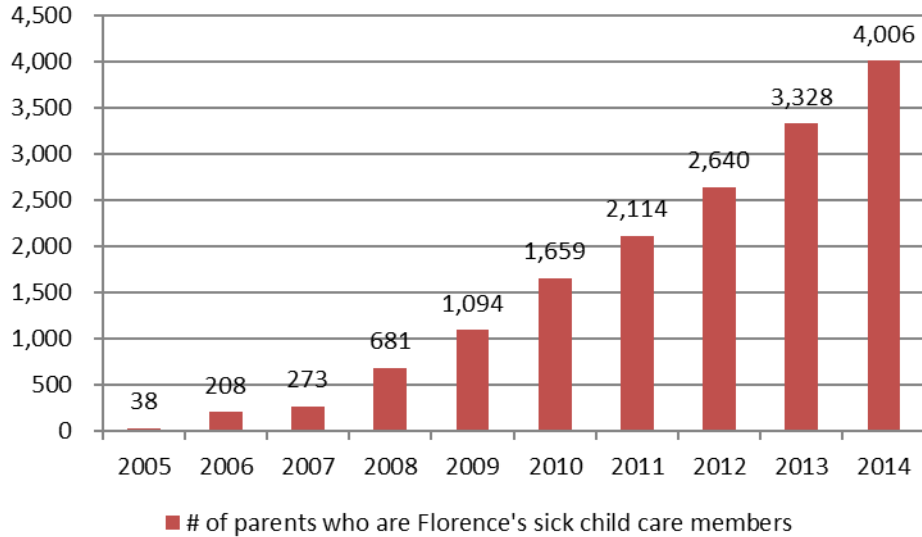
(*1 <http://www.nwec.jp/jp/publish/report/page16.html> [Accessed 4 February 2016](in Japanese))

(*2 <http://www.mhlw.go.jp/shingi/2009/09/dl/s0930-9b.pdf> [Accessed 4 February 2016] (in Japanese))

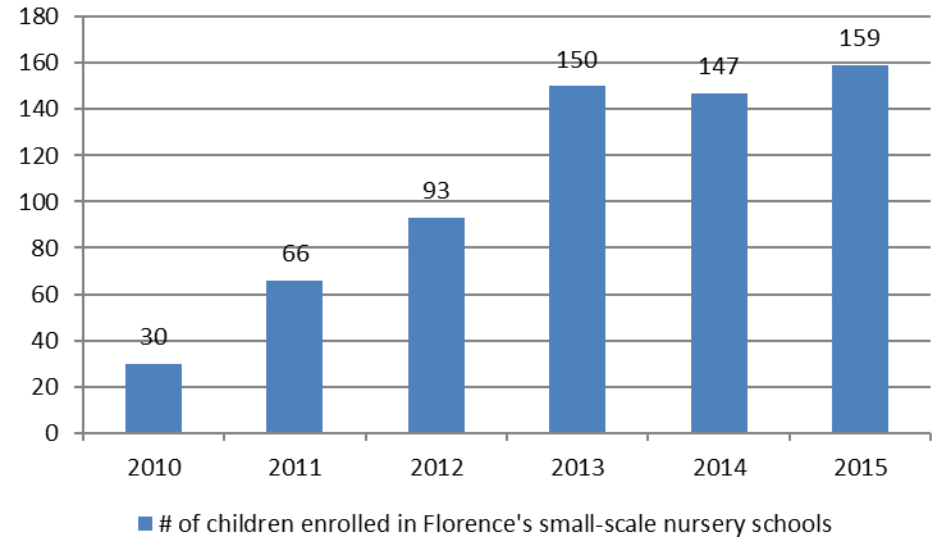
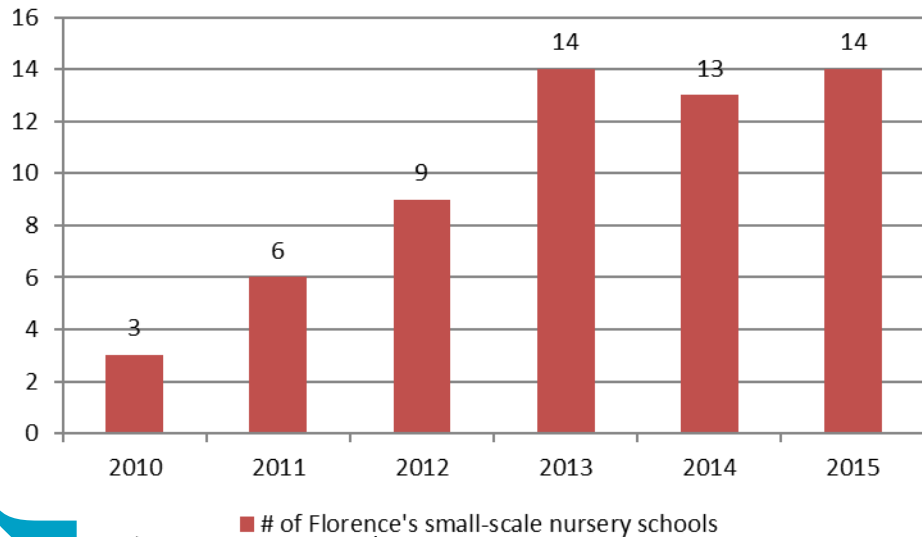
Florence's social innovation variables

Social Innovation	Japan's first home-based care for sick children, small-scale nursery school model and nursery school and home-based child care for children with disabilities
Social impact	<p>A) Care service for sick children: Services to over 4,000 parents. Replicated by another nonprofit organization.</p> <p>B) Small-scale nurseries: Operates 14 nurseries. Based on its model, the government passed a new law that certified 1,655 small-scale nurseries.</p>
Financial sustainability	Annual revenue of USD 8.63 million in 2014
Scalability and replicability	<p>A) Care service for sick children: Proven to be scalable and replicable especially in big cities.</p> <p>B) Small-scale nurseries: It is highly replicable The government needs to shoulder the extra finance to cover the cost of childcare and nursery school teachers</p>

Florence's social impact



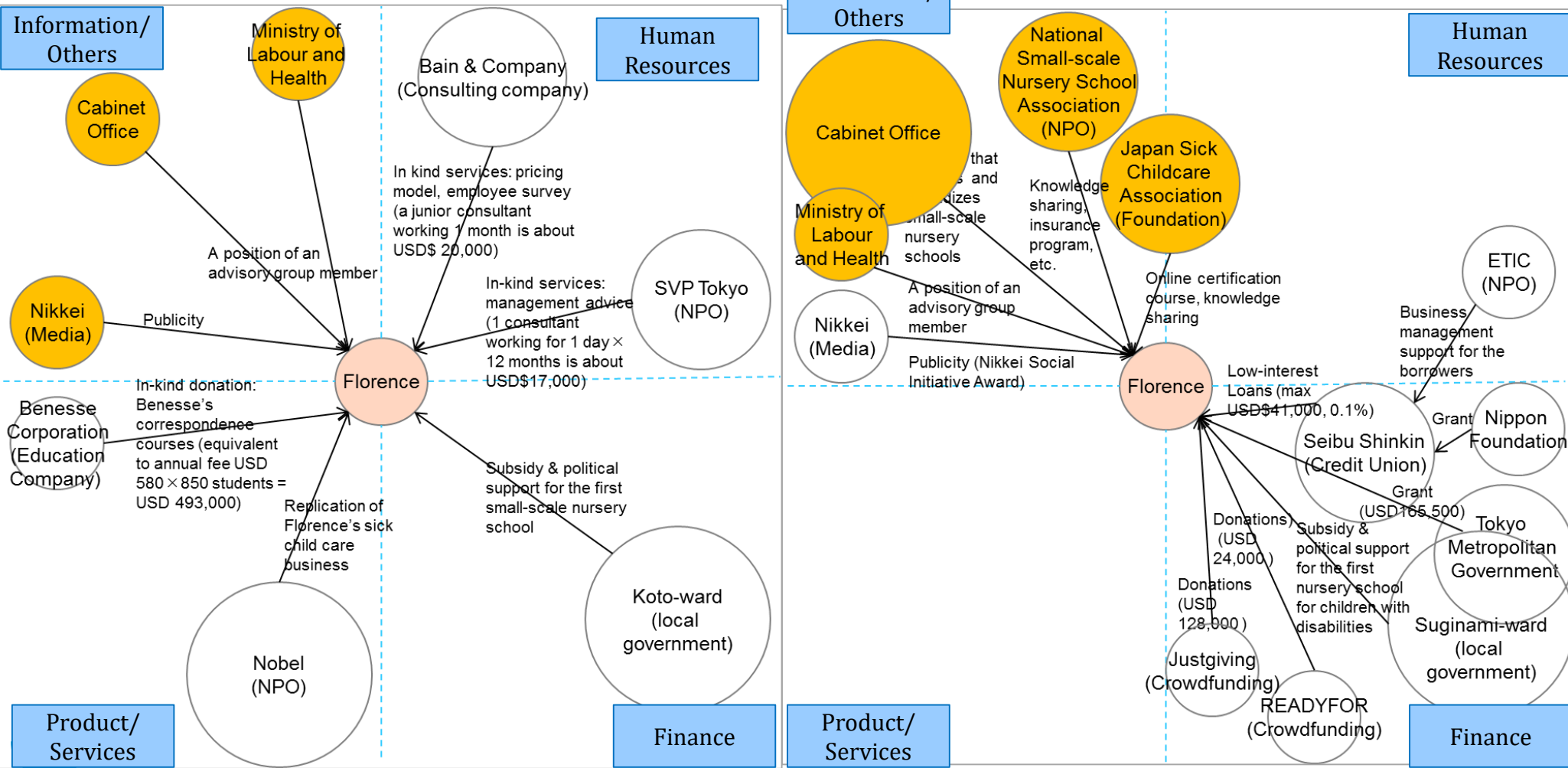
Other than quotative assessment, the Internal Key Performance Indicators (KPIs) for assessing Florence's social performance that are utilized internally for improving its management



Key stake holders for systemic change

Growth Stage I (2008 – July 2012)

Growth Stage II (July 2012 -)



New Movements to Boost Up Social Entrepreneurship in Japan

Social Impact Evaluation

Concept has been gradually accepted by various stakeholders

- Cabinet office publishes Japan's first comprehensive research report of social impact evaluation in May, 2016
- Enhance accountability to society including tax payer
- Necessary to involve various stakeholders from private sector to tackle with complex social issues efficiently and effectively, in particular, for the issue of declining birthrate and a growing proportion of elderly people.
- Necessary to improve business operation

Trying to incorporate social impact evaluation into financial services

- In 2016, Japan Finance Corporation(JFC), a public financial corporation wholly owned by the Japanese government started to develop its original impact evaluation indicators utilized for loan examination for elderly care business
- Ministry of Health, Labor and Welfare also started to develop social performance evaluation indicators for small and medium sized elderly care business operators.

Incubation & Innovation Initiative

Incubation & Innovation Initiative (Triple I)



The Japan Research Institute (planning and organizing)

- 1) Offering an acceleration program (Mirai) for startups.
- 2) Promote joint research and projects among a wide range of actors.
- 3) Suggest required policies and public-private partnerships which do not hinder innovation but reflect social and economic reality.

Sumitomo Mitsui Financial Group Sumitomo Mitsui Bank Corporation

- 1) Providing network and resources
- 2) Business development in the specific fields including fintech

Advisors (Accelerator, legal specialists)

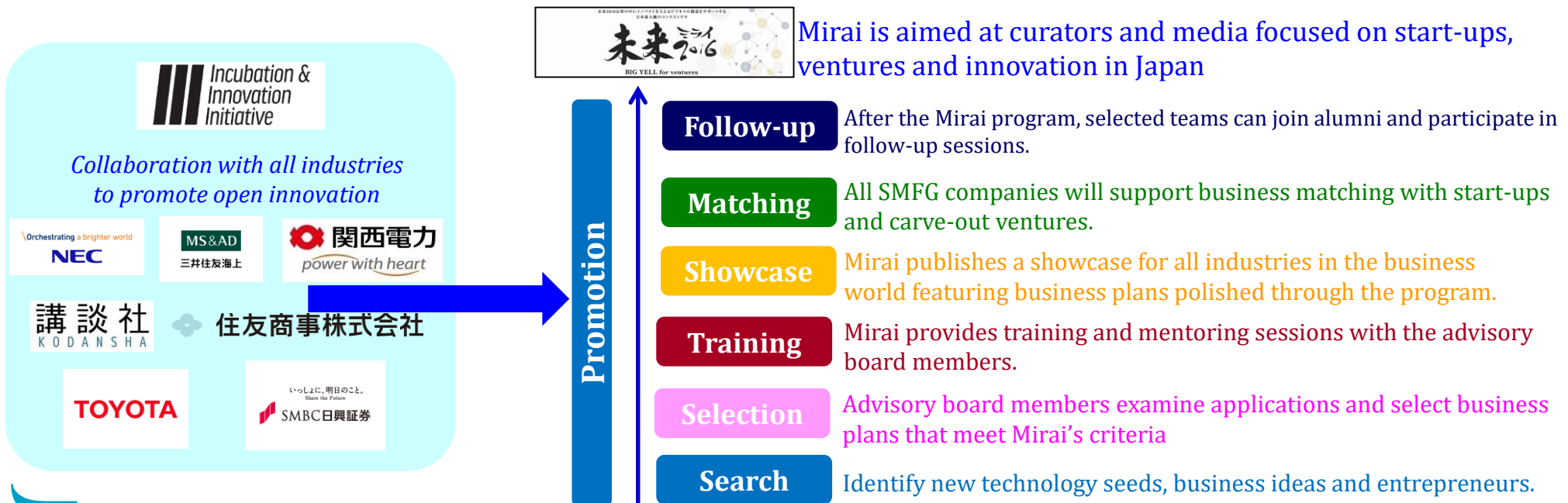
- 1) Supporting commercialization
- 2) Supporting design of a legal system

Consortium Members

- 1) Providing network and resources
- 2) New business development in partnership with start-ups and the advisors.

Mirai ~ Japan's largest acceleration program for entrepreneurs

- Mirai is an acceleration program organized by IRI for commercialization of new business ideas and technology seeds.
- Mirai is aimed at:
 - i. Identifying new startups and entrepreneurs;
 - ii. Providing a mentorship and training necessary for startups to develop their business;
 - iii. Implementing a pitch contest as a showcase;
 - iv. Business matching with investors and corporations.

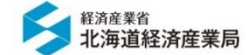


Key stakeholders (as of 2016)

■ Consortium Members (as of August 2016)



■ Japanese Partners

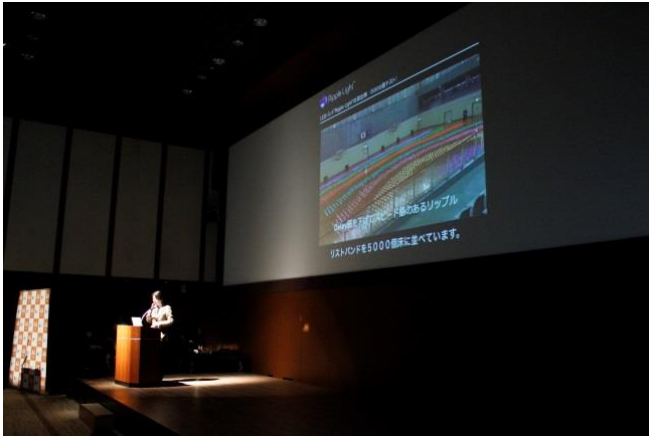


■ Global Network



Pitch Contest & Booth Exhibition

- Over 1,000 audience were interested, and viewed the Mirai pitches.
- Mirai offered them opportunities for business matching and networking at the startups' exhibition booths.



Thank you

Contact Address: watanabe.tamako@jri.co.jp

Appendix of “Study Of The Effectiveness Level of Rural Bank Governance Based on POJK No.4/ POJK.03/ 2015 in the Working Area of Otoritas Jasa Keuangan Malang” (Suganda, Manalu, Hutapea, & Wijayanti)

Questionnaires

NO.	Uraian Pertanyaan	BP	JR	SR	SL
A.	Keterbukaan (Transparency)	1	2	3	4
1	BPR menjelaskan visi, misi, dan strategi, serta sasaran kepada seluruh karyawan	1	7	18	11
2	BPR memiliki struktur organisasi yang sesuai dengan kompetensi karyawan dan mutakhir (up to date)	0	4	7	26
3	BPR menjelaskan sasaran dan rencana kerja kepada seluruh karyawan untuk mencapai tujuan	0	5	12	20
4	Kebijakan BPR menjelaskan tentang rekrutmen, mutasi, rotasi, pengembangan, sampai dengan pemberian pesangon dan atau pensiun kepada karyawan	2	16	11	8
5	Kebijakan BPR tentang penilaian kinerja karyawan dan hasil penilaiannya telah tertulis dan dikomunikasikan kepada karyawan yang bersangkutan	5	11	14	7
6	Kebijakan BPR tentang kompensasi, insentif, dan bonus karyawan telah tertulis dan dikomunikasikan kepada pihak yang berkepentingan (stakeholders) dan yang berhak memperoleh informasi tentang kebijakan tersebut	0	5	11	21
7	BPR menyampaikan informasi produk dan jasa, menerapkan pengelolaan pengaduan nasabah dengan efektif, serta memelihara data dan informasi pribadi nasabah secara memadai	1	1	12	23
8	BPR mengungkapkan informasi keuangan dan non-keuangan kepada publik secara tepat waktu, memadai, jelas, akurat, dan dapat dieprbandingkan, serta mudah diakses oleh pihak-pihak berkepentingan (stakeholders) sesuai dengan haknya	1	0	6	30
9	Laporan Pelaksanaan Good Corporate Governance (GCG) telah diasikan secara lengkap, akurat, terkini, dan telah disampaikan tepat waktu kepada shareholder (pemegang saham) dan pihak-pihak berkepentingan (stakeholders) sesuai ketentuan yang berlaku	24	5	3	4
	TOTAL	34	54	94	150
	PERSENTASE	10%	16%	28%	45%

NO.	Uraian Pertanyaan	BP	JR	SR	SL
B.	Akuntabilitas (Accountability)				
1	BPR telah menetapkan wewenang dan tanggung jawab yang jelas dari masing-masing jaran yang selaras dengan visi, misi, sasaran usaha dan strategi BPR	0	1	11	25
2	BPR telah menunjuk Direktur atau Pejabat yang membawahkan fungsi kepatuhan BPR	18	1	8	10
3	Adanya pemisahan fungsi antara pencatattan, penerimaan, pengeluaran, penyimpanan, serta membandingkan dengan catatan sebelumnya	0	0	9	28
4	Kebijakan BPR memiliki Pejabat eksekutif yang independen atau unit kerja/tim audit internal (SKAI) yang secara periodik melakukan audit di internal BPR (keuangan, operasional, dan kepatuhan), serta memiliki sistem pemberian penghargaan dan sanksi (reward and punishment system)	9	3	10	15
5	Kebijakan Audit BPR untuk menentukan ketaatan pada hukum dan peraturan, baik dari internal maupun eksternal	6	3	10	18
6	Kebijkaan Audit BPR untuk melihat hasil program kerja dengan kesesuaian tujuan dan sasaran BPR.	6	3	8	19
7	Kebijakan BPR mencakup identifikasi, pengelolaan, dan evaluasi risiko dalam rangka penerapan manajemen risiko.	2	2	13	17
	TOTAL	41	13	69	132
	PERSENTASE	16%	5%	27%	52%

NO.	Uraian Pertanyaan	BP	JR	SR	SL
C.	Pertanggungjawaban (Responsibility)				
1	Untuk menjaga kelangsungan usahanya, BPR berpegang pada prinsip kehati-hatian (prudential BPR banking practices) dan menjamin dilaksanakannya ketentuan yang berlaku	0	0	4	33
2	BPR memiliki Pedoman, Sistem, Prosedur Kerja, dan Disiplin Kerja seluruh tingkatan atau jenjang organisasi BPR yang terkini, dan sesuai dengan ketentaun dan perundang-undangan yang berlaku	0	1	8	28
3	Kebijakan BPR telah menetapkan ukuran kinerja (keberhasilan) dari semua jajaran berdasarkan ukuran-ukuran yang konsisten sebagai corporate values	3	7	12	14
4	BPR telah bertindak sebagai warga perusahaan yang baik (Good Corporate Citizen/GCC), termasuk peduli terhadap lingkungan dan melaksanakan tanggung jawab sosial (Corporate Social Responsibility/CSR)]	3	11	9	14
	TOTAL	6	19	33	89
	PERSENTASE	4%	13%	22%	61%

NO.	Uraian Pertanyaan	BP	JR	SR	SL
D.	Independensi (Independency)				
1	BPR memiliki kebijakan, sistem, dan prosedur penyelesaian mengenai benturan kepentingan yang mengikat seluruh jajaran BPR	9	7	7	11
2	Kebijakan BPR secara tertulis tentang Penyediaan Dana kepada Pihak Terkait dan atau Penyediaan Dana besar	15	2	6	13
3	Pemegang saham pengendali TIDAK menjabat sebagai Komisaris BPR	14	2	1	19
4	Direktur TIDAK memiliki saham melebihi 25% dari saham BPR	14	2	0	21
5	TIDAK ADA hubungan kekeluargaan yang sifatnya langsung maupun tidak langsung di dalam kepengurusan BPR	13	0	1	23
6	BPR mengungkapkan benturan kepentingan dalam setiap keputusan, dilengkapi dengan risalah rapat, telah diadministrasi dan didokumentasi dengan baik	10	7	4	16
	TOTAL	75	20	19	103
	PERSENTASE	35%	9%	9%	47%

NO.	Uraian Pertanyaan	BP	JR	SR	SL
E.	Kewajaran (Fairness)				
1	Kebijakan BPR senantiasa memperhatikan kepentingan seluruh karyawan dalam hal kesempatan berkembang, memperoleh hak/kesejahteraan berdasarkan asas kesetaraan dan kewajaran (equal treatment)	0	1	6	30
2	Kebijakan BPR yang dikeluarkan lebih mengutamakan kepentingan BPR daripada kepentingan (shareholders)	0	2	6	29
3	BPR memberikan kesempatan kepada seluruh pihak-pihak berkepentingan (stakeholders) untuk memberikan masukan dan menyampaikan pendapat bagi kepentingan BPR, serta mempunyai akses terhadap informasi sesuai dengan prinsip keterbukaan	1	1	9	26
4	Etika Kerja/Etika Bisnis telah dibuat dan disebarluaskan, serta dilakukan evaluasi terhadap penerapannya untuk menjaga hubungan dengan pihak lain, baik dengan pemegang saham, kreditor, nasabah, maupun dengan pihak berkepentingan lainnya	2	8	8	19
	TOTAL	3	12	29	104
	PERSENTASE	2%	8%	20%	70%

Appendix of Pineapple Greeting Art Business Plan (Prasastia).

1. Cash Flow: Normal Scenario

Komponen	Tahun					
	0	1	2	3	4	5
Pendapatan						
Modal	Rp 203,702,000.00	Rp -	Rp -	Rp -	Rp -	Rp -
Penjualan Produk		Rp 588,000,000.00	Rp 619,399,200.00	Rp 652,475,117.28	Rp 687,317,288.54	Rp 724,020,031.75
HPP		Rp 176,400,000.00	Rp 185,819,760.00	Rp 195,742,535.18	Rp 206,195,186.56	Rp 217,206,009.53
Laba Kotor		Rp 411,600,000.00	Rp 433,579,440.00	Rp 456,732,582.10	Rp 481,122,101.98	Rp 506,814,022.23
Pengeluaran						
Gaji Karyawan		Rp 139,046,400.00	Rp 145,303,488.00	Rp 151,842,144.96	Rp 158,675,041.48	Rp 165,815,418.35
Tunjangan Kesehatan Karyawan		Rp 4,896,000.00	Rp 5,116,320.00	Rp 5,346,554.40	Rp 5,587,149.35	Rp 5,838,571.07
Biaya Listrik		Rp 24,000,000.00	Rp 25,080,000.00	Rp 26,208,600.00	Rp 27,387,987.00	Rp 28,620,446.42
Biaya Telepon		Rp 6,000,000.00	Rp 6,270,000.00	Rp 6,552,150.00	Rp 6,846,996.75	Rp 7,155,111.60
Biaya Internet		Rp 7,200,000.00	Rp 7,524,000.00	Rp 7,862,580.00	Rp 8,216,396.10	Rp 8,586,133.92
Biaya pemasaran		Rp 9,000,000.00	Rp 9,405,000.00	Rp 9,828,225.00	Rp 10,270,495.13	Rp 10,732,667.41
Biaya rumah tangga		Rp 3,600,000.00	Rp 3,762,000.00	Rp 3,931,290.00	Rp 4,108,198.05	Rp 4,293,066.96
Bonus Karyawan		Rp 41,160,000.00	Rp 43,357,944.00	Rp 45,673,258.21	Rp 48,112,210.20	Rp 50,681,402.22
Depresiasi		Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00
Pendapatan Sebelum Bunga dan Pajak		Rp 170,313,200.00	Rp 181,376,288.00	Rp 193,103,379.53	Rp 205,533,227.93	Rp 218,706,804.27
Bunga		Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00
Pendapatan Sebelum Pajak		Rp 157,072,570.00	Rp 168,135,658.00	Rp 179,862,749.53	Rp 192,292,597.93	Rp 205,466,174.27
Pajak		Rp 4,116,000.00	Rp 4,335,794.40	Rp 4,567,325.82	Rp 4,811,221.02	Rp 5,068,140.22
Laba Bersih	-Rp203,702,000.00	Rp 152,956,570.00	Rp 163,799,863.60	Rp 175,295,423.71	Rp 187,481,376.91	Rp 200,398,034.05

2. Cash Flow: Optimist Scenario

Komponen	Tahun					
	0	1	2	3	4	5
Pendapatan						
Modal	Rp 203,702,000.00	Rp -	Rp -	Rp -	Rp -	Rp -
Penjualan Produk		Rp 588,000,000.00	Rp 624,632,400.00	Rp 663,546,998.52	Rp 704,885,976.53	Rp 748,800,372.87
HPP		Rp 176,400,000.00	Rp 187,389,720.00	Rp 199,064,099.56	Rp 211,465,792.96	Rp 224,640,111.86
Laba Kotor		Rp 411,600,000.00	Rp 437,242,680.00	Rp 464,482,898.96	Rp 493,420,183.57	Rp 524,160,261.01
Pengeluaran						
Gaji Karyawan		Rp 139,046,400.00	Rp 145,303,488.00	Rp 151,842,144.96	Rp 158,675,041.48	Rp 165,815,418.35
Tunjangan Kesehatan Karyawan		Rp 4,896,000.00	Rp 5,116,320.00	Rp 5,346,554.40	Rp 5,587,149.35	Rp 5,838,571.07
Biaya Listrik		Rp 24,000,000.00	Rp 25,080,000.00	Rp 26,208,600.00	Rp 27,387,987.00	Rp 28,620,446.42
Biaya Telepon		Rp 6,000,000.00	Rp 6,270,000.00	Rp 6,552,150.00	Rp 6,846,996.75	Rp 7,155,111.60
Biaya Internet		Rp 7,200,000.00	Rp 7,524,000.00	Rp 7,862,580.00	Rp 8,216,396.10	Rp 8,586,133.92
Biaya pemasaran		Rp 9,000,000.00	Rp 9,405,000.00	Rp 9,828,225.00	Rp 10,270,495.13	Rp 10,732,667.41
Biaya rumah tangga		Rp 3,600,000.00	Rp 3,762,000.00	Rp 3,931,290.00	Rp 4,108,198.05	Rp 4,293,066.96
Bonus Karyawan		Rp 41,160,000.00	Rp 43,724,268.00	Rp 46,448,289.90	Rp 49,342,018.36	Rp 52,416,026.10
Depresiasi		Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00
Pendapatan Sebelum Bunga dan Pajak		Rp 170,313,200.00	Rp 184,673,204.00	Rp 200,078,664.71	Rp 216,601,501.36	Rp 234,318,419.18
Bunga		Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00
Pendapatan Sebelum Pajak		Rp 157,072,570.00	Rp 171,432,574.00	Rp 186,838,034.71	Rp 203,360,871.36	Rp 221,077,789.18
Pajak		Rp 4,116,000.00	Rp 4,372,426.80	Rp 4,644,828.99	Rp 4,934,201.84	Rp 5,241,602.61
Laba Bersih	-Rp 203,702,000.00	Rp 152,956,570.00	Rp 167,060,147.20	Rp 182,193,205.72	Rp 198,426,669.52	Rp 215,836,186.57

3. Cash Flow: Pessimist Scenario

Komponen	Tahun					
	0	1	2	3	4	5
Pendapatan						
Modal	Rp 203,702,000.00	Rp -	Rp -	Rp -	Rp -	Rp -
Penjualan Produk		Rp 588,000,000.00	Rp 559,305,600.00	Rp 532,011,486.72	Rp 506,049,326.17	Rp 481,354,119.05
HPP		Rp 176,400,000.00	Rp 167,791,680.00	Rp 159,603,446.02	Rp 151,814,797.85	Rp 144,406,235.72
Laba Kotor		Rp 411,600,000.00	Rp 391,513,920.00	Rp 372,408,040.70	Rp 354,234,528.32	Rp 336,947,883.34
Pengeluaran						
Gaji Karyawan		Rp 139,046,400.00	Rp 145,303,488.00	Rp 151,842,144.96	Rp 158,675,041.48	Rp 165,815,418.35
Tunjangan Kesehatan Karyawan		Rp 4,896,000.00	Rp 5,116,320.00	Rp 5,346,554.40	Rp 5,587,149.35	Rp 5,838,571.07
Biaya Listrik		Rp 24,000,000.00	Rp 25,080,000.00	Rp 26,208,600.00	Rp 27,387,987.00	Rp 28,620,446.42
Biaya Telepon		Rp 6,000,000.00	Rp 6,270,000.00	Rp 6,552,150.00	Rp 6,846,996.75	Rp 7,155,111.60
Biaya Internet		Rp 7,200,000.00	Rp 7,524,000.00	Rp 7,862,580.00	Rp 8,216,396.10	Rp 8,586,133.92
Biaya pemasaran		Rp 9,000,000.00	Rp 9,405,000.00	Rp 9,828,225.00	Rp 10,270,495.13	Rp 10,732,667.41
Biaya rumah tangga		Rp 3,600,000.00	Rp 3,762,000.00	Rp 3,931,290.00	Rp 4,108,198.05	Rp 4,293,066.96
Bonus Karyawan		Rp 41,160,000.00	Rp 39,151,392.00	Rp 37,240,804.07	Rp 35,423,452.83	Rp 33,694,788.33
Depresiasi		Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00	Rp 6,384,400.00
Pendapatan Sebelum Bunga dan Pajak		Rp 170,313,200.00	Rp 143,517,320.00	Rp 117,211,292.27	Rp 91,334,411.63	Rp 65,827,279.27
Bunga		Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00	Rp 13,240,630.00
Pendapatan Sebelum Pajak		Rp 157,072,570.00	Rp 130,276,690.00	Rp 103,970,662.27	Rp 78,093,781.63	Rp 52,586,649.27
Pajak		Rp 4,116,000.00	Rp 3,915,139.20	Rp 3,724,080.41	Rp 3,542,345.28	Rp 3,369,478.83
Laba Bersih	-Rp 203,702,000.00	Rp 152,956,570.00	Rp 126,361,550.80	Rp 100,246,581.87	Rp 74,551,436.35	Rp 49,217,170.44