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**Table of Contents:**

<i>1. Model of Customer Satisfaction of Catering Industry: Approach Through Hygiene Behavior and Food Service</i> <i>Danial Thaib.....</i>	<i>1-9</i>
<i>2. The Relevance of Intangible Assets in the Knowledge-Based Industry</i> <i>Ardana, C.I., Dermawan S.E., Widjaja I.D.....</i>	<i>10-16</i>
<i>3. Application of Information Technology on Potato Productivity</i> <i>D. Susilastuti, Aditiameri, L.S. Marhaeni Mansuri, B.K. Udiarto.....</i>	<i>17-26</i>
<i>4. Automotive Sector Investment and Its Implications on Import Content, Gross Value Added (GAV) and Labor Absorption in Indonesia</i> <i>Joonner Rambe, Meirinaldi.....</i>	<i>27-39</i>
<i>5. The Operational Cooperation Agreement for Regional Hospitals in the Management of Health Equipment</i> <i>Silapurna, E.L. Efrila. Husain, Bahtiar.....</i>	<i>40-45</i>
<i>6. Factors that Influence the Health Levels of Saving and Loan Cooperatives (Ksp)/ Saving and Loan Unit (Usp) Cooperatives in North Jakarta, Indonesia</i> <i>Praponco Endro.....</i>	<i>46-60</i>
<i>7. Factors Affecting The Production of Pepper and The Implications for Farmers Income and Poverty Rate in Bangka Belitung Islands</i> <i>Hamdan, Sidik Priadana, Amri.....</i>	<i>61-72</i>
<i>8. Legal Protection of Taxpayers and Tax Insurers in Tax Disputes</i> <i>Artono, H.B., Anggari, O Hamdan.....</i>	<i>73-79</i>
<i>9. Human Resources Development: Motivation and Job Satisfaction on East Lampung School of Economics</i> <i>Gumanti, Miswan, Utami, S.H. Bernadhita.....</i>	<i>80-86</i>
<i>10. Legal Issuance in Investment</i> <i>Faisal Santiago, Megawati Barthos, Hadi Purnomo, Sinai Handayani.....</i>	<i>87-93</i>
<i>11. The Responsibility of Aviation Company Laws Against Giving Amount Compensation Benefits for Air-Asia Accident Victims QZ8501TO Indonesian citizens</i> <i>Sabungan Sibarani.....</i>	<i>94-101</i>
<i>12. The Role of Perceived Organizational Support, Job Satisfaction, and Work Engagement in Post Graduate Lecturers Performance</i> <i>Sudibjo, N., Bernarto, I., Yuliana, Y.....</i>	<i>102-109</i>
<i>13. The Influence of Inflation Against the National Consumption and Import in the Process of Economy Bubble in Indonesia</i> <i>Meirinaldi, Miyv Fayzhall.....</i>	<i>110-120</i>

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14. <i>The Efforts to Improve Non-Tax State Revenues Through the Management Revitalization of the Seized and Confiscated Goods of the State</i> I. Djaya, Zulfikar, E. Suprayitno, H. Sujoko, F. Santiago, Meirinaldi.....	121-130
15. <i>The Effect of Financial Literacy and Financial Capability Toward Financial Satisfaction Through Financial Behavior</i> Agus Zainul Arifin, Abdul Rahmat, Christina Catur Widayati.....	131-142
16. <i>The Analysis of the Influence of Internal and External Factor to Net Asset Value of Sariah Balance Mutual Fund</i> Rudianto, Pudji Astuty.....	143-149
17. <i>Techno-entrepreneurship: Entrepreneurial-Orientation of Sustainable Handicraft Tourism in Lombok</i> Hengky, S. H, Ariana, S, Suheriyatmono.....	150-157
18. <i>The Effect of Online Customer Perceived Justice on Post- Recovery Satisfaction</i> Kussusanti Halim, Rizal Edy.....	158-166
19. <i>Examine Brand Orientation on Brand Commitment Factor With Moderation Organization Change Readiness Toward Positive Internal Brand Equity at B2B Companies</i> Tobing, P.R., Halim, E.R.....	167-173
20. <i>The Influence of Social Networks and Debt Literacy Towards Credit Card Overspending</i> Haidar, R., Halim, E.R.....	174-180
21. <i>The Effect of Customer Value Anticipation Toward Customer Satisfaction and Customer Loyalty in High-Contact Service Industry</i> Ghifari, A.N., Halim, E.R.....	181-187
22. <i>Factors Influencing the Implementation of Marine and Fishery Accounting Database System of Coastal Regencies and Cities of North Sumatera to Support of Entrepreneurship</i> Iskandar Muda.....	188-197
23. <i>The Impact of User Interactions in Social Media on Brand Awareness and Purchase Intention</i> Siswaningsih, N, Halim, E.R.....	198-204
24. <i>An Analysis of Consumer's Attitude Effect to Credibility Endorser, Brand, and Purchase Intention Related to Celebrity Endorsement</i> Wijoyo, A.S, Halim, E.R.....	205-210
25. <i>Analysis of Mobile Payment Acceptance in Indonesia</i> Sayogya, P.A, Halim, E.R.....	211-217
26. <i>Analysis of Co-Branding Strategy Between Commercial Entities with Non-Profit Entities</i> Fikri, Z, Halim, E.R.....	218-224

27. <i>The Effect of Retailer Awareness, Retailer Association, Retailer Perceived Quality, and Retailer Loyalty Towards Purchase Intention</i> Btari, B.B., Halim, E.R.....	225-231
28. <i>The Effects of Motivation, Authenticity, and Engagement Towards the Visitors Loyalty of Heritage Tourism</i> Rachma, H., Halim, E.R.....	232-238
29. <i>The Role of the Vehicle Brand Loyalty and Repurchase Intention in Indonesia Automotive Industry</i> Rizki, H., Halim, E.R.....	239-244
30. <i>Export Import Performance Related to Economic Openness of Surabaya</i> I.M. Hendrati, N.I. Kusumawardhani, S. Sishadiyati.....	245-253
31. <i>Logistic Hub Mapping at PD Pasar Surya</i> N. Ika K.W, I. Martha H, H. Pudjo P, S. Sishadiyati.....	254-260
32. <i>The Effect of Brand Credibility Towards Consumer's Purchase Intention on Low-Cost Carrier Airline Industry</i> Zulfikar, R.M., Halim, E.R.....	261-267
33. <i>The Estimation of the Distribution Model of Gross Regional Domestic Product (GRDP) of Indonesia</i> Srinita, Darwati Susilastuti.....	268-273
34. <i>Determinant of Food Crop Agribusiness and Horticultural Crop Agribusiness in Indonesia</i> Dudung Mulyadi, Darwati Susilastuti, Sunar.....	274-282
35. <i>The Effect of Marketing Mix and Quality of Service Perceived, Image and Implications on Customer Trust to Choose a Four-and Five-Star Hotel in DKI Jakarta</i> Mulyati.....	283-295
36. <i>Tax Compliance in Small and Medium Enterprises (SMEs) in Indonesia</i> Waluyo, W.....	296-305
37. <i>Transfer Pricing as a Tool to Shift Taxable Income by Multinational Enterprises</i> Thaib, S.W, Santiago .F, Zudan Arif Fakrulloh, Darwati.....	306-312
38. <i>Threshold Regression for Analysis the Impact of Global Liquidity on the Economies of ASEAN Countries</i> Ekananda, M.....	313-325
39. <i>The Effect of Macroeconomics Factors and Capital Structure on Foreign Bank Performance in Indonesia</i> Akbar, Muhammad.....	326-332

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40. <i>The Effect of Organizational Conflict and Learning of Organization on Creativity of Basic School Teachers in District Duren Sawit East Jakarta</i> <i>Linda Sri Pangestuti, KA Evita Isrtetno</i> .....	333-339
41. <i>Song Copyright Law Protection Competence in Paying Royalty as Exclusive Rights Substance According to the Law Number 28 of 2014 About Copyright</i> <i>Mohd. Idrus Laena, Rista, Evita Isretno Israhadi</i> .....	340-349
42. <i>The Legal Concepts of Abuse of Dominant Position on Monopolistic Practices and Unfair Business Competition</i> <i>M. Alvi Syahrin</i> .....	350-356
43. <i>Antecedent Audit Quality: Analysis of Auditor-Auditee Factors in the Perspective Theory of Regulation</i> <i>Rahmawati, Bandi, Payamta, Taqi, M.</i> .....	357-368
44. <i>Market Reactions Before and After the Stock-split Policy (Study on Go-Public Company Period 2013-2016)</i> <i>Pudji Astuty, Masnilam Hasibuan</i> .....	369-376
45. <i>The Influence of Incentives and Discipline Against Motivation and Its Implication on Work Productivity (Case of Indonesia)</i> <i>Mohammad Halilintar</i> .....	377-383
46. <i>The Influence of Competence, Communication, and Work Motivation, on Tutor Performance</i> <i>Radiansyah, Adrian., Ahmad Yani., Afrizal</i> .....	384-394
47. <i>How to Increase Café Customer Pro-Social Behavior</i> <i>Riorini, S.V., Yaputra, H., Widayati, C.C.</i> .....	395-402
48. <i>Relationship Between Customer Value and Brand Image Toward Customer Satisfaction and Customer Retention on Home Appliance Industry</i> <i>Denny Bernardus, Christina Whidya Utami, Dian Permata Wijaya</i> .....	403-420
49. <i>The Management and Settlement of Bankruptcy Property: Case Study of Sky Camping Limited Company, Indonesia</i> <i>Darwati, Nurlely Darwis</i> .....	421-430
50. <i>The Contribution of International, Exchange Index to Composite Stock Index (Case of Indonesia)</i> <i>Wahyu Murti, Ismoerida, Zahera Mega</i> .....	431-438
51. <i>Strengthening Competency of the Religious Courts as Efforts to Encourage Shari'ah Economics Growth in Indonesia</i> <i>Nur Djannah Syaf, Nurwathon, Suswanti, Faisal Santiago, Zudan Arief Fakrulloh</i> .....	439-445

52. <i>The Influence of Marketing Mix (8'ps) on Purchasing Decision of Indonesia Life Insurance Company</i> Reny, A., Prasada, PB, P.....	446-458
53. <i>The Hospital Cooperation with the Board of Social Security Administrator (BPJS) from the Business Law Perspectives of Indonesia</i> Siregar Adelina Rospita.....	459-466
54. <i>Determinant Customer Loyalty Model of Sharia Banking (Case in Indonesia)</i> Dhenok Darwanti, Cicih Ratnasih.....	467-474
55. <i>Determinants Influencing the Intention to Use Mobile Expert System for Diagnosis of Pests and Potatoes Diseases</i> Sunar, Setyowati,R., Nikmah, Tobing, S.L.....	475-483
56. <i>Strategic Return of Shares: An Influence of Value and Stock Assessment</i> Budiono, Gatut L., Mappadang, Agustina, Putri, Aryani.....	484-495
57. <i>Brand Switching in Middle Class Muslim: The Role of Moderating Variable Variety-Seeking Buying Behavior, Perception, and Knowledge on Halal Cosmetics</i> Tanty Yuanita, Sampurno, Djoharsjah M.....	496-505
58. <i>A Study of Possible Imposition of Piggyback on Personal Income Tax and Payroll Tax for Provincial Government</i> Sidik Machfud, Rianto Djoko.....	506-519
59. <i>The Factors Affecting the Performance of Shipping Services Industry and their Impact on Economic Growth in Indonesia</i> Lili Marlina, Amik Bsi Bekasi.....	520-530
60. <i>Factors Affecting Profitability of Food and Beverage Companies Listed in Indonesia Stock Exchange</i> Yolanda, Sumarni.....	531-539
61. <i>Factors Affecting Economic Growth of Tourism Sector and its Implication on Employment Opportunity and Region Own Source Revenue</i> Afrizal, Sidik Priadana, Hamdan.....	540-549
62. <i>Analysis of Factors Affecting Economic Growth and Its Impact on Unemployment and Poverty Rate</i> Amri, Sidik Priadana, Hamdan.....	550-558
63. <i>Duet or Duel: Monetary Stability Impact on Financial System Stability</i> Humaira, R.F., Falianty, A.T.....	559-566
64. <i>The Impact of Auditor Competence and Independence Towards Auditor Professionalism and the Implication to Audit Quality in Ministry of Agriculture Inspectorate Republic Indonesia</i> Pandoyo.....	567-581

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65. <i>The Effect of Leadership, Competence, Compensation on Work Motivation and its Implication on Private Lecturer's Performance in Palembang</i> <i>Periansya, Ardiyan Natoen, Sopiyan A. Rahman, Indra Satriawan.....</i>	582-594
66. <i>Application of Digital Signature to Increase Investment in Indonesia</i> <i>Fatria Khairo, Faisal Santiago, Zudan Arif Fakrulloh.....</i>	595-603
67. <i>Determinants of Individual Taxpayer in Tax Amnesty Decision-Making</i> <i>Ngadiman, Christianto.....</i>	604-610
68. <i>The Impact of FDI on Economic Growth with Considering Financial Sector Development, Trade Openness, and Human Capital in ASEAN-5</i> <i>William Mangala Putra, Sugiharso Safuan.....</i>	611-616
69. <i>A Proposed Model to Increase and Stabilize Sales for Online-Based Bakery Business: A Study from Makku Baked Goods</i> <i>Poetry, Roma Nova.....</i>	617-627
70. <i>Exchange Rate Pass – Through and Pricing to Market: Evidence from Bilateral Trade</i> <i>Sugiharso Safuan, Telisa A. Falianty, Risna Triandhari.....</i>	628-634
71. <i>Understanding Capital Flows in Developing Country: The Case of Indonesia</i> <i>Agus Salim and Sugiharso Safuan.....</i>	635-641
72. <i>Monetary Policy and Exchange Rate Overshooting: Observation on ASEAN-5</i> <i>Imam Prakoso, Sugiharso Safuan.....</i>	642-649
73. <i>Employment and Poverty in Lampung Province: A Macroeconomic Approach</i> <i>Yudhinanto Cahyo Nugroho, Heru Subiyantoro, M. Sidik Priadana.....</i>	650-660
74. <i>The Model Which Determines Job Satisfaction (Case on Company Employees in Indonesia)</i> <i>Suherman Saji, Cicih Ratnasih.....</i>	661-668
75. <i>The Survey of Household Empowerment and Small-scale Households in Southeast Sulawesi through Rural Banks (BPR) in Mobilizing Rural Economy</i> <i>Tungga Buana Irfana, Helmi Adam, M. Asrian Mirza.....</i>	667-677
76. <i>The Impact of Risk Judgment of Economic Policy and Financial Aspects Regarding the Life of the ASEAN Community Area</i> <i>Andaningsih Ratih IGP, Kurniati Arni, Massora Agustina.....</i>	678-686
77. <i>Performance Effectiveness Measurement of Village Funding Management Using Fuzzy Inference System (FIS) Method</i> <i>Bahrullah Akbar, Harry Azhar Aziz, Achmad Djazuli, Mohammad Kowi, Firdaus Amyar.....</i>	687-695
78. <i>Juridical Review on the Leasing Agreement Due to Webprestry Carried Out by Lessee in Pt. Naga Mas Bangun Reality</i>	

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*Suparno, Astrid Laena Putri, Ike Setianingrum, Andi Oloan Sibarani.....696-709*

*79. Dumping in Act No. 5 Years 1999 on the Prohibition of Monopolies and Competition Practices Are Unhealthy Businesses*

*Syaparuddin, Imam Karyono, Polter Gultom, Suryono..... 710-714*

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## **Model of Customer Satisfaction of Catering Industry: Approach Through Hygiene Behavior and Food Service**

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Danial Thaib \*)

**Abstract:**

*Consumer satisfaction is the main competitiveness factor in catering. This research is based on a survey on 400 respondents from 10 catering companies. The aim is to know and analyze the relationship and the influence of hygiene behavior and food service on customer satisfaction of the catering industry in Jakarta.*

*The result is the hygiene behavior and food service related to customer satisfaction. Simultaneously and partially, hygiene behavior and food service have a significant positive effect on catering customer satisfaction, but they are not the dominant factor.*

*Further, there should be researched other factors such as price, product quality, taste, appearance, punctuality and cleanliness to improve the competitiveness of catering business.*

**Keywords:** *Consumer satisfaction, hygiene behavior, food service, catering industry.*

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### **1. Introduction**

Food is an important component of the environment in improving health, in addition to meeting the needs of life, it can also be a source of disease transmission (Arthur et al., 2017) as a food-borne illness (such as *E. coli*, *hepatitis B*, *H. pylori*, *listeria*, *salmonella*, *norovirus* and *typhoid*) (USDA, 2015). The occurrence of transmission of the disease is caused by the services of food that does not meet health requirements (WHO, 1989, Arthur et al., 2017). For that there needs to be considered hygiene aspects in managing food in order to be safe to consume. Food security exists when all people have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life (FAO 2000 in Vhurumuku, 2014). Frankenberger et al., (1997) says that food security is related to consumer behavior and food service.

The food system, including food service and food retailing contributed \$1.24 trillion in 2010 in the US, out of which \$594 billion was supplied by food service facilities, defined by the USDA as any place which prepares food for immediate consumption



on site, including locations that are not primarily engaged in dispensing meals such as recreational facilities and retail stores. Full-service and Fast-food restaurants account for 77% of all foodservice sales, with full-service restaurants accounting for just slightly more than fast food in 2010. The shifts in the market shares between fast food and full-service restaurants to market demand, changes the offerings of both foods and services of both types of restaurants (USDA, 2015). Indonesia is the largest foodservice market among all ASEAN countries. The value sales for Indonesias foodservice market reached US\$36.8 billion in 2014, which was about US\$14 billion higher than the second top country in the ASEAN market (Agriculture and Agri-Food Canada, 2014).

Foodservice in Indonesia grew at a CAGR of 8.7% from 2010 to 2014, reaching US\$36.8 billion sales in 2014. Full-service restaurants, fast food, and street stalls/kiosks are the top three growth drivers for Indonesia's foodservice market. It is predicted that the growth of outlet volume in foodservice industry will slow down from 2015 to 2019; however, the value sales are expected to grow faster over the same period. This future change may result from new regulations issued by the Indonesian government which placed a limitation to the number of foodservice outlets (Agriculture and Agri-Food Canada, 2014).

**Table 1.** ASEAN Foodservice Value Sales by Countries, 2015

In US\$ Millions Countries	2010	2011	2012	2013	2014	2015
Indonesia	26,381.7	28,427.5	30,797.9	33,625.9	36,814.8	39,906.4
Thailand	20,550.3	20,442.0	20,977.2	21,783.6	22,928.4	24,256.6
Vietnam	10,152.2	11,977.9	13,945.5	16,446.2	18,547.5	21,267.4
Malaysia	8,510.7	9,002.7	9,495.3	10,039.8	10,718.3	11,500.4
Philippines	8,520.1	8,865.6	9,345.6	9,864.9	10,400.5	11,050.7
Singapore	7,875.4	8,133.9	8,314.3	8,579.4	8,861.4	9,223.4

*Source:* Agriculture and Agri-Food Canada, 2014.

**Table 2.** Value Sales and Growth of Indonesia's Foodservice by Subsector

In US\$ Millions Subsector	2013	2014	2015	2016	2019F	% CAGR 2010-14	% CAGR 2015-19F
Total Consumer Foodservice	33,625.9	36,814.8	39,906.4	43,310.8	56,290.7	8.7	9.0
Full-Service Restaurants	27,486.2	30,022.8	32,465.4	35,152.5	45,423.5	8.5	8.8
Cafés/Bars	3,298.6	3,634.9	3,969.0	4,338.8	5,756.0	9.4	9.7
Fast Food	1,442.8	1,651.3	1,861.1	2,092.8	2,941.5	12.7	12.1
Street Stalls/Kiosks	1,203.6	1,291.9	1,376.4	1,468.7	1,821.1	6.3	7.2
Self-Service Cafeterias	179.9	196.8	211.7	228.1	288.9	8.9	8.1
100% Home	14.9	17.1	22.8	29.8	59.8	57.2	27.3

Delivery/Takeaway							
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*Source: Agriculture and Agri-Food Canada, 2014, CAGR = Compound Annual Growth Rate, F = Forecast.*

Because of the growing number of working mothers who used to be in charge of cooking at home, Indonesian families are eating out more often. For high-income consumers, food may not be the primary factor in choosing foodservice outlets as they also consider ambience and branding. For low-income consumers, eating out is regarded as a typical time for family gatherings. Thus, regardless of the branding, these consumers usually visit the foodservice outlets in shopping centers.

**Table 3. Indonesia's Foodservice Sector by Distribution Type, 2014**

<b>Historic % Breakdown Based on Retail Value Sales Type</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Eat-in	92.3%	92.2%	92.1%	92.0%	91.9%
Home Delivery	1.7%	2.0%	2.3%	2.5%	2.8%
Takeaway	6.0%	5.8%	5.6%	5.5%	5.3%
Drive-Through	0.0%	0.0%	0.0%	0.0%	0.0%

*Source: Agriculture and Agri-Food Canada, 2014.*

To survive the increased competition, catering entrepreneurs must develop an integrated marketing strategy to grow and maintain the image of catering industry by improving service quality. One of its services is required to improve the quality. The expected service starts with the booking (of catering) and lasts until the event is finished.

The behavior of food handlers in catering, either directly or indirectly, can affect the quality of food served to consumers. There are several factors that enable the transmission of disease through food produced by catering due to the unhygienic behavior of the food handlers, the presence of infectious disease sources, the presence of media (food, beverages) and recipients (Green et al., 2007).

Consumer satisfaction as a form of corporate efforts to increase the number of consumers making them satisfied enjoying the product in accordance with their expectations before purchase, is a necessity. With the satisfaction, especially on food, the consumer will be very bounded to the quality of food. Catering industries is an A3 type of business, food service, which employs labor/food handlers and most of them are still managed by sideline or are not professional. This can result in the implementation of food products and there are still many aspects which have not met health or hygiene standards, such as the behavior of food handlers. Research having as an object the catering industry is as an effort to know clearly the role and activity of catering industry in giving satisfaction to the consumer. The research is aimed to find out whether or not there is a relationship between hygiene behavior, food service, and consumer satisfaction.

## **2. Literature Review**

Foodservice (US English) or catering industry (British English) defines those businesses, institutions, and companies responsible for any meal prepared outside the home. This industry includes restaurants, schools and hospitals cafeterias, catering operations, and many other formats (USDA, 2015). Food availability is the dominant factor in food security (Susilastuti, 2017).

The companies that supply catering industry operators are called catering industry distributors. Food service distributors sell goods like small wares (kitchen utensils) and foods. Some companies manufacture products in both consumer and catering industry versions. The consumer version usually comes in individual-sized packages with an elaborate label design for retail sale. The catering industry version is packaged in a much larger industrial size and often lacks the colorful label designs of the consumer version (USDA, 2015).

The ever-increasing food service industry has caused big competition to meet the needs and satisfaction of consumers. One of the factors that affect the consumer satisfaction is the quality of the product or the quality of the dish (Kustiyoasih, M.P., M. Adriyani, 2016). Cases of consumer dissatisfaction are increasingly prevalent so there is a need for legislation to regulate consumer protection. The organization of food consists of several components, namely the purchase of foodstuffs, food storage, food processing, food appearance and sanitation/ hygiene (Evawati and Soekopitojo, 2017). All these components indirectly affect the consumer satisfaction indicators. These indicators are taste, appearance, portion size, timeliness, and cleanliness. The organization of food has as purpose the satisfaction feeling of the consumers. Consumer satisfaction is the starting point of the growth of customer loyalty so it is important to know the assessment of satisfaction (Tjahyadi, 2006, Evawati and Soekopitojo, 2017).

The organization of food consists in a series of activities ranging from menu planning to the distribution of food to consumers in order to achieve an optimal health status through appropriate food feeding and includes record keeping, reporting and evaluation activities (MOH 2013 and Arnati Wulansari, Budi Setiawan, 2013). According to Palacio and Theis (2009), the main purpose of food vendors is to serve food for consumers to be satisfied. The more rational buyers, like a company can only win by creating and delivering superior value. In addition, companies must be able to increase the value of products, services, and know the level of customer satisfaction (Fandi, 2000). Through understanding the customer satisfaction, consumer expectations can be met. Customer satisfaction greatly influences the decision to make a product redistribution (Fandi, 2000).

Food handlers are in agreement to reducing food safety risk (De Sousa, 2008, Green et al., 2007). Food handlers, in addition, must behave hygienically and should also be able to firendly and skillfully serve consumers. Grant and Evans (1994) say that

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behavior is a performance action of a person, that is what is done. Hygiene behavior leads to healthy human activity and cannot be separated of clean behavior (Susilastuti, 2009).

Hygiene behavior is related to the effort to maintain the health level of the product including the cleanliness of the environment. Food service is an effort to handle food including producing food, providing food, serving and up to rearrange the equipment used. Handling bad food can cause food to be unhealthy, not tasty or unattractive. Unhealthy food is a source of disease. Additionally, a food worker with poor personal hygiene is an important contributor to food-borne illness (Green et al., 2007). Food-borne diseases remain a major global public health issue with substantial morbidity and mortality associated with the consumption of contaminated food (Havelaar et al., 2010).

Consumer satisfaction is a subjective judgment or opinion about the quality of service, the environment of food service and customer experience after experiencing a number of food service interventions. The level of customer satisfaction is dependent on the quality of food service received by consumers. Food service is said to be qualified for consumers, if it can meet those needs and create customer satisfaction.

Fandi (2000) said that consumer satisfaction is a after-sales evaluation, where consumers will feel satisfied if their perception of a product in accordance with the expectations he had before the purchase, ultimately customer satisfaction can provide information to buyers of food services where the weak points and where the strong points in food service are, where the quality of food service needs improvement and hygiene behavior. According to Isnaeni (2015), the indicator of catering customer satisfaction among others is 1). Taste, related to the delicacy and quality of food products; 2). Food appearance, matching presentation is an appealing attraction; 3). The portion of food, the portion size of the food differs between individuals; 4). The timeliness of presentation, a late meal is served to lower the appetite; and 5). Cleanliness, cleanliness of cutlery and dining room and dining environment. Based on the description it can be shown importance of the implementation of food by an institution that can satisfy the consumer both from a quantity and a quality point of view.

### **3. Hypothesis**

This study analyzes the impact of hygiene behavior and food service on customer satisfaction on catering industries in Jakarta. A hypothesis in this research is weather there is a positive effect of hygiene behavior and food service to satisfaction of service consumer of catering industry.

### **4. Research Methods**

The research was conducted by interviews and direct surveys on 10 catering industries from the A3 type in Jakarta with 40 customers each so that there were reached 400 respondents. The respondents were determined by purposive sampling. A specific objective of this research is to explain information related to consumer satisfaction (Y), hygiene behavior (X1) and food service (X2).

The steps to be taken care of in order to provide an explanation to the A3 catering manager on the purpose of the research and to request customer information in order to be researched, are: to distribute the questionnaire, to provide guidance on how to fill it in, and to collect the questionnaire results for analysis and interpretation. Further, to achieve the objectivity level of the expected answers from the consumers, it is researched the assessment of hygiene behavior, food service, and customer satisfaction conducted observations or observations each amounting to 10 items statement. Assessment using Likert scale 1-4. Data analysis using multiple regression according to the model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \quad (1)$$

Y = consumer satisfaction

$\alpha$  = regression constant

$\beta$  = regression coefficient

X1 = hygiene behavior

X2 = food service

$\varepsilon$  = error

## **5. Result and Discussion**

### ***Descriptive Statistics***

- Mean hygiene behavior (X1) = 30.70 and standard deviation = 2.8121
- Mean food service (X2) = 34.075 and standard deviation = 3.0161
- Mean customer satisfaction (Y) = 37.80 and standard deviation = 1.7716

The maximum theoretical score value is 40 out of 10 items of revelation, thus it can be said that the consumer satisfaction is very high, while hygiene behavior and food service is high enough.

### ***Correlation Coefficient***

The correlation coefficient between hygiene behavior (X1) and consumer satisfaction (Y) is 0.10 (partial r<sup>2</sup>) close to zero, which means that the relationship is less close, it means that the assessment of hygiene behavior in the implementation of catering business does not run in accordance to the applicable rules of the Service Health so hygiene behavior assessment turns low from consumers who use these services. Similarly, the correlation coefficient between food service (X2) and consumer satisfaction (Y) of 0.16 (partial r<sup>2</sup>) is close to zero, meaning that the relationship is less close to the assessment of food service in the variety of food or

taste of food or way of serving food on catering business less attractive, so that the assessment becomes low from consumers as users.

However, the multiple correlation coefficients between hygiene behavior (X1) and food service (X2) to consumer satisfaction (Y) is 0.61 (multiple R) close to 1, which means that the approach is quite strong. Thus it can be said that consumer ratings are quite good if hygiene and food service behaviors are conducted together, not independently. The relationship of hygiene behavior with food service in catering business cannot be separated, meaning that those effort must carry out as well the hygiene behavior as food service at the same time.

### ***Determinant Coefficient***

The coefficient of determination (R<sup>2</sup>) is 0.36. This figure explains that 36% of the consumer satisfaction is influenced by hygiene behavior and food service on catering, while the rest of 64% is being influenced by other variables, such as taste factor, menu diversity, art presentation, price, convenience, and others. Hygiene behavior and food service are not dominant factors in catering customer satisfaction. It is needed to further analyze the dominant factors that affect the satisfaction of consuming catering industries.

### ***Regression***

The multiple regression equations generated are:

#### 1) Regression Coefficient Test

$$Y = 23.9614 + 0.1887 X1 + 0.2306 X2 \quad (2)$$

Based on the model of regression equation above, the regression constant is very high, 23,9614 compared to the regression coefficient value X1 and X2. This means customer satisfaction with food service is very high. The coefficient of regression X1 positive with value 0,1887 likewise coefficient of regression X2 positive with value 0,2306. These values indicate that hygiene and food service behaviors have a positive effect on customer satisfaction. Increasing hygiene behavior and food service will increase consumer satisfaction. Thus it can be explained that to improve the competitiveness of food business, determined among others by hygiene behavior and food service. Hygiene behavior will determine the level of health and hygiene of food and food services will determine the provision, enjoyment, and comfort of eating.

#### 2) Hypothesis Testing

Based on F test, p-value = 0,00 means simultaneously, hygiene behavior and food service have an effect on significant to consumer satisfaction. Based on t-test, p-value X1 = 0,00 also p-value X2 = 0,00, mean hygiene behavior have the real effect to consumer satisfaction, so also food service has an effect on significant to partial

consumer satisfaction. This shows that changes in hygiene and food service behavior have an effect on the level of satisfaction of catering industry consumer.

Based on the data analysis above, it can be said that catering customer satisfaction is related and influenced positively by hygiene behavior and food service. Increased customer satisfaction as the competitiveness of catering industries can be improved by increasing the quantity and quality of hygiene behavior and food service. The improvement of hygiene behavior and food service is done by giving training to food handlers, enhancing their ability and supervising on the job training.

## **6. Conclusion**

The conclusions of this study are:

- 1) The relationship between the assessment of hygiene behavior and food service with the satisfaction of catering industry consumers is weak, which means that hygiene behavior and food service in its implementation at Catering industry business in Jakarta have not fulfilled the regulation of Health Department.
- 2) The relationship between the assessment of hygiene behavior and food service together with customer satisfaction obtained multiple  $R = 0,5967$ , meaning that the relationship is strong enough, it means that in the Catering industry business between hygiene behavior and food service cannot be separated, meaning that this business must carry out hygiene behavior and food service.
- 3) The contribution of the influence of hygiene behavior and food service together to customer satisfaction of Catering industry equal to 35,60%, while another influence equal to 64,40% is like price factor, consumer appetite, facility, the art of presentation and others.
- 4) Simultaneously and partially, hygiene behavior and food service have the positive and significant effect to catering customer satisfaction. Increasing hygiene behavior and food service will increase consumer satisfaction.

Recommendations that can be raised from the research conclusions are:

- 1) Re-evaluate the implementation of applicable rules on hygiene behavior and food service so that it correlates strongly with customer satisfaction.
- 2) Increase hygiene and food service behavior, so customer satisfaction increases.
- 3) Evaluation of price, product quality, menu diversity, timeliness of presentation, the art of presentation and environmental hygiene so that it will happen to reorder from the consumer.

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## The Relevance of Intangible Assets in the Knowledge-Based Industry

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**Abstract:**

*The abundance of intangible assets that are not recognized as assets and only fall under the expenses category according to the existing financial accounting standards (the existing FAS) and the impact of such practices, justify this research and further developments.*

*Many stakeholders are not satisfied by this accounting treatment. They require the expenditure for intangible assets to be treated as investments (assets), and not as expenses. The purpose of this study is to assess the effectiveness of the existing FAS, and then try to provide an alternative (the modified FAS) aimed at enhancing the degree of relevance of financial statements relating to intangible assets.*

*The modified FAS tries to accommodate the expectations of stakeholders using such information. This is a case study research using secondary data from two companies listed with the Indonesia Stock Exchange during the 2014-2016 time frame. By comparing two versions of financial figures and ratios (using the existing FAS and the modified FAS), it can be concluded that (a) total assets and operating profits using the modified FAS are higher than those in the existing FAS; (b) profitability ratios (OPM, ROA, ROE), and leverage ratios (DTA, DER) in the modified FAS are better and healthier, but asset turnovers (ATO) are lower than those in the existing FAS.*

*The higher the variation of the financial figures or ratios between the two versions of FAS, the lower the relevance of the financial statements. The relevance of the statements will improve if the authorized body accommodates the expectation of the users of financial statements.*

**Keywords:** *The modified FAS, case study.*

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### 1. Introduction

The value of corporations in today's global economic system and in the coming years will be characterized by an increasing role of investment under the form of intellectual capital/IC (Smalt and McComb II, 2016:1; Zeghal and Maaloul, 2011:262). Another term often used for the IC is "knowledge capital" but from an

accounting perspective, the term intangible assets is more popular to describe this kind of assets (Ancuta, Moisescu, and Varlanuta, 2017:32). As said by Vetrenko, Mordovets, and Yaluner (2017:605), the main tool for the IC development is an "intelligent enterprise", which is described by a permanent education process. The interesting question is why accountants cannot (will not) recognize most of the value of this intellectual capital in the corporate balance, whereas the contribution of intellectual capital has an increasingly important role in determining the value of a corporation. Aiming to answer this question, this study will attempt to examine the different views on intellectual capital from two perspectives: users of financial statements (business people, economists, investors), and presenters of financial statements (accountants), and try to provide an alternative view aligning these two different perspectives. To clarify this issue, this research presents two versions of selected financial figures and ratios, using the existing FAS and the modified one, from two public companies listed with the Indonesia Stock Exchange in of 2014-2016.

## **2. Literature Review**

Damodaran (2009:3) saw inconsistent accounting treatment of the expenditures relating to the acquisition of tangible assets with intangible assets, particularly in distinguishing two types of expenditures - whether an expenditure is called capital expenditure or operating expense. The simple basic principle or rule used by the accountant to distinguish these two types of expenditure is to look at the economic benefits of the expenditure. If the impact of the benefit is longer than one year, it will be recognized as a capital expenditure, but if its impact is only during the current year, it is recognized as an operating expense. This rule applies consistently to tangible fixed assets (land, buildings, equipment, vehicles), but not to intangible assets. Most expenditures related to intangible assets are recorded as operating expenses, even though they have an economic impact for more than one year.

Koch et al (2000:6) suggested that intangible assets play an increasingly important role in the creation of corporate value; however, using a traditional accounting mechanism in recognizing assets is no longer sufficient in the knowledge-based economy. Salamudin et al (2010:391) reveals that the book value of net assets (BVNA) is still dominant in Malaysian corporate valuation but this trend is declining as greater interest has now been directed towards employing intangible assets and earnings as important variables and the results indicate that there is a positive trend for intangible assets development in Malaysia. This is consistent with those of advanced markets such as the US, Europe and Australia, but the Malaysian market lags by about 20 years as compared to the more advanced ones. The main contribution of their study provides empirical evidence that intangible assets or intellectual assets are strategic assets that require attention in line with development of the knowledge-based economy.

According to the IAS no 38 on intangible assets (Mirza and Holt, 2011: 393), any resource usage or expenditure, especially from internally generated programs, can be recognized as intangible assets (or to be capitalized) only if it generates a certain impact for the company's future benefits, but if its impact for the company's future benefits is still uncertain, it must be treated as expenses. By applying this strict rule, most expenditure relating to internally generated intangible assets will be recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheets are understated. Expenditures for research and development, customer related activities, promotion, product and IT development, human resource training and similar, are still treated as expenses by accountants, based on the fact that all these kinds of expenditure are still uncertain. Meanwhile, most users of the financial statements consider that all these kinds of expenditure are clearly meant for the future growth of a company and, consequently, they must be treated as assets. Currently, there is a trend, according to which, more and more researchers and users of financial statements demand that existing FAS to be modified.

As mentioned by Damodaran (2009:2), accountants routinely miscategorize operating and capital expenses when firms invest in intangible assets. Accountants treat fixed assets and intangible assets differently. In fixed assets, any expenditure that generates economic impact for longer than one year is capitalized as asset, but in case of intangible assets, most of the expenditure that qualifies as capital expenditure is still to be treated as expense. The inequality in accounting treatment between fixed assets and intangible assets may obscure the consistency of account presentation in financial statements.

### **3. Hypotheseis**

Criticism of the weakness in the presentation of financial statements from a semantic perspective has been widely approached in accounting theory books. While this is not responsibly treated by the authorized body (IAI/IASB), the public is increasingly questioning the figures in the financial statements. If the financial accounting standard only focuses on the syntactic order alone, then, this could have an impact on losing public confidence in the accounting profession, and, in turn, on eroding the relevance of the statements for decision making.

### **4. Research Methodes**

This research uses a case study method. Two knowledge-based public companies selected as research subjects are PT GIAA and PT INDF. The financial statements of both companies were used as objects of study. There are two variables in this case study model: first, the relevance of financial statements, and second, the existing FAS, which is guided by the International Accounting Standard (IAS) No. 38 on intangible assets. Data collection for the case study in this research has been based on observation and documentation.

## 5. Result and Discussion

In order to increase the relevance of the statements, in the respect of improving the semantic order of the statements, this research tries to propose a modified FAS by accomodating most (if not all) views of users relating to intangible assets. Under this modified FAS, the "certainty" criteria is to be softened. The reason is that it is impossible to predict with a high degree of certainty during an early stage, the future benefit of any expenditure of internally generated intangible assets. Although they are uncertain, all these kinds of expenditure will clearly influence the future growth of a company. For this very reason, any kind of expenditure of intangible assets can be capitalized first. In fact, the modified FAS is identical to the accounting treatment of goodwill where no amortization is recognized, and periodically it is subject to an impairment test. When the result of the impairment test is significant, it is then recognized as a loss of impairment.

Using PT GIAA and PT INDF during 2014-2016 time interval as a case study, some financial figures and ratios under the two versions of FAS (the existing, and the modified FAS) can be summarized in Table 1 and Table 2.

**Table 1.** *Comparative accounts using the existing FAS and the alternative (modified FAS) 2014- 2016*

Description	PT GIAA (in USD)		PT INDF (in Rp.000.000,-)	
	The existing FAS (PSAK 19)	The modified FAS	The existing FAS (PSAK 19)	The modified FAS
Operating Income (2014)	(395.228.121)	(328.879.517)	7.319.620	8.755.741
Intangible Assets (2014)	6.017.329	72.365.933	2.761.473	4.197.594
Total Assets (2014)	3.113.079.315	3.179.427.919	86.077.251	87.513.372
Total Equity (2014)	879.467.591	945.816.195	40.274.198	41.710.319
Operating Income (2015)	168.745.441	274.865.050	7.362.895	10.349.064
Intangible Assets (2015)	4.648.523	110.768.132	2.628.235	5.614.404
Total Assets (2015)	3.310.010.986	3.416.130.595	91.831.526	94.817.695
Total Equity (2015)	950.723.185	1.056.842.794	43.121.593	46.107.762
Operating Income (2016)	99.103.939	231.903.047	8.285.007	12.999.911
Intangible Assets (2016)	4.992.892	137.792.000	2.329.997	7.044.901
Total Assets	3.737.569.390	3.870.368.498	82.174.515	86.889.419

(2016)				
Total Equity (2016)	1.009.897.219	1.142.696.327	43.941.423	48.656.327

*Source: Financial statements as reported with the Indonesia Stock Exchange.*

By reclassifying promotional expenses, professional services and training expenses of PT GIAA amounting to USD. 26.679.499 in 2016, USD. 39.771.005 in 2015, and USD. 66.348.604 in 2014 as accumulated addition in intangible assets, and reclassifying advertising and promotional expenses and expert services of PT INDF totaling Rp.1.728.735, - in 2016, Rp.1.550.048, - in 2015 and Rp.1.436.121 in 2014 as accumulated addition in intangible assets will significantly change the operating income, intangible assets, total assets, and total equity of both companies. Some key ratios affected by the modified FAS are: Operating Profit Margin (OPM), Return on Assets (ROA), Return on Equity (ROE), Debt to Asset Ratio (DTA), Debt to Equity Ratio (DER), and Asset Turn Over (ATO). Table 2 below shows the changes in those ratios.

**Table 2. Changes in Financial Ratios 2014 through 2016**

	2016		2015		2014	
	The Existing FAS (PSAK 19/IAS 38)	The modified FAS	The Existing FAS (PSAK 19/IAS 38)	The modified FAS	The Existing FAS (PSAK 19/IAS 38)	The modified FAS
<b>PT GIAA</b>						
OPM	2,56%	6,00%	4,42%	7,2%	-10,05%	-8,36%
ROA	2,65%	5,99%	5,10%	8,05%	-10,58%	-10,34%
ROE	9,81%	20,29%	17,75%	26,01%	-44,94%	-34,77%
DTA	72,98%	70,48%	71,28%	69,06%	71,75%	70,25%
DER	270,0%	238,70%	248,2%	223,24%	254,0%	236,2%
ATO	103,3%	99,83%	115,3%	111,67%	126,4%	123,7%
<b>PT INDF</b>						
OPM	12.41%	19.48%	11.49%	16.15%	11.51%	13.77%
ROA	10.08%	14.96%	8.02%	10.91%	8.5%	10.00%
ROE	18.85%	26.71%	17.07%	22.45%	18.17%	20.99%
DTA	46.53%	44.00%	53.04%	51.37%	53.21%	52.34%
DER	87.01%	78.58%	112.96%	105.64%	113.72%	105.81%
ATO	81.23%	76.82%	69.76%	67.56%	73.88%	72.67%

*Source: Financial statements as reported with the Indonesia Stock Exchange.*

With modified FAS, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) are better and healthier, but the asset turnover (ATO) is lower than those in the existing FAS. Most variations in financial figures and ratios between the two versions of FAS are significant. The wider the variation of the

financial figures or ratios between the two versions of FAS, the lower the relevance of the financial statements. The relevance of the statements will continue to be questioned if the authorized body does not accommodate the needs of the users of financial statements.

## **6. Conclusion**

The existing FAS (IAS 38), relating to intangible assets, applies a strict rule to capitalize any resource usage or expenditure, especially from internally generated activities. The expenditure can be capitalized only if it generates a certain impact for the company's future benefits, but if the impact for the company's future benefits is still uncertain, it must be treated as expense. By applying this strict rule, then most expenditure relating to internally generated intangible assets will be recorded as expenses, and not as assets. Consequently, both profit figures in profits and losses summary and asset value in balance sheet are understated.

This research proposes a modified FAS aimed at increasing the relevance of the statements, in the respect of improving the semantic order of the statements. Within the analysis of financial statements of the two knowledge-based public companies listed with BEI during the 2014-2016 time interval, the profitability ratios (OPM, ROA, ROE), and the leverage ratios (DTA, DER) in modified FAS are better and healthier, but the asset turnovers (ATO) are lower than those in an existing FAS. The constraint of this study is that the published financial statements do not display detailed expenditure, so that the analysis in this study is limited to the information disclosed in the notes to the financial statements.

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## **Application of Information Technology on Potato Productivity**

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Mansuri\*\*, Bagus Kukuh Udiarto\*\*\*)

### **Abstract:**

*Information technology has had a substantial role in increasing agricultural production by the end of the decade.*

*Experimental research on the adoption of information technology was an Android expert system of pest and disease diagnostic experimented on potato farmers in three locations of potato production centers in Indonesia. Research using RCBD observed potato productivity before treatment and after treatment.*

*The results of the study pointed towards an increase in potato productivity by means of information technology expert system involvement, even if not significant. The level of farmers' education has been noted as an obstacle in adopting and implementing information technology.*

**Keywords:** *information technology, expert system, potato productivity.*

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### **1. Introduction**

Potatoes are an important staple food in Europe and America (Anonymous, 2017), but in Asia, rice is still the dominant food, while potatoes are a source of carbohydrate other than rice (Ahmad Suryana et al. 2009). For the people of Indonesia, potatoes are still considered as vegetables or consumed as a side dish. Nevertheless, the demand increased with increasing consumption of processed potato food. As a source of carbohydrates, potato production is important for the food security in Indonesia (Susilastuti, 2017).

According to the FAO report, annual potato production in Asia averaged 4.6% over the past 10 years. This increase is due to changes in the diet of rice to potatoes (Gregory Wolff, 2010). The volume of world potato imports increased 9.4% per year

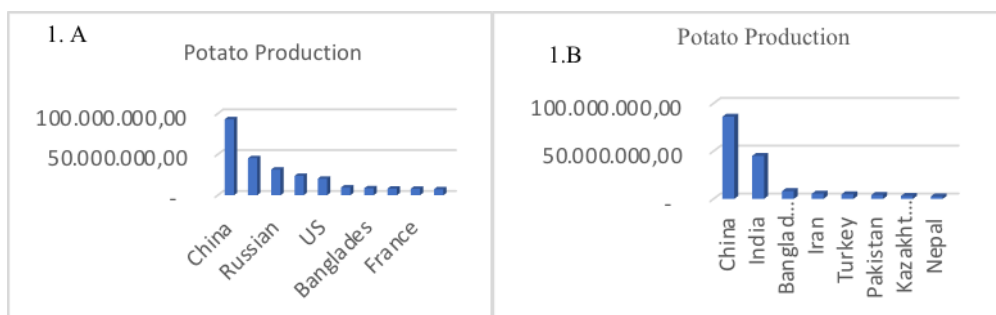


during 2012 to 2016 while its value increased 3.9% per year and jumped sharply from 11.99 million tons to 20.70 million tons in 2013 with a value of US \$ 5, 02 billion, world potato imports in the next two years continued to decline to only 11.71 million tons in 2015 worth the US \$ 3.57 billion. In 2016, imports increased again to 12.77 million tons with a value of US \$ 4.12 billion (Word Potato Statistics, 2017).

According to data from China Daily Record (2017), China is the country with the largest supply of potatoes where its contribution to the total world supply reached 96,130,000 tons (25,4%). The area of potato cultivation developed by China in 2014 reached 5.6 million hectares (Anonymous, 2015). India is the second largest potatoes supplier with a contribution of 45,400,000 tons (12.0%). The next three countries accounting for the world's total supply are Russia (31,500,000 tonnes) 8.0%, Ukraine (23,700,000 ton) 5.9% and the United States (20,250,000 ton) 5.2%. While the bottom six countries accounted for less than 5%, namely Germany (9,450,000 tonnes), Bangladesh (8,603,000 tonnes), Poland (8,200,000 tonnes), France (8,020,000 tonnes) and Netherland (7,330,000 tonnes) as shown in Figure 1A (FAOSTAT, 2017). Compared to 10 (ten) of the world's largest countries, Indonesia is in the 35th position with an average total supply during the same period of 1042.20 thousand tons or 0.49% of total world supply of potato.

Based on the sequence of potato producers in Asia, China is the largest producer of potatoes in Asia (85,920,000 tons), followed by India (45,000,000 tons), Bangladesh (8,205,470 tons), Iran (5,400,000 tons), Turkey (4,822,000 tons), Pakistan (4,104,400 ton), Kazakhtan (3,126,400 tons) and Nepal (2,584,301 tons) as shown in Figure 1.B.

**Figure 1.** Potato production by countries in the world



**Source:** (1.A) (FAOSTAT, 2017) and Asia (1.B) (FAOSTAT, 2014).

Potato production in Indonesia is still very low compared to the production of potatoes in China and Europe which averages 25.5 tons per hectare, while the average in Indonesia is only about 16 tons per hectare. These low yields are associated with poor seed quality (e.g. virus infected), inadequate planting technology, pest and disease attacks and a less supportive climate. Poor post-harvest handling can cause potato tuber damage by 2-10 percent and cause a wastage of

about 10 percent. Pest and disease attacks on potatoes can reduce production by 100% (Udiarto et al., 2015). Central Bureau of Statistics data (2017), show that potato production in Indonesia from 2012-2016 is as follows:

**Table 1.** Production, harvested area and productivity of Indonesian potatoes in 2012-2016

Year	Production (Ton)	Harvested area (ha)	Productivity (ton/ha)
2016	1.213.041	66.450	18.23
2015	1.219,277	66.983	18.20
2014	1.347.818	76.291	17.67
2013	1.124.282	70.187	16.02
2012	1.094.240	65.989	16.58

*Source:* Central Bureau of Statistic of Indonesia (2017).

Based on the Ministry's of Agriculture data, the import of potatoes in 2016 has been low compared to the total national production. Potato imports are only of 26,000 tons, while potato production reaches 1.2 million tons (Mega Putra Raya, 2017).

According to the Indonesian Agricultural Research and Development Agency 2015-2019, agricultural development is directed to ensure resilience and national energy support resilience. The direction of the development policy is: (1) Increasing production capacity through increasing productivity and expansion of agricultural area, (2) Increasing competitiveness and added value of agricultural commodities, (3) Increasing production and diversification of agricultural resources. Although potatoes do not include 10 national commodities that are prioritized in agricultural development in 2015-2017 but to meet food needs and reduce imported potatoes, the government is trying to increase the production of potato crops as shown in Table 2.

**Table 2.** Indonesian agricultural strategic plan 2015-2019

Year	Production (Ton)
2019	1.431.380
2018	1.403.314
2017	1.357.798
2016	1.348.821
2015	1.322.374

*Source:* Ministry of Agriculture (2015).

One way to increase the production and productivity of current potato crops is by utilizing information technology. Information technology plays an important role to facilitate the rapid process of information exchange without time constraints, space and can be accessed by everyone. One of the media to deliver information is through the use of Android applications.

The application of the expert system of pest and potato diagnosis based on the Android platform, provides information covering the cultivation of healthy plants, the identification of pests and diseases and the way to control it (Susilastuti, et al, 2016). The application also provides a consultation media for farmers, extension workers, researchers and other stakeholders. The application aims to improve the knowledge and the ability of farmers in controlling pests and diseases of potato plants and it is easy to control them in order to be a preventive and curative so that there is no decrease in production due to attack of pests and diseases. Expert system applications diagnosing pests and potato plant diseases have been built and easily obtained by downloading applications in Play Store for Android users with the keyword "pakar kentang" (potato expert, Indonesian language).

The formulation of the problem in this research is whether the application of information technology of expert system on potato farmers could determine an increase in the crop productivity? The purpose of this research is to analyze, based on farmer's response to information technology application of the pest and disease diagnosis expert system, the influence on improving potato plant productivity in several different research locations.

## **2. Literature Review**

The role of agriculture as an economic driver in developing countries is hampered by the use of outdated technology. The productivity of agricultural land and technology are the dominant factors and they have a significant effect on agricultural production (Susilastuti, 2018). Constraints on the use of technology include education, wealth, taste, risk preferences, complementary inputs, and access to information and learning (Aker, 2011). Information technology facilitates the production process, reduces production costs and improves product quality, customer satisfaction, organizational capabilities and firm performance (Bardhan et al., 2006; Heim and Peng, 2010). Plant (2001) stated that information technology is also used to improve farming management. Information technology has even been used to detect plant physiology processes (Ranjan, 2008).

Generally speaking, the expert system is a system that tries to adapt human knowledge to the computer so that the computer can solve problems usually solved by experts (Kusuma Dewi, 2003). With expert systems, the layman can accomplish complicated work more easily, quickly and accurately compared to an expert. Turban (1995) states that the basic concepts of expert systems contain expertise, transfer of skills, inference, rules and explaining abilities. The benefits of expert system are, among others: (1) allows the layman to do the work of experts, (2) the process is repeated automatically, (3) store knowledge and expert system expertise, (4) increase (7) capable of operating in a dangerous environment, (8) has the ability to access knowledge, (9) is reliable, (10) improving, (11) has the ability to work with incomplete and uncertain information, (12) as a complementary medium in the study, (13) improves the capability of problem solving, (14) saves time in decision

making. Expert systems are easy to apply both based on Visual Basic, WEB, Android, and iOS and more.

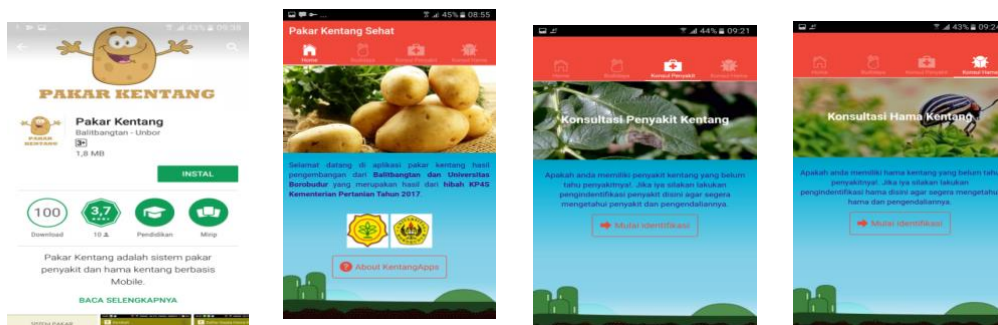
Pest and disease attacking crops are undesirable for farmers, as they can lead to a decrease in production and productivity of crops. It is estimated that one-third of the world's agriculture has been damaged by over 20,000 species of pests and diseases that attack crops. Damage occurs, both in the field during the cultivation process and in the storage warehouse. These conditions significantly affect farmers' income and world food supply. To overcome these obstacles, farmers need help as a knowledge and information concerning the types of pests and diseases of plants, symptoms, and means of control. Information and consultation on the diagnosis of potato crops symptoms of pests and diseases and its control can be designed as a part of an expert system.

The results of research by Udiarto et al (2015) stated that farmers positively respond to the design of the WEB based expert system of pest and disease diagnosis on shallot plant. Farmers responded very well to perceived ease of use, perceived usefulness and user acceptance in the research of expert system implementation of pest and potato-based diseases based on Android (Susilastuti et al., 2016, Susilastuti et al., 2017). Harison et al. (2017) said that the application of expert systems of rice plants and curly chilies can facilitate in providing information about farming rice and pepper curling to farmers and the general public. While the results of research Rizki Aptriana (2017) said the application of expert systems of pest and disease identification and control methods on Android-based cocoa plants have been successfully built to provide information to farmers in identifying plant pests and diseases.

### **3. Research Methods**

Experimental research with treatment: usage of the application as part of the Android expert system for pest and disease diagnosis with a potato farmer (Fig. 2). The experiment of expert system application implementation has been conducted in 2016. The implementation was under the shape of counseling, socialization, and training of farmers with the expert systems. The research has been conducted within three locations of potato production centers, namely East Java (K1 = Batu District, Malang), West Java (K2 = Pangalengan District, South Bandung), and Central Java (K3 = Keajar District, Wonosobo). Observations of productivity (tons/ha) were carried out before the experiment (T1 = productivity by 2016) and after the experiment (T2 = productivity by 2017).

**Figure 2.** Front and Menu Pages of the Android Based Expert System of Pest and Disease Diagnosis of Potato



The research methodology including data collecting, based on a questioner applied to 40 farmer responders at each location so that there are 120 respondents. The data collected included descriptive data, production data, and perception data. The data analysis method using RCBD (Randomized Completely Block Design) design and the parameters processed in this paper determined the productivity of the potato crops (ton/ha). The test design is as follows:

**Table 3.** Experimental Design

Treatment (T)	Group/research Location (K)		
	East Java K1	West Java K2	Central Java K3
Before Treatment (2016) T1	T1K1	T1K2	T1K3
After Treatment (2017) T2	T2K1	T2K2	T2K3

The linear model of RCBD is:

$$Y_{ij} = \mu + \tau_i + \beta_j + \epsilon_{ij} \tag{1}$$

where  $i = 1,2$  and  $j = 1,2,3$

With:

$Y_{ij}$  = observation on the  $i$ th treatment and the  $j$ th group

$\mu$  = production mean

$\tau_i$  = crop production from the  $i$ th treatment

$\beta_j$  = crop production of the  $j$ th group

$\epsilon_{ij}$  = random effects of the  $i$ th treatment and the  $j$ th group

#### 4. Result and Discussion

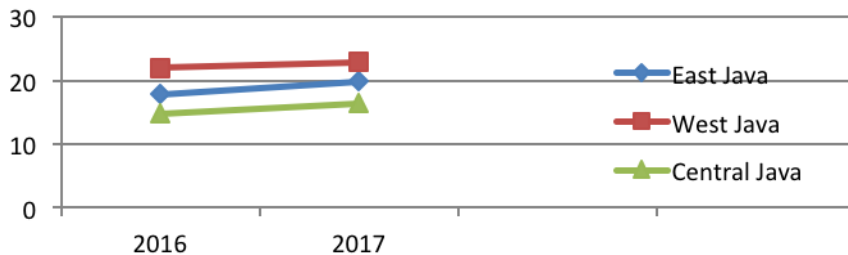
Analysis of variance suggests that the adoption of expert system information technology does not significantly affect the productivity of potato crops (Table 4), however, there is a rise in productivity by 2017 compared to 2016 before the technology is used (Figure 3).

**Table 4.** Average of Potato Productivity (ton/ha) in 2016-2017 in Three Location

Productivity	Location Observation		
	East Java	West Java	Central Java
Average Productivity Before Treatment 2016 (ton/ha)	17,73ns	21,89ns	14,67ns
Average Productivity After Treatment 2017 (ton/ha)	19,85ns	22,89ns	16,42ns

The numbers followed by the same letter in the same column are not significantly different according to the DMRT test at the 95% confidence level. ns = not significant, \* = significant.

**Figure 3.** Potato productivity before (2016) and after treatment (2017)



The lack of influence by the expert system information technology, represents a possibility caused by the lack of a linear relationship between information technology and the characteristics of farmers and conditions affecting the productivity of crops. Revelation Sasongko et al. (2014) indicates that the communication behavior of farmers in the adoption of information technology is low, if not accompanied by the ability of understanding (level of education) and land area. Higher education will form a positive mindset and can affect the ability of farmers in adopting expert system information technology. Descriptive data obtained from 120 respondents point towards a below 50% highly educated potato farmers (Figure 4).

The research results of Ni Made Sukartini and Achmad Solihin (2014) show that the adoption of information technology can increase the average of agricultural products, but it can also increase the chance of failure of the harvest, thereby

decreasing the productivity of the crops. Climate change can trigger the increase of plant pests. Susilastuti et al (2016) state that healthy cultivation techniques in potato crops are a major factor in yield improvement.

**Figure 4.** Respondents' Farmers Education Level



## 5. Conclusion

The conclusion of this study research findings is that although not significant, there was an increase in potato productivity after the experiment. The expert system information technology of pest and disease diagnosis of potato crops can increase productivity. Also, we point out the need for increased understanding of farmers on the technology adopted in addition to healthy cultivation techniques.

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## **Automotive Sector Investment and Its Implications on Import Content, Gross Value Added (GVA) and Labor Absorption in Indonesia**

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Joonner Rambe \*, Meirinaldi\*)

### **Abstract:**

*This research is motivated by the fact that development will depend on the availability of good and adequate transportation. Meeting these needs, will depend on the automotive sector investment in Indonesia. Tire development as part of automotive sector investment fluctuates each year in Indonesia.*

*The purpose of this study is to determine the factors that affect the automotive sector investment and the implications for the import, gross added value and labor absorption in Indonesia. This paper is expected to provide input to the Indonesian government and investors, within the automotive sector's efforts to increase investment to improve the gross added value and labor absorption. This study uses regression analysis.*

*The results of quantitative analysis for the model structure pointed out that interest rate, GDP, exchange rate, and inflation simultaneously have a very significant influence on investment. There is a positive and significant effect of each of the variables - interest rate, economic growth, exchange rate, and the automotive investment, while inflation has a positive effect but not significant. The results of the quantitative analysis for the second model structure shows that there is a very significant influence on the import content from automotive investment, gross added value and labor absorption.*

**Keywords:** *automotive sector investment, interest rate, economic growth (GDP), exchange rate, inflation, import content, gross value added (GVA), labor absorption.*

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### **1. Introduction**

With the issuance of a new Industrial Law, namely Law No. 3 of 2014 and Law No. 16 of 2014 About the Defense Industry, both laws impact the acceleration in the development of the industrial sector. Marcel Tirpak, an economist from Warsaw (2006), writes about the automotive industry in Central Europe. Research results show that the automotive industry is driving economic growth in Central Europe. Lansbury & Wailes (2010) wrote about the relation between unemployment and the

rights in the global automotive industry. Likewise, Lieberman and Dermeester (1999) investigated on “*Inventory Reducting and Productivity Growth: Linkages in the Japanese Automotive Industry*”, stating that his studies show on average every 10% reduction in inventory, generates about 1% in labor productivity.

Indonesia, as a country, that has the potential and advantages of each region, developed focusing on the manufacturing sector, food industry, maritime industry, and tourism. In addition, efforts have been put into developing the agricultural sector in line with government policy related to food sovereignty programs and improving the welfare of farmers. Moreover, an image of the growth of each industry sector can be depicted from Table 1 as follows:

**Table 1.** *Estimated Economic Growth by Industry, Year 2014-2015 (Percent, yoy)*

<b>Industrial Sector</b>	<b>2014 (Outlook)</b>	<b>2015 RAPBNP</b>
1. Agriculture, Forestry, and Fisheries	3.9	4.1
2. Mining and Quarrying	1.7	1.8
3. Manufacturing	4.7	6.1
4. Procurement of Electricity and Gas	5.0	5.6
5. Water Supply	4.2	5.3
6. Construction	6.0	6.4
7. Wholesale and Retail Trade, Repair Care of Car and Motorcycles	4.5	4.9
8. Transportation and Warehousing	6.9	8.1
9. adj ediaan Accommodation and Eat Drink	5.1	5.7
10. Information and Communication	9.1	9.7
11. Financial Services	8.2	8.8
12. Real Estate	6.3	6.8
13. Corporate Services	8.7	9.1
14. Public Administration, Defense and Compulsory Social Security	0.6	1.4
15. Education Services	7, 3	8.8
16. Health Services and Social Activities	5.6	6.9
17. Other services	6.1	6.7
Gross domestic product	5.1	5.8

**Source:** CBS, Ministry of Planning/National Development Planning Agency, and the Ministry of Finance.

The table above, shows an increase in GDP from 2014 to 2015 (up from 5.1 percent to 5.8 percent). When viewed from existing sectors, there is a significant increase. Thus, the increase in GDP requires the availability of infrastructure and availability of adequate transportation. Thus, it will finally require increased investment in the automotive sector.

At the moment, investors from various countries are trying to asses new investment in Indonesia in various sectors, especially investment in the Automotive sector. This

is due to the appeal towards Indonesian investments in the Automotive sector that has guaranteed a considerable profit so far. As an illustration, in 2015 there has been an investment of around Rp. 50 trillion, and it has subsequently grown for the coming years to around 10-12%.

From 2013 to 2015 there seemed to be a decline in the automotive sector investment, Indonesia being home for around 582.1 million US\$ in investments. The decline of the automotive sector has had an impact on the contribution of this sector to the Gross Domestic Product (GDP). With economic growth still around an average of 5.5%, it is still considered not reach an average 7% labor force absorption, as expected by the Government. Based on existing investment data, the average value of the Automotive sector investment. for the past 6 years has been around Rp 18,702,556 million. When viewed from the Indonesian population point of view and the vast geographical area that Indonesia covers, then the investment is still low. Such low investment will impact the development process within all sectors. This has resulted in increased levels of unemployment.

A concrete illustration of the output of labor in the industrial sector for 2010, is presented in Table 2 as follows:

**Table 2.** *Output and Labor on Industrial Sector Statistics (2010)*

<b>Sector</b>	<b>Output (Million Rp)</b>	<b>Labor (person)</b>
Food and Beverage Industry	1,272,300,471	7,448,015
Chemical industry	363,297,433	1,077,108
Industrial Machinery and Equipment	460,788,560	1,933,209
Automotive industry	281,876,744	1,648,047
Construction industry	1,924,924,391	5,213,753

**Source:** CBS (2010) excerpt from the 37 selected industrial sectors by researchers.

From Table 2 above, it appears that the automotive industry plays a vital role in the improvement of national output and employment. Indonesia is among the countries with an abundant labor supply and labor potential which, in turn, may disrupt economic security.

Investments in the automotive sector require substantial capital and technology assets, therefore investors are very concerned with the level of risk that would occur from the investment, and about the fact that investors would require higher yield levels to compensate for the high uncertainty. This is called risk premium.

Similarly, an increase in investment in the automotive sector should be able to contribute to the overall development of the national economy, given the fact that the growth of the automotive industry will provide an impulse to other sectors, so that, finally, they will be able to increase the gross added value (GVA).

This study is not limited to aspects concerning the factors that affect investment in the automotive sector, but researchers wanted to further examine how automotive investments impact the absorption of import content, employment, gross added value (GVA), depreciation, labor costs, operating surplus, indirect tax or labor absorption. Thus, this study will add a fuller and more comprehensive insight, in order to contribute to the knowledge and to the policies applied within the future development of Indonesia's automotive sector.

Based on the above, researchers wanted to conduct an in-depth research on the factors that affect the automotive sector investments, and the implications of the automotive investments on import content, employment, and gross added value.

## **2. Identification of problems**

A non optimal level of investment in the automotive sector in Indonesia is due to very limited support provided for the economic and non-economic aspects. As for the representation of the economic aspects, they consist in: high interest rates, economic growth, exchange rate, and inflation. Besides the economic aspect, in automotive investments, there still are many problems, among them: a low quality of the human resources, difficulties in the development of technologies and raw material shortages. Low automotive investments are also due to the low quality in licensing services from government to investors that is still not optimal, both in the quality of the service, and their speed.

## **3. Formulation of the problem**

What is the influence of variables such as interest rate, economic growth, exchange rate, inflation, simultaneously and individually on the automotive investment? What is the influence of the automotive investment, individually, on the import content, gross added value and labor absorption. What is the impact of the automotive investment on the import content, gross added value and labor absorption? Is the automotive sector investment a key sector in the development of a country?

## **4. Materials and methods**

### ***Theory on the Investment Influence towards Import Content***

According to Cecily and Michael (2011, p.50-52) there are some elements of the production cost as follows: 1). Direct Raw Material Costs, 2). Direct Labor Costs, and 3). Factory Overhead Costs. As known in the industry, the cost of raw materials is the most important one, compared to other costs. Thus, if there is a saving in the use of raw materials, or the use of local raw materials, there will be a production cost efficiency.

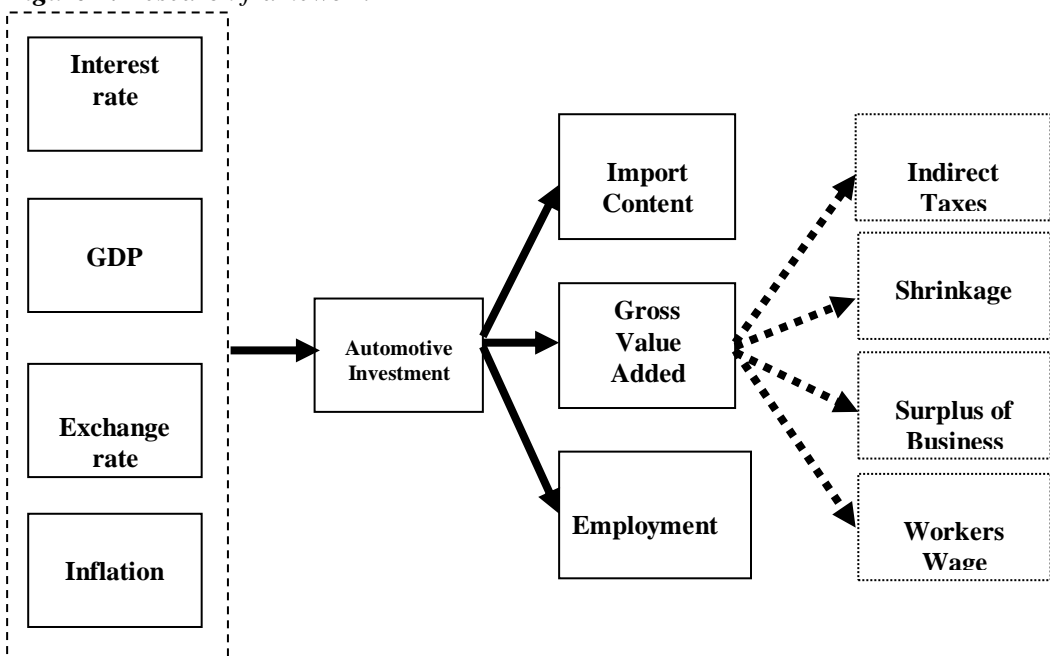
### ***Theory on the Investment Influence towards Gross Value Added***

Mudrajat Kuncoro (2014) states that private investment (domestic and foreign) and government spending will have a positive effect on the development of the GDP. While according to Kawengian (2002), investment is the mobilization of resources to create or increase production capacity or revenue in the future. In the context of use of the GDP, investment is known as Gross Fixed Capital Formation (GFCF), which describes the process of addition and subtraction of capital goods in a given year.

***Theory on the Investment Influence towards Employment***

Arsyad (2010) is stating that the level of output of the economy is directly affected by the value of capital and labor. By increasing the value of capital and labor, the level of the generated output will also increase. Investments in an effort to create a number of specific output, can use a variety of combinations between capital and labor users. The greater the employed capital, the smaller the necessary manpower. Conversely, if capital is used more limited, the more labor is used. Based on the theory and the results of relevant research, the investigators established research paradigms, to detail can be seen in Figure 2 as follows:

**Figure 2. Research framework**



**5. Research hypothesis**

There is a positive and significant influence of variables such as: interest rate, GDP, exchange rate and inflation on the automotive sector investments either simultaneously or individually. There is a partial positive influence of the investment

variable towards import content, gross added value and labor absorption. The relation between input-output determines results on import content, gross added value and labor absorption. Allegedly, the automotive sector will be one of the key sectors in the economic development of a country.

## 6. Research methods

The method used in the study is using the Explanatory Research Method - regression and correlation analysis methods.

Formulation of study variables is according to the following table:

**Table 3.** *Variable Operational Research*

No.	variables	Indicator	Unit	Scale
1	XI = interest rate	The average nominal interest rate on the loan	Percentage	ratio
	X2 = GDP	The average of national GDP	Million rupiah	ratio
	X3 = exchange rate	The average of national exchange rate	Percentage	ratio
	X4 = inflation	The average National Inflation	Percentage	ratio
2	Y = Investment automotive sector	Total Realization Value of Investment on automotive sector	Millions rupiah	ratio
3	Z1 = Import Content	Absorption of Import Content	Millions rupiah	ratio
4	Z2 = Gross Value Added	GVA formation on Economic Sector	Millions rupiah	ratio
5	Z3 = Employment	Number of peopleork	thousands of people	ratio

*Source: Adapted.*

## 7. Results and discussion

### 7.1 Measurement Results Recapitulation

**Table 4.** *Summary of Results of Measurement*

Model Number	Variables	Model Significance	Classic Sssumption test			
			Normality	Multicollinearity	Heteroscedasticity	Autocorrelation
1	X1, X2, X3, X4 simultaneously towards Y	F-count = 141.3285 > F-table = 2.5, means significant models	prob value 0.40146 > 0.05, means that the residual data normally distributed	Correlation matrix of all independent variable is less than	Value Prob. Chi Square = 0.1984 > 0.05, there is no heteroscedasticity	Value Prob. Chi-Square = .0744 > 0,05, there is no autocorrelation

Model Number	Variables	Model Significance	Classic Ssumption test			
			Normality	Multicollinearity	Heteroscedasticity	Autocorrelation
				0.8, there were no multicollinearity		
2	X1, X2, X3, X4 partially towards Y	idem ditto	idem ditto	idem ditto	idem ditto	idem ditto
3	Y partially on Z3	t-count = 24.56093 > t-table = 2.01410, mean significant models	Prob value 0.383267 > 0.05, means that the residual data normally distributed	Not measured because the independent variable is only one	Value Prob. Chi Square = 0.8835 > 0.05, there is no heteroskedasticity	Value Prob. Chi-Square = 0.1182 > 0.05, there is no autocorrelation
4	Y partially on Z2	t-count = 24.56093 > t-table = 0,01410, means significant models	Prob value 0.383267 > 0.05, means that the residual data normally distributed	Not measured because the independent variable is only one	Value Prob. Chi Square = 0.8835 > 0.05, there is no heteroskedasticity	Value Prob. Chi-Square = 0.1182 > 0.05, there is no autocorrelation
5	Y partially on Z3	t-count = 24.56093 > t-table = 0.01410, means significant models	Prob value 0.383267 > 0.05, means that the residual data normally distributed	Not measured because the independent variable is only one	Value Prob. Chi Square = 0.8835 > 0.05, there is no heteroskedasticity	Value Prob. Chi-Square = 0.1182 > 0.05, there is no autocorrelation

Source: Processed Data, 2015



**Table 5. Test Results of Inter-Variable Effect**

Model	variables Independent	dependent	R2 (percent), and t
1	X1, X2, X3, X4 (simultaneous)	Y	R2 = 0.929313, or 92.931 percent. means the effect of interest rate, GDP, exchange rate, and inflation on the Automotive Sector Investment was 92.931 percent, and the remaining 7.069 percent influenced by other variables outside the research variables
2	X1, X2, X3, X4 (partial)		
	X1	Y	t-count > t-table (2.102695 > 2.01808), meaning the interest rate is partially has a positive and significant impact on the Automotive Sector Investment
	X2	Y	t-count > t-table (16.54197 > 2.01808), means that GDP is partially has positive and significant impact on the Automotive Sector Investment
	X3	Y	t-count > t-table (5.180945 > 2.01808), meaning is partially has positive and significant impact on the Automotive Sector Investment
	X4	Y	t-count > t-table (0.023233 < 2.01808), meaning inflation is partially does not have significant effect on the Automotive Sector Investment, but the effects are positive
3	Y	Z1	R2 = 0.929248, or 92.925 percent, meaning the effect of the Automotive Sector Investment to Import Content is 92.925 percent, and the remaining 7.075 percent influenced by other variables outside the research variables. Automotive Sector Investment positive and significant impact on the Import Content
4	Y	Z2	R2 = 0.929148, or 92.915 percent, meaning the influence of the Automotive Sector Investment on Gross Fixed Value was 92.915 percent, and the remaining 7.085 percent influenced by other variables outside the research variables. Automotive Sector Investment positive and significant impact on the value of Gross Fixed

Model	variables Independent	dependent	R2 (percent), and t
5	Y	Z3	R2 = 0.929049, or 92.905 percent, meaning the influence of the Automotive Sector Investment on Labor Absorption is 92.905 percent, and the remaining 7.095 percent influenced by other variables outside the research variables. Automotive Sector Investment positive and significant effect on the absorption of Labor

Source: Processed Data, 2015.

## 7.2 Interpretation

- a. Effect of the interest rates, GDP, exchange rate, and inflation simultaneously on the automotive sector investment.

From the research results it appears that the R-square ( $R^2$ ) is 92.931%, this means that the effect of interest rate, GDP, exchange rate, and inflation simultaneously on automotive sector investment is very significant up to 92.931%.

In other words, the influence of the independent variables, namely interest rate, GDP, exchange rate, and inflation simultaneously on the automotive sector investment amounted to 92.931%, while the influence of other factors can almost be ignored. This is understandable because the four variables affecting the automotive sector investment are the main variables that can affect the development of the automotive sector investment in Indonesia.

- b. Out of the four variables affecting automotive sector investment (ie interest rate, GDP, exchange rate, and inflation), those that individually have a significant and positive impact on the automotive sector investment are the interest rate, GDP, exchange rate. While the variable inflation does not significantly influence the automotive sector investment, still the effects are positive.

## 7.3 Eligibility Test Results Model

The model feasibility test results show that the research model has fulfilled the viability of an econometric model, which is pointed out by the following test result:

### a. Theoretical plausibility

Studied model shows that the test results are in accordance with expectations of economic theory into a rationale.

**Table 6.** Results of Suitability Test Theory

Relationships between variables	pre estimation	post estimates	conformity
Model 1: There is the effect of interest rate, GDP, exchange rate, and inflation simultaneously on Automotive Sector	Positive effect (+)	Positive effect (+)	Corresponding

Relationships between variables	pre estimation	post estimates	conformity
Investment			
Model 2: There is the effect of interest rate, GDP, exchange rate, and inflation partially on Automotive Sector Investment:			
There is the influence of interest rate partially to the Automotive Sector Investment	Positive effect (+)	Positive effect (+)	Corresponding
There is the influence of GDP partially on Automotive Sector Investment	Positive effect (+)	Positive effect (+)	Corresponding
There is the influence of exchange rate partially to the Automotive Sector Investment	Positive effect (+)	Positive effect (+)	Corresponding
There is the influence of inflation partially on Automotive Sector Investment	Positive effect (+)	Positive effect (+)	Corresponding
Model 3: There is the influence of the Automotive Sector Investment partially to the Import Content	Positive effect (+)	Positive effect (+)	Corresponding
Model 4: There is the influence of the Automotive Sector Investment partially on Gross Fixed Value	Positive effect (+)	Positive effect (+)	Corresponding
Model 5: There is the influence of the Automotive Sector Investment partially on Labor Absorption	Positive effect (+)	Positive effect (+)	Corresponding

*Source: Processed Data, 2015.*

***b. Accuracy of the estimates of the parameters***

This research model yields an accurate or unbiased and significant regression coefficient estimator. The assumption of the analysis is met and the probability of statistical error of the model is very low or  $p\text{-value} < \alpha$

1. **Model 1: Effect of Interest Rates, GDP, exchange rate, and inflation simultaneously on Automotive Sector Investment.** The study yielded accurate or unbiased and significant estimates of regression coefficients. The assumption of the analysis is met and the probability of statistical error of the very low model yields  $p\text{-value for all variables} = 0,0000 < \alpha = 0.05$
2. **Model 2: Effect of Interest Rates, GDP, exchange rate, and inflation partially on Automotive Sector Investment.** The study yielded accurate or unbiased and significant estimates of regression coefficients. The assumption of the analysis is met and the probability of statistical error of the model is very low: where the Interest Rate  $p\text{-value} = 0,0000 < \alpha = 0.05$ , GDP  $p\text{-value} = 0.0414 < \alpha = 0.05$ , Exchange rate  $= 0.000 < \alpha = 0,05$ , inflation  $p\text{-value} = 0,0674 > \alpha = 0,05$
3. **Model 3: Influence of the Automotive Sector Investment to Import Content.** The study yielded an accurate or unbiased and significant regression coefficient estimator resulting in  $p\text{-value} = 0,000 < \alpha = 0.05$

4. **Model 4: Influence of the Automotive Sector Investment Gross Fixed Value.** The study yielded an accurate or unbiased and significant regression coefficient estimator resulting in  $p\text{-value} = 0,000 < \alpha = 0.05$
5. **Model 5: Influence of the Automotive Sector Investment of the Manpower Absorption.** The study yielded an accurate or unbiased and significant regression coefficient estimator resulting in  $p\text{-value} = 0,000 < \alpha = 0.05$

c. ***Explanatory ability***

The research model has a high ability to explain the relationship between the economic phenomena studied. The Standard error of estimates (SE), where the variance error of estimates =  $SE^2 < \text{mean square of regression in the ANOVA table}$ . Similarly, the entire standard error of the significant coefficients regression worth less than  $\frac{1}{2}$  times the value of the regression coefficient.

d. ***Forecasting abilities***

The model has a high degree of predictive power over the behavior of the dependent variable, as demonstrated by the high coefficient of determination ( $R^2$ ) for both models that exceed 50% with the following details:

1. Model 1, The amount of interest rate, GDP, exchange rate, and inflation simultaneously to the Automotive Sector Investment  $R^2 = 0.929313 = 92.931\% > 50\%$ .
2. Model 3, The amount of the Automotive Sector Investment influence on Import Content that is  $R^2 = 0.929248 = 92.925\% > 50\%$ .
3. Model 4, The amount of the Automotive Sector Investment influence on the Gross Fixed Value which  $R^2 = 0.929148 = 92.915\% > 50\%$ .
4. Model 5, The amount of the Automotive Sector Investment influence on Labor Absorption which  $R^2 = 0.929049 = 92.905\% > 50\%$ .

## 8. Conclusion

There is a very significant influence, simultaneously, from the interest rate, economic growth, exchange rate, and inflation on automotive sector investment with the effects of 92.931 percent. The magnitude of the effect of other variables not examined are 7.069 percent, such as regulation on licensing, availability of infrastructure, and more. There is a significant influence partially of each of the interest rate, economic growth, exchange rate, on the automotive sector investment, while inflation has no significant effect. There is a very significant influence between the automotive sector investment on import content, gross added value (GAV) and employment.

The suggestion for the government, entrepreneurs, and other parties involved in the development of the automotive industry, are as following:

- a. Reformulate policies and regulations that are more conducive, more complete and operational in order to accelerate economic development, as well as to provide solutions to the various problems faced by the automotive sector

- entrepreneurs engaged.
- b. The government needs to take a variety of constructive action in lowering interest rates that are relatively high, maintain the stability of exchange rates, and maintain the stability of the annual inflation rate.
  - c. Companies could improve the quality of their human resources by improving education and thus increasing the skill level of employee, as well as a better company management, so it has the ability and skill to improve governance, control and information technology, product development and are able to do face other competitors.
  - d. The government and employers helped pioneer the cooperation with various parties, especially with the banks, financial institutions and insurers, and oversight agencies, as well as other business institutions. Therefore, the government should provide adequate facilities and support and provide ease in building partnerships between big businesses to small businesses and micro-enterprises.
  - e. In an effort to further enhance the company's revenue, the government or related parties should make available business infrastructure, provide facilities in mediation with the parties related to the development of companies, guarantee the availability of local raw materials.
  - f. The existence of price stability and affordability as well as their ease of acquisition of credit for consumers.
  - g. In order to further improve the competitiveness of businesses in the automotive sector, the government should undertake investment incentives and protection, and business certainty.
  - h. The government develop policies capable to encourage the automotive investors to direct their capital towards the manufacturing of materials or parts that are imported and could be produced within domestic facilities and even exported in order to generate competitiveness both within and outside the country.

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## The Operational Cooperation Agreement for Regional Hospitals in the Management of Health Equipment

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**Abstract:**

*Operational Cooperation (KSO) is a form of cooperation that is undertaken by the work unit of the Regional Public Service Board (BLUD Work Unit) with the cooperation partners, in utilizing assets and or human resources, which are owned by the BLUD Work Unit or partners in the implementation of the task and function of the BLUD Work Unit. The Regional General Hospital is one of the BLUD.*

*The basis of the KSO concept itself is the need of hospital developers with the investment of capital owners outside the hospital, to achieve a cooperation that is always profitable for both parties without changing the capital structure and share ownership in the hospital.*

*This paper is designed to illustrate how to safely, and securely increase the investment pattern of hospitals business, accountable and certainty of return on investment figures that do not interfere with the operating cash flow of hospitals, to find out the basic forms of legal contracts of operational cooperation of sophisticated equipment supporting health services in hospitals, as well as for knowing what is contained in this operational cooperation agreement. Based on the data / information obtained from the rules on BLUD and KSO, as well as information from the RSUD, everything for KSO concepts seems easy even though the implementation is not that simple, but the purpose and the slim remains of capital structure or balance sheet structure in the hospital will be achieved by the entry of KSO partners.*

**Keywords:** *operational cooperation, cash flow efficiency, agency of regional public service.*

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### 1. Introduction

After all, regional hospitals are designated as organizations that applies the Financial Management Pattern of the Regional Public Service Agency (PPK-BLUD) and the next important task is for them to prepare planning the necessary activity in preparing the Business Budget Plan (RBA). In accordance with Permendagri No.61 of 2017 concerning Technical Guidelines for General Financial Management (PPK-BLUD) in the general provisions which are described as follows: Business Plan and

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BLUD Budgeting, hereinafter abbreviated RBA is an annual business planning and budgeting document that contains programs, activities, targets performance and budget of BLUD. In the current era where economic conditions are unstable, hospitals as health care delivery institutions cannot continue to expect financing from state finances to improve the quality of services provided. Therefore, one of the ways that can be approached by hospital is through the implementation of cooperation with various parties, including through the management of assets owned to improve the quality of services provided. Operational Cooperation (KSO) is a form of cooperation undertaken by the work unit of the Regional Public Service Board, with the cooperation partners, in utilizing assets and or human resources owned by the BLUD Work Unit, or partners in the implementation of the tasks and functions of the BLUD Work Unit.

According to the Government Regulation no. 23 of 2005, the Regional Public Service Agency is a government agency established to provide services to the public under the shape of providing goods or services sold without prioritizing profit and in carrying out its activities based on the principles of efficiency and productivity. The Regional Public Service Agency aims to improve services to the public in order to promote the general welfare and intellectual life of the nation by providing flexibility in financial management based on economic principles and productivity and the application of sound business practices. BLUD as a work unit can cooperate with other parties by complying with the principles of fair competition, efficiency, effectiveness, transparency and mutual benefit.

The cooperation can take the shape of an operational cooperation, lease and other business which is unrelated to the main tasks and functions of the BLUD. The revenue from the cooperation is an income for BLUD that can be directly managed. However, one of the problems for the work unit that has implemented BLUD is the operational cooperation with other parties, because there is no regulation on the implementation of cooperation agreement for BLUD (*Lexspesialis*).

It is undeniable that in order to support the improvement of patient care services, the availability of additional supporting health equipment must be owned by the hospital (must be adequate), so the hospital must provide healthcare supporting equipment with advanced technology, such as radiology equipment, etc. Hospitals should begin to grow by investing to buy new technology equipment, so as not to be out of date in providing services to patients. Therefore, it is unfortunate that the patient or the community should be referred to another hospital, where the equipment is more complete, so the burden of patients or society is increasing.

The implementation of cooperation between the Regional Public Service Agency with other parties should be carefully examined, related to the rampant findings on the audit process which are conducted both internally and externally. Therefore, there is a policy that all plans of cooperation to be undertaken by the fields should be



known by the director of the hospital as the chairman. However, the obstacles that occur are too long and long bureaucracy, while the nominal value of cooperation is not comparable. The procedures and the mechanisms of cooperation with partners should be established.

## **2. Methodology**

The methodology used is obtained from secondary data, this research type is empirical normative research. Data in the form of information obtained from the Regional General Hospital in South Kalimantan.

## **3. Results and analysis**

Operation Cooperation Contract (KSO) is an agreement between two or more parties in which each agrees to enter into a joint venture with the use or right of assets and owned business by taking advantage and overall loss. This is based on the time of cooperation (on time), until the end of the KSO after the cooperation agreement ends, not on the Break Event Point (BEP) the amount of investment installed by the investor. And the KSO principle is different from the pattern of "Installment / credit" or "Lease / Lease of Shares" The term "related party" in the Operational Cooperation (JV) contract is the following;

1. The owner of the asset is the party owning the assets or rights of the particular place of business used as the object or means of joint operation. For example, people who have land to build office buildings above KSO, (Hospital).
2. Investors are those who provide funds, in part or in part of assets, to enable owners of business assets or rights that are empowered or exploited within the KSO.

Contributions in investments, including joint ventures, may be specified in several forms, including shares, dues being in the form of cash, land rights, patents, technical skills, equipment, distribution services or use of trademarks. However, the awarding is usually accompanied by a clear and detailed calculation, so as not to cause harm to one party in the future. But because it is too broad, the discussion in this article is limited to the form of cooperation in operation (KSO).

Here is an overview: Investments in the form of own capital by means of joint operations. KSO is an agreement between two or more parties, each of which agrees to enter into a joint venture with the use of its assets and / or business owned rights and jointly mitigate such business risks, as stated in the Statement of Financial Accounting Standard (PSAK) no. 39 on joint operation of accounting. Whereas the parties referred to in PSAK Number 39:

1. Asset Owner; and
2. Investor (Funder).

Terms of cooperation are:

1. Agreement on the proportion of shareholder's distribution.
2. Achieving an agreement involving the time or duration of cooperation.
3. To achieve the service volume of equipment in KSO, there will be alignment between the duration of cooperation and tariffs made by one party and other parties.

This concern will always arise in the minds of every hospital manager who aspires to the development of this type of healthcare, in line with the increasingly high level of competition in the industry. Trend that occurred in the last ten years shows the high concern of corporate management on the interests of stakeholders. This raises the term "Return on Capital Employed (ROCE)". ROCE is how a corporation processes the investment funds provided by the investors to be cast in the corporate operations, so that after deducted by the operational costs, taxes, depreciation fees, investment costs and dividend payments will be obtained free cash flow (FCF) which is part of the corporation. From the explanation, the most difficult for the management of a corporation is to set aside the investment cost for the business development, so that what happens is that the corporation can already execute the dividend distribution for the stakeholders, but the business is stagnated or the way in place, because it is unable to run the re-investment.

The above conditions also occur in the hospital industry, the lack of hospital managers who complain about the inability of re-investing on the grounds do not have excess funds, so they are afraid to increase the capital structure of investment by borrowing funds from the Bank. This is the initial idea of the emergence of the concept of operational cooperation (KSO) in the management of the hospital business.

Hospital investment (RS) is a safe investment. Many owners of individual capital and a group of people do not know about it. The hospital always improves the hospital development with changes in the balance sheet structure which is directly related to the structure of the state capital itself. The basis of the KSO concept itself is the need of hospital developers with the investment of capital owners outside the hospital, so as to achieve a cooperation that is always profitable for both parties without changing the capital structure and share ownership in the hospital. Implementation phase of KSO as follows:

The management of the hospital establishes a special team signed by special doctor as the operator of the equipment to be purchased for procurement from the hospital in charge of the selection of the supplier's name or the provider of the equipment to be purchased and finally for the hospital finance that is figured as a search for the pole financing to be used and selected against KSO's potential partners in the tool.

**Medical decision:** The team of doctor operators together with the hospital management (in this case represented by the field of marketing) will determine the needs of the equipment to be purchased including the conditions of market competition to be entered with the tool. At this stage required data from hospital marketing on the condition of the existence of similar equipment at the hospital competitors in the same area.

**Screening Decision:** At this stage the result of service hatching and from the need for a valid study tool to be purchased and tested for success, has been entered into the budget of ABT funds that have not been purchased by hospital procurement and the team is following up by selecting (Screening) on supplier name at least 3 names) so that they immediately provide offers and presentations of the tools excess which will be held so that the name of the tool which will be purchased is found.

**Financing Decision:** after obtaining the name of the supplier and the equipment to be purchased, the duty for the hospital finance will dilute the KSO partners who are eligible and able to assist the financing of the purchase of the equipment.

**Legal Decision:** at this stage the legal team from the hospital will establish a contract of agreement with KSO partners for the security of this KSO contractor (usually the length of the contract is determined by the profit-sharing calculation and the return value of the investment on the equipment to be purchased).

With the concept of KSO above, everything seems easy even though the implementation is not that simple, but the purpose and the slim remain of capital structure or balance sheet structure in the hospital will be achieved with the entry of KSO partners. If you get difficulties in the implementation, we can contact the Regional Hospital partners.

#### **4. Conclusion**

Based on the above KSO description, it is understood that the business activities offered by contractors to customers are in the form of investments that adopt the principles of contract law. This certainly makes such an investment more professional in its implementation.

1. Ability to qualify and compile legal documents of operational cooperation contracts of companies based on the basic principles of contract law.
2. Ability to establish operational cooperation contracts with foreign or international parties as formal normative evidence.
3. Provide and understand that the principles of contract law are indispensable in the preparation of operational cooperation contracts to avoid the fundamental risks or errors in fatal contracts for the parties.

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## **Factors that Influence the Health Levels of Saving and Loan Cooperatives (Ksp)/ Saving and Loan Unit (Usp) Cooperatives in North Jakarta, Indonesia**

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**Abstract:**

*This study examines factors (Capital, Quality of Production Asset, Management, Efficiency, Liquidity, Independence & Growth, Cooperative Identity) that influence the health levels of Savings and Loans Cooperatives (KSP)/ Savings and Loans Unit (USP) Cooperatives in North Jakarta, Jakarta Indonesia.*

*The cooperative is one of the three economic actors in Indonesia whose development needs to be encouraged to develop and be able to improve the welfare of its members. Savings and Loans Cooperatives (KSP)/ Savings and Loans Unit (USP) Cooperatives should display professionalism in managing funds and providing loans to members. From 2011 to 2016, the North Jakarta Municipality supported the development of cooperatives and their number increased sharply up to the highest one in Jakarta.*

*In North Jakarta, Health Assessment program for KSP and USP Cooperative existed and has been operational, and thus, they are qualified to carry out health assessment activities. The data used in this study is primary and secondary data. The Primary data is the respondent's answers concerning issues related to institutional, finance and management aspects. The Secondary data is data from KSP / USP annual report and data from related instances from the Department of SMEs and Trade Cooperative of North Jakarta. The analysis technique used in descriptive analysis in order to determine the level of soundness of 30 KSP and USP Cooperatives in North Jakarta. Multiple linear regression analysis is used to determine the effect of independent variable on dependent variable either simultaneously or individually, and standardizing coefficients are applied in order to determine which variable is the most dominant.*

*The analysis showed that: 1) The overall level of health of KSP / USP Cooperative in North Jakarta on 30 KSP/USP cooperative sampled in this study, in terms of capital, quality of production asset, management, efficiency, liquidity, independence & growth, cooperative identity, an resulting into healthy and reasonably healthy status. 2) Simultaneously capital, productivity, asset quality, management, efficiency, liquidity, Independence & growth, cooperative identity variables have significant effect on the soundness of the KSP / USP Cooperative in North Jakarta with a coefficient of determination ( $R^2$ ) = 99.6%. 3) Individually, capital, production, asset quality, management, efficiency, liquidity, independence & growth, cooperative identity variables have positive and significant impact*

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*on the level of soundness of KSP / USP cooperatives in North Jakarta. 4) Finally, production, asset quality, liquidity, independence & growth are the dominant variables that affect the level of soundness of KSP / USP cooperative in North Jakarta.*

**Keywords:** *Indonesia, cooperatives, influence factors, the soundness levels, Saving and Loan Cooperatives (KSP)/ Saving And Loan Unit (USP) Cooperatives*

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## **1. Introduction**

In Indonesia there are 3 business entities namely - state-owned enterprises, private ones and cooperatives. Cooperatives are business entity which are still lagging behind state-owned enterprises and private enterprises. In such economic circumstances, cooperatives should have a wide range and business opportunities in connection to people's interests and economic life. But in the fast-paced economic development, the growth of cooperatives has not been fully accomplished according to their role as mentioned in the 1945 Constitution.

The development of cooperatives needs to be directed as to play a significant role in the national economy. In addition, cooperatives actually apply the principles of cooperatives and economic business rules. Thus, cooperatives will be a stable economic organization, democratic, autonomous, participative and having a social character. Cooperative coaching is basically meant to encourage cooperatives to run business activities and play a major role in people's economic life.

Governments, both central and regional, create the climate and conditions that promote growth and popularization of cooperatives. Similarly, the government provides guidance, ease and protection to cooperatives. Furthermore, the Government may stipulate the field of economic activity which is only cultivated by the cooperative. In addition, the Government may also stipulate the area of economic activity of a certain region which has been successfully sought by the cooperative and will not be undertaken by other business entities. This is done with due regard to the national economic interests and the realization of equal opportunities.

Cooperatives that can contribute to people's welfare and have gain the ability to finance, to manage itself, to increase the power of its members, to provide capital facilities, to encourage its members to develop their business or open new business. A cooperative that can provide to its members is a cooperative of a healthy state.

In connection to the efforts of speeding up the welfare gain of its members, the cooperative will sooner generate a greater positive impact by means of providing members with working capital, than compared to providing assistance in improving

the consumption of goods and services. In relation to that type of cooperative should the Cooperative Savings and Loans (KSP) and Unit Savings and Loans (USP) evolve.

A cooperative can be defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. A cooperative is a business with a legal entity, with a member-oriented effort to produce added value that can be utilized for improving the welfare of its members. In addition, the cooperative is also a people-oriented economic movement, aiming to foster community participation in an effort to strengthen the structure of the national economy based on economic democracy and on the principle of kinship. KSP / USP Cooperative is expected, in the future, to be able to provide capital for developing small business.

KSP / USP cooperative management must be a professional one based on the principle of soundness and transparency, in order to gain depositors' trust. In order to develop sound and credible savings and Loans Cooperative, intensive coaching is needed so that capabilities are increased in providing better services to its members and to the community.

Cooperative health assessment is used to determine how healthy the cooperative is in carrying out its business. In order for the assessment to obtain valid results and be useful for decision makers, it has to focus on the cooperative's capacity of developing its business. The development of savings and credit cooperatives as a non-banking financial institution should be enhanced and so should its understanding of financial aspects and of financial assessment. It is intended to assess the health level of KSP / USP Cooperative performance through the measurement of several aspects, among others are capital aspects, productive asset aspects, management aspects, efficiency aspects, liquidity aspects, independency aspects and growth and identity of the cooperative.

Therefore KSP / USP Cooperatives can maintain the trust level of members and communities, through the enhancement of the capability and role of KSP / USP Cooperatives and it is expected for them not only to expand the economic base but also to overcome the gap for members or communities who need easy loans and have simple requirements, thus KSP / USP Cooperative can contribute to accelerating structural changes namely the quick and cheap provision of capital for members.

In the administrative city of North Jakarta the number of cooperatives, according to legal entities, reaches 984 cooperatives, 380 active cooperatives or 40%, and 102 healthy institutional cooperatives or 27% of the total active and 11% of the cooperatives according to legal entities.

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From 2001 to 2016, North Jakarta has operated 984 Cooperatives, consisting of Savings and Loans Cooperatives and Multipurpose Business Cooperatives with Savings and Loans (USP). Based on that, it is necessary to analyse aiming to identify the factors that affect the health level of Cooperative Savings and Loans / USP Cooperative In North Jakarta.

## **2. Literature review**

A Cooperative is an association of people, usually of limited economic capacity, through a form of democratically controlled corporate organization, each equally contributing to the required capital, and willing to take risks and to accept rewards that match their business (ILO, in Sumarsono, 2009). According to Hatta (in Sitio, 2011) the cooperative is a joint effort to improve the fate of economic livelihoods based on help. The spirit of help is motivated by the desire to provide services based on the principle one for all and all for one. Meanwhile, the Law Number 25 Year 1922 Article 1 Paragraph 1 concerning cooperatives states that the cooperative is a business entity consisting of a person or legal entity cooperative with its activities based on the principle of cooperatives as well as a people's economic movement based on the principle of kinship. From the various definitions that have been described above, we can concluded that the cooperative is a business entity consisting of people or cooperative bodies who join voluntarily to achieve the same goal, namely cooperatives want to prosper the members by means of activities based on economic principles as well as people's economic movement based on the principle of kinship.

Saving and loan cooperative (KSP) is a cooperative whose activities are only saving and loan business. While Savings and Loans Unit (USP) cooperative is a cooperative unit engaged in business savings and loan, as part of the cooperative business activities concerned

Cooperatives may collect funds and distribute them through savings and loan activities from and to:

- a) Members of the cooperative concerned;
- b) Other cooperatives and/or its members.

Business Activities Savings and Loans can be implemented as one or only cooperative business activities, this is regulated by article 44 of Act No. 25 of 1992 on Cooperatives. In the presentation of the cooperative, a savings and loans business will be organized specifically, and also the intended members will be stated, including eligible member candidates, while for members of the cooperative and they will be validated based on the cooperation principle.

Furthermore, in the Government Regulation of the Republic of Indonesia Number 9 of 1995 Concerning the Implementation of Business Savings and Loans by Cooperatives, in includes considrants such as the income and welfare of cooperative



members, the savings and loan activities need to be developed, and the activities must be efficiently and effectively managed. In Article 1 paragraph 2 of Government Regulation no. 9 of 1995 is affirmed that the Cooperative Savings and Loans is a Cooperative whose activities are only business savings and loans. This is reaffirmed in the Regulation of the State Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number: 19 / Per / M.KUKM / XI / 2008 concerning Guidelines for the Implementation of Business Savings and Loans by Cooperatives, that the Savings and Loans Cooperative in this regulation is called "KSP" and is presented as cooperative that conducts its business activities only for savings and loans (Article 1, paragraph 2).

### ***Capital of Cooperatives***

Any activity that is motivated by economic capital is absolutely necessary besides other resources such as human resources, natural resources, skills and others, as well as in the management of a business entity named cooperative. In Chapter IV article 41 in Law Number 25 year 1992, that cooperative capital can be in the form of own capital and loan capital. Own capital can be staple deposit, mandatory deposit, reserve fund and grants.

### ***Deposits***

The deposit is the same amount of money that members must pay to the cooperative upon entering into a Cooperative. Staple deposits can not be taken back as long as the member is still a member of the cooperative.

### ***Deposit required***

Mandatory deposit is a certain amount of savings that is not necessarily the same that members must pay to the cooperative in a certain time and opportunity. Mandatory deposits can not be taken back as long as the member is still a member.

### ***Reserved fund***

The reserve fund is a sum of money derived from the allowance for residual proceeds, which is intended to foster own capital and to cover losses to the cooperative when necessary.

### ***Operating Results***

Any individual business or entity with an economic goal is ultimately motivated to gain profit, but in the cooperative the term is unknown, the term is "Time Outcome of Business", according to Article 44 paragraph 1 of Law Number 25, 1992. The term "Operating Income" designates a cooperative income earned in the financial year minus expenses, depreciation and other liabilities including taxes in the relevant fiscal year. Furthermore, in paragraph (2) of the same article, the time of business return after deduction of reserves, distributed to members in proportion to business services performed by each member with cooperatives, and used for educational purposes cooperatives and other purposes of the cooperative in accordance with the decision of the meeting members .

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Roy (1981) notes that one of the most important features of a successful cooperative company is a good accounting system that does not greatly differ from the type of corporate profits and the financial ratios used in evaluating the performance of a business firm is a valuable tool for measuring strengths and weaknesses of a cooperative enterprise. It involves an accurate record of the purchase and sale of members-protectors through cooperatives. Balance sheets and monthly statements are usually required and the amount of assets exceeding the obligations is shown as the member's equity in the balance sheet.

The projected financial statements for an enterprise offers the financial analyst the ability to calculate the financial ratios that enable it to make decisions about the efficiency of the firm, the return of the main aggregate, the feasibility and solvency of its credit (Gittinger, 1992)

Financial ratios can be analyzed using three parameters: efficiency ratio, income ratio, and creditworthiness ratio (Roy, 1981; Gittinger, 1992). The efficiency ratio allows the analyst to make an assessment of the efficiency in the use of the asset and enable the control of a company's costs. The efficiency ratios include: (i) Inventory turnover which is a measure of how many times the company changes its inventory every year and indicates the level of inventory needed to support a certain level of sales. A low ratio means that large inventories must be made to ensure that production schedules are met and high turnover indicates that the company can quickly recover inventory investment and there is good demand for its products or services. (ii) Operating ratios obtained by dividing operating costs by operating costs. This is particularly useful when the same company operations are compared year by year or when the company is compared with similar industries. (iii) Revenue Ratio: This demonstrates a company's long-term financial capability to generate funds for reinvestment and growth and provide satisfactory investment returns.

Revenue ratio includes return on sales, return on equity, and return on assets. (iv) Credit eligibility ratio: This allows an assessment of the level of financial risks inherent in a company before undertaking a project. It shows what is needed to finance the project and the appropriate requirements. The credit ratio is measured by the current ratio and debt-equity ratio. Current ratio which is current assets divided by current liabilities is indicative of the margin that the company has current assets to reduce its value before facing difficulties in meeting its current obligations. According to Gittinger, an important financial ratio for credit institutions is the debt-equity ratio found as a good guide against "losses".

Another tool in the analysis of financial performance is the Balance Sheet. According to Okeya and Adediran (1996), the balance sheet is a snapshot of a company's financial ratios. That's a statement of business assets and liabilities on a certain date. This allows management to consider their operational achievements for the year before being presented to shareholders. Of these ratios, the following ratios can be calculated:

- Current ratio: this is the ratio of current assets to current liabilities. The main purpose of this ratio is to measure short-term solvency and this indicates that the company can easily cover its liabilities adequately through cash generated with current assets.
- Acid test ratio: Rapid ratio or acid test ratio is a special test of liquidity. It tests whether a business expects to earn enough money from its current asset in the near future to pay off all its current liabilities
- Equity to assets: This ratio represents the proportion of the shareholder's share of the business asset, ie the ratio of the business assets financed by the shareholders.
- Debt to Equity: This ratio is important to know whether a cooperative company or community has borrowed too much or not. The maximum "safe" debt / equity ratio is 50%, which means that half of the total assets of an business are externally financed.

### ***Health Cooperative Savings and Loans***

In the Regulation of the Minister of Cooperatives and SMEs Number: 14/2009 on Amendment of Regulation of Minister of Cooperatives and SME Number: 20 / Per /M.KUKM/XI / 2008 on Guidelines for Health Assessment of Savings and Loans Cooperative and Cooperative Savings and Loan Units dated 14 November 2008. Predicate health cooperatives are classified into 5 predicates, namely: Healthy, Simply Healthier, Less Healthy, Unhealthy and Very Unhealthy.

### ***Aspect of Assessment***

Referring to Regulation of the Minister of Cooperatives and SME Number: 14/2009 concerning Amendment of Regulation of Minister of Cooperatives and SME Number: 20 / Per /M.KUKM/XI / 2008 concerning Guidelines for Health Assessment of Savings and Loans Cooperatives and Cooperative Savings and Loans Unit on 14 November 2008, basically the assessment of cooperative health concerns 7 (Seven) aspects of aspects of Capital, Quality Assets Production, Management, Efficiency, Liquidity, Independence & Growth, Cooperative Identity.

### ***Determination of Cooperative Health***

In establishing the health of the cooperative based on the assessment of 7 aspects of the assessment as stipulated in the Regulation of the Minister of Cooperatives and SME Number: 14/2009 on Amendment of Regulation of Minister of Cooperatives and SME Number: 20 / Per /M.KUKM/XI / 2008 on Guidance of Health Assessment of Cooperative Store Borrowing and Cooperative Savings and Loan Units dated November 14, 2008, furthermore in determining the health predicate is done with a score system of values 0 to 100.

### ***Previous Research Results***

In a previous study by R. Kassali, A. O. Adejobi and C. P. Okparaocha in a study titled Financial Performance Analysis of Cooperatives in Ibadan Metropolis, Oyo Country, Nigeria. The results indicate a good cooperative financial position with a sufficiently large minimum equity of assets (not less than 0.50) and an acid test;

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indication of a good liquidity position that can guide risk. Solvency prosecutes cooperatives in the area as potential contributors to the economic community. This is also an indication that cooperatives apply good cooperative financial management principles; possible impact of training received. Therefore, it is recommended that cooperatives see their old loan and cooperative policies requiring more rigorous supervision to improve financial performance

In a previous study by I Nyoman Lodra Graduate Student of Economic Development Study Program entitled "The Effectiveness and Impact of Strengthening Program of Capital Structure of Cooperative Empowerment Fund and Member's Income in Denpasar City", stated that cooperative health level is important in cooperative management.

Rachman (2006) in a study entitled "*Analysis of Factors Affecting Cooperative Business Development (Survey on KUD in Bandung)*". This study aims to determine how much influence the professionalism of the board, the number of members, the amount of deposits, and business volume on the development of residual results KUD business in Bandung either partially or simultaneously. Analyzer used to know influence between dependent variable with independent variable is multiple regression analysis. The results of this study is that simultaneously the professionalism of the board, the number of members, the amount of deposits and business volume significantly influence the remaining results of KUD business with a determination value of 76.4 percent. Partially the number of members, the number of deposits and the number of business volume have a positive and significant effect on the rest of the KUD business results in Bandung, while the professionalism of the board has no effect on the remaining KUD business results in Bandung

### **3. Methodology**

#### ***Sampling and data collection***

This study was carried out in North Jakarta Municipality, which has 6 sub-districts, covering 20 urban villages and Jakarta which is the capital city of Indonesia. The data was collected from a sample of 30 randomly selected Cooperative Business Cooperatives and Savings and Loans Cooperatives. The data used in this study is primary and secondary data. The Primary data is the respondent's answer concerning institutional, financial and management aspects. The secondary data is data from KSP / USP annual report and data from related instances from the Department of SMEs and Trade Cooperative of North Jakarta.

#### ***Methodes of data analysis***

Descriptive statistics, financial ratios derived from the financial statements including regression technique were used to analyse the data. The analysis technique used in descriptive analysis to determine the level of healthiness of 30 KSP and USP Cooperative in North Jakarta, multiple linear regression analysis to determine the effect of independent variable on dependent variable either simultaneously or partial,

and standardize coefficients is applied to determine which variable is the most dominant

#### **4. Results and Analysis**

##### ***Data analysis technique***

In order to answer the purpose of the research we should determine the health level of 30 KSP / USP Cooperative in North Jakarta Municipality using descriptive analysis techniques as follows:

1. CAPITAL ASPECT (a. Equity/Own capital ratio to total asset (b). Equity/Own capital ratio to loan is given risky c. Capital adequacy ratio (CAR)
2. QUALITY OF PRODUCTIVE ASSETS ASPECT (a. Loan volume and member ratio to loan volume given b. Non-performing loan risk ratio to loan given c. Ratio of risk reserves to non-performing loan risk d) loan ratio at risk to loan given)
3. MANAGEMENT'S ASPECT (a. General Management b. Institutional Management c. Capital Management d. Asset Management e. Liquidity Management)
4. EFISIENCE (a. Operational cost to service ratio of gross participation b. Operating expenses to net enrollment ratio c. service efficiency ratio)
5. LIKUIDITAS (a) Cash Ratio (b) Loan ratio given to funds received)
6. INDEPENDENCE AND GROWTH (a. Ratio of Rentabilitas Assets (ROA) b. Ratio of Own Capital Rentabilitas (ROE) c. Operational Self-Service Ratio)
7. IDENTITY OF COOPERATIVE (a. Gross Participation Ratio b. Member Economic Promotion Rate (PEA))

After the calculation using the above formula and management assessment, SCORING will be conducted and from the cumulative scoring achieved by each KSP / USP Koperasi, with the following weighting in accordance with the Regulation of Minister of Cooperatives and SME Number: 14/2009 on Amendment of Ministerial Regulation Cooperative and SME Number: 20 / Per /M.KUKM/XI/2008 regarding Health Assessment Guidelines for Savings and Loans Cooperative and Cooperative Savings and Loan Units dated November 14, 2008

##### ***Qualitative Analysis***

Based on data obtained from the Office of Cooperatives of Small and Medium Enterprises of North Jakarta Municipality related to factors affecting the health level of KSP in North Jakarta Municipality, it can be recapitulated KSP / USP Koperasi health level from aspects of Capital, Quality of Production Assets, Management, Efficiency, Liquidity, Independence & Growth, Cooperative Identity.

From the analysis of 30 KSP / USP Cooperative in North Jakarta Municipality which is used as research sample only 18 KSP / USP or 60 percent are included in the healthy forecast, 12 KSP / USP or 40 percent are included in the healthy enough category, 0 KSP / USP or 0 percent included in the less healthy group, and 0 KSP / USP or 0 percent are not healthy. This indicates that some KSP / USP Cooperatives

in North Jakarta Municipality are still inadequately operating so that they need to be re-evaluated so that the KSP / USP can meet the criteria to become a non-banking financial institution in its role as a financial institution that helps improve the development of small and medium enterprises for the people in North Jakarta Municipality.

### ***Quantitative Analysis***

#### 1) Multiple Linear Regression

Based on the result of data processed by using SPSS program hence can compiled the estimation of multiple linear regression model as follows.

$$\hat{Y} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7$$

$$\hat{Y} = -0,223 + 0,994X_1 + 1,007X_2 + 0,974X_3 + 0,970X_4 + 1,058X_5 + 1,049X_6 + 0,986X_7$$

$$\text{Sig. (0,00) (0,00) (0,00) (0,00) (0,00) (0,00) (0,00)}$$

$$t (0.31) (0.39) (0.37) (0.35) (0.50) (0.28) (0.13)$$

$$F = 10.43 \text{ Prob.} = 0,000$$

$$R^2 = 0.996 = 99.6 \text{ percent}$$

Influence of Capital Variable, Quality of Production Asset, Management, Efficiency, Liquidity, Independence & Growth, Cooperative Identity Simultaneously to KSP Health Level in North Jakarta Municipality

Analysis of simultaneous regression testing with F-test, showed that Fcount (10,43) > Ftable (2,71) with probability 0,000. This means that the capital variables, quality of production assets, management, efficiency, liquidity, Independence & growth, cooperative identity simultaneously have a significant effect on the health level of KSP in North Jakarta Municipality.

The value of the coefficient of determination (R<sup>2</sup>) is of 0.996, which means that the variation of ups and downs of KSP / USP cooperative health level in North Jakarta Municipality amounted to 99.6 percent influenced by variation in aspects of capital, quality of production, assets, management, efficiency, liquidity, self-reliance & growth, while the rest of 99.6 percent influenced by other variables that are not included in the research model.

This is in accordance with research conducted by Ismi Handayani (2009) stating that the aspect of capital, productive asset quality, management, rentability and liquidity have significant effect simultaneously on the level of cooperative health in Sharia Savings and Loans Cooperative BMT Akbar year 2006-2007. A similar study was conducted by Sri Purniyanti (2006) who stated that capital, productive asset quality, management, earnings and liquidity have significant effect secaproduktively, management, rentability and liquidity have significant influence simultaneously to health level of Village Unit Cooperative in Regency Semarang

***Effect of Capital Variables, Quality of Production Assets, Management, Efficiency, Liquidity, Independence & Growth, Identity of Cooperative Partially on KSP Health Level in North Jakarta***

Partial regression test with t-test to see one by one the influence of independent variable to dependent variable, as listed in Appendix 1, so that can be interpreted as follows:

1) The regression coefficient X1 for the capital variable is 0.994 (probability = 0,000), indicates that capital affects the health level of KSP in Gianyar regency. This means that if capital increases, the health of KSP will also increase or vice versa

This research is in accordance with research conducted by Sri Purniyanti (2006) which states that capital has a significant effect on health level KUD in Semarang regency.

2) The regression coefficient X2 for productive asset quality variable is 1.007 (probability = 0,000), shows that the quality of productive asset has a positive and significant effect to the health level of KSP in North Jakarta Municipality. This is because the health level of KSP / USP Cooperative in North Jakarta Municipality increased along with the increase of earning assets quality score. In addition, most of the KSP / USP Cooperatives that are used as research samples have average quality of productive assets are quite good and stable, even some are perfect, with the score reaches a maximum limit of 30. This can happen because the loan is only given to members, problem loans are relatively small when compared with loans and the existence of risk reserve funds to cover the troubled loans so as not to disrupt cooperative operations. This is in accordance with research conducted by Sri Purniyanti (2006) which states that the quality of productive assets have a positive and significant impact on health level KUD in Semarang regency. A similar study was also conducted by Judge Miftakhul Huda (2007), who stated that the quality of productive assets has a positive and significant impact on the health assessment of some cooperatives in Prigi District, Watulimo District, Trenggalek Regency.

3) The regression coefficient of X3 for the management variable is 0.974 (probability = 0,000), shows that management has an effect on the health of KSP in North Jakarta Municipality. This research is not in accordance with the research conducted by Judge Miftakhul Huda (2007), which stated that management aspect does not significantly influence the health assessment of some cooperatives in Prigi District, Watulimo District, Trenggalek Regency.

4) The regression coefficient X4 for the profitability variable is 0.970 (probability = 0,000). This shows that rentability has a positive and significant effect on the health level of KSP in North Jakarta Municipality. This is because most of the cooperatives studied achieve near perfect score of profitability of 15. Some cooperatives are able to obtain a good profitability score because the value of SHU before taxes obtained are relatively large when compared with operating income or total assets. This research is also in accordance with research conducted by Judge Miftakhul Huda (2007), which states that the aspect of

rentability has a significant effect on the health assessment of some cooperatives in Prigi District, Watulimo District, Trenggalek Regency

5) The regression coefficient X5 for the liquidity variable is 1.058 (probability = 0,000), shows that liquidity has a positive and significant effect to the health level of KSP in North Jakarta Municipality. This is because almost all KSP in North Jakarta Municipality achieve maximum liquidity score of 10. This means that most of KSP is able to manage its liquidity ratio well because it has a liquidity monitoring system in carrying out its operational activities. This research is in accordance with research conducted by Sri Purniyanti (2006) which states that liquidity has a significant effect on health level KUD in Semarang regency. A similar study was also conducted by Judge Miftakhul Huda (2007), who stated that liquidity has a positive and significant effect on health assessment of some cooperatives in Prigi area, Watulimo Sub-district, Trenggalek regency

6) The regression coefficient X6 for the liquidity variable is 1.049 (probability = 0,000), it indicates that Independence & Growth, positively and significantly influence the health level of KSP in North Jakarta Municipality.

7) The regression coefficient of X7 for the liquidity variable is 0.986 (probability = 0,000), shows that the identity of the cooperative has a positive and significant effect to the health level of KSP in North Jakarta Municipality.

The most dominant influence factors among capital variables, quality of production assets, management, efficiency, liquidity, independence & growth, cooperative identity of KSP health level in North Jakarta Municipality

Based on the results of the data by using SPSS 16.0 program by looking at the absolute value of standardized beta coefficients or standardized coefficients beta value obtained, that among the variables capital and quality assets production, management, efficiency, liquidity, self-reliance & growth, cooperative identity: production asset quality, liquidity, independence & growth have the most dominant influence on health level of KSP in North Jakarta Municipality. This is seen from the value of earning asset quality on the value of standardized coefficients beta of 0.599, this value is the highest among other variables

The acquisition of productive asset quality as the most dominant variable affecting the health level of KSP / USP Cooperative in North Jakarta Municipality is due to the ratio of productive asset quality relating to loans provided by KSP / USP Cooperative which include volume of loan to members, loan volume, problem loans and risk reserves. Where these ratios greatly determine the level of health KSP / USP Cooperative. If KSP / USP Koperasi is not able to manage the ratio of the quality of earning assets is well then it can be concluded KSP / USP Cooperative health level will decrease.

## 5. Conclusion

Based on the previous discussion, it can be concluded as follows:



- 1) The overall level of health of KSP / USP Cooperative in North Jakarta Municipality at 30 KSP sampled in this study, viewed from the aspect of capital, quality of production asset, management, efficiency, liquidity, independence & growth, cooperative identity, included in healthy predicate and quite healthy.
- 2) Simultaneously capital variables, productivity asset quality, management, efficiency, liquidity, independence & growth, cooperative identity significantly influence health level KSP / USP Cooperative in North Jakarta Municipality with the determination coefficient (R<sup>2</sup>) of 99.6%.
- 3) Partially, capital variables, production asset quality, management, efficiency, liquidity, independence & growth, cooperative Identity has positive and significant impact on health level of KSP / USP Koperasi in North Jakarta Municipality.
- 4) Quality of production asset, liquidity, independence & growth as the most dominant variable affecting health level KSP / USP Cooperative in North Jakarta Municipality.

The conclusions derived from this study contain several policy implications that need to be considered, namely:

- 1) For the KSP / USP Cooperative which gets a healthy predicate in order to maintain the conditions that have been achieved until now. As for KSP / USP predicated enough to improve management of cooperative management, for example, maintain the level of capital and orderly administration. Increase the frequency of meetings so that the velocity of business venture faster. And improve education and training about the management of cooperatives for both members and administrators. As well as to improve management of cooperative management, for example more selective in lending, supervising credit given based on Ministerial Decree of Cooperatives, Small and Medium Enterprises of Republic of Indonesia Number: 351 / KEP / M / XII / 1998.
- 2) For the Government, it should provide guidance on the management of cooperatives continuously, especially to the KSP / USP is quite healthy. Disseminating the Ministerial Decree of Cooperatives, Small and Medium Enterprises of the Republic of Indonesia Number: 351 / KEP / M / XII / 1998 on Guidelines for the Implementation of Business Savings and Loans by Cooperatives to become the basis for the management of Savings and Loans Cooperatives. Providing capital assistance to cooperatives that have good health levels and oversee their use so that cooperatives have the motivation to manage the cooperative properly.
- 3) For further research, it is advisable to conduct research on the health of financial institutions other than cooperatives, both financial institutions of banks and non-bank financial institutions and not cooperatives in the Municipality of North Jakarta.

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## **Factors Affecting the Production of Pepper and the Implications for Farmers Income and Poverty Rate in Bangka Belitung Islands**

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Hamdan, Sidik Priadana, Amri\*)

**Abstract:**

*This study aimed to analyze the influence of land, labor and pepper price for farmers, pepper demand abroad and working capital credit against Pepper production either simultaneously or partially. Furthermore, it aims to analyze the implications of the effect of pepper production on farmers' income and poverty levels.*

*The data used in this research is secondary data in Bangka Belitung province. The data has been analyzed in the form of time series for the period 2006 - 2013 by 32 quarters. Data was analyzed with regression analysis techniques.*

*The research concludes that: a) There is a positive and significant influence simultaneously and partially of the variable land, labor, farm level price of pepper, pepper demand overseas and working capital loans to pepper production. b) There is a positive and significant impact in the partial production of pepper to pepper farmers income. c) There is a negative and significant impact on partial income of farmers to poverty.*

**Keywords:** *Land, labor, pepper price for farmers, pepper demand abroad and working capital credit, farmer's Income, poverty.*

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### **1. Introduction**

Pepper is one of the most widely traded agricultural commodities in the world and it is indispensable both in producer countries and in importing countries. According to Yuhono (2007), 70-80 percent of demand for pepper is directly used for industrial needs, especially for food processing and pharmaceutical industries. According to Feira Aprilia (2015), there are five major pepper producing countries in the world, China, Vietnam, Malaysia and Brazil. Brazil is a stable pepper producing country, while Vietnam in 2006 with 16,000 tons increased to 19,000 tons in 2012, China in 2006 produced 21,000 tons and in 2013 increased to 29,100 tons, and Malaysia in 2006 only produced 3,000 tons, while it also increased to 8,300 tons, while

Indonesia in 2006 was the highest production in the world with a production of 28,328 tons which decreased by the year 2013 to only 8,300 tons (Directorate of Bangka Belitung Plantation, 2014).

From the statistical book of the Office of Plantation and Forestry of Bangka Belitung (2014), the production of pepper in Indonesia continues to decline, this is due to several reasons including the area of pepper plantations, especially in the Bangka Belitung which is getting narrower. According to Yuhono (2007), the production of pepper in the province of Bangka Belitung has decreased due to 1) labor, 2) fluctuations in pepper prices, and 3) capitalization. Labor in the pepper plantation sector recorded by Suprpto and Kasim (2006) and Bangka Belitung, represents in figures, for 2006 (BBDA, 2006), 30.60%. Likewise, in 2012, labor in the pepper sector fell to 20.13% (BBDA, 2012).

Various efforts were made to restore pepper production in Bangka Belitung Islands Province, including (1) Pepper Revitalization / Intensification (Muntok White Pepper), (2) Conducting MOU between Ministry of Agriculture with PT Timah (2011), arrangement of pepper trading by directly giving the freedom to exporters to buy directly from farmers, (3) In 2012 the government through the provincial plantation office to mapping the territory of pepper plantation commodities, (4) Strengthening capital to farmers by distributing free pepper seed to every head of the pepper farming family (Bappeda Bangka Belitung, 2012).

The decrease of pepper production is very influential to the GRDP of Bangka Belitung Island province, because in 2003 the agricultural sector contributed with 24.52% and 19.69% of the pepper plantation sector (BBDA, 2004). Since 2006, the average pepper plantation sector yearly contributes to the GDP of Bangka Belitung. Although there is an increase in GRDP from the agricultural sector, the pepper plantation sector continues to decline. The increase of GRDP of Bangka Belitung continues to increase because it is supported by the increase of tin production, palm oil production, and other plantation commodities. Even in 2013 the provincial GRDP in Bangka Belitung reached IDR 3,033,145,000,000.00, and the pepper plantation sector only contributed with IDR 983,490,750.00 (Bappeda, 2014). According to Susilowati, Sri Hery (2003) since 2006 the income of pepper farmers has drastically decreased, having a direct impact on the contribution of GRDP and the level of poverty as the people in the province of Bangka Belitung Islands are mostly farmers.

The existing data (BBDA, 2014,) shows that the decline in pepper production in Bangka Belitung causes a decrease in the farmers' income. This has a great impact on malnutrition in some district areas of pepper centers, such as South Bangka regency, West Bangka district, Bangka district where 1 of 100 people have an average length of study in school of 6 years and the human development index is only 6, 2%. Meanwhile, according to Widodo et al. (2011) increased unemployment due to the Termination of Employment from the pepper production management

company, at the end of 2011 there were 300 people who became victims of Termination of Employment in the Province of Bangka Belitung Islands. The open unemployment rate for Bangka Belitung Islands in 2013 amounted to 3.49% meaning that out of 100 population including labor force, on average 3 - 4 people are unemployed (BBDA, 2013). Unemployment reduces the purchasing power of the community so that demand for goods production is reduced. This situation leads to the fact that Investors do not to expand their business and even reduce their investment level. Thus, the investment rate decreases and the poverty rate increases.

## **2. Formulation of the problem**

Based on the identification of the problem above, the author makes the formulation of the problem. The formulation of this research problem as follows:

- a. What is the effect of the area of production (land), labor, pepper price at the farmer level, foreign pepper demand, and working capital credit simultaneously to pepper production?
- b. What is the effect of the area of production (land), labor, pepper price at the farmer level, foreign pepper demand, and working capital credit partially to pepper production?
- c. What is the effect of pepper production on pepper farmer income growth in Bangka Belitung province?
- d. What is the effect of pepper farmer's income growth on poverty level in Bangka Belitung?

## **3. Research purposes**

- a. To know and analyze the effect of land area, labor, pepper price at the farmer level, foreign pepper demand, and working capital credit either simultaneously to pepper production;
- b. To know and analyze the effect of land area, Labor, pepper price at the farmer level, foreign pepper demand, and working capital credit partially to pepper production;
- c. To know and analyze the influence of pepper production on the growth of pepper farmer income in Bangka Belitung;
- d. To know and analyze the influence of farmer income on poverty level in Bangka Belitung.

## **4. Literature Review**

### ***Theory of Production***

In general, according to Cobb-Douglas (Border, 2004,) production can be interpreted by companies as an optimization activity of factors of production such as labor, capital, etc. in order to create products in the form of goods and services. Technically, production activities are done by combining multiple inputs to produce some output. In the economic sense, production is defined as a human effort to

create or increase the power or value of a good or thing to meet human needs. Furthermore, Bao Hong and Tan, (2008,) suggests that production is the starting line of operation of the two forces of demand and supply process activities lie in the market mechanism. The underlying strength of the offer is the producer's behavior. Further, Bao Hong, Tan finds that production theory describes the interrelation between the factors of production and the level of the created production.

Then, according to Masahisa Fujita et al. (1999) the purpose of production is to turn the input into output, so that the value of the goods increases. Input can be either goods or services used in the production process, as well as output which also represents goods or services produced from a production process. Further, according to Robinson (1995) production is the center for the implementation of concrete activities holding goods and services. Production activities cover all activities and include not only the making of goods which can be seen by using the factors of production. Production factors in question, represent a variety of inputs used to perform the production process. These factors of production can be classified into factors of production such as labor, capital, and raw materials. These three factors of production are combined in certain quantities and qualities.

Activities that occur within the production process include changes in shape, place and time of use of the products of production. Then Debertin, (2012) suggests that production can be expressed in terms of production functions and production levels created. In relation to agriculture, production is the essence of an economy. To produce several inputs required, where generally the required input in the agricultural sector is the presence of capital, labor, and technology. Thus, there is a relationship between production and input - the maximum output produced with a input or called the production function. In contrast to the Cobb-Douglas production function, in Harrod-Domar's theory, the production function is L-shaped because some capital can only create a certain level of output (capital and labor are not substitutive). Harrod-Domar in Arsyad, (2010) says that every economy can fill a certain proportion of its national income if only to replace damaged capital goods (equipment buildings, materials). However, for economic growth, new investments are needed in addition to the stock of capital. If we assume that there is a direct economic relationship between the amount of capital stock (K) and the total output (Y), for example, if 3 RP of capital is needed to generate (increase) a total output of 1 IDR, then any net addition to the capital stock.

$$Y = \alpha + T\beta_1 + TK\beta_2 + K\beta_3 \quad (1)$$

where:

Y = output

T, TK, K = factors of production

$\beta_1, \beta_2, \beta_3$  = the estimated value parameter.

The ease of estimation or prediction of the above equation can be achieved by changing the multiple linear forms, by means of the multiple linear form and by

means of the logarithmic form, so that the equation obtained is  $\text{Log } Y = \log \alpha + \beta_1 \log T + \beta_2 \log TK + \beta_3 \log K$ . Then, for the data to can be processed and further analyzed, the data obtained must first be transformed into Natural Logarithm (Ln). Then, the data in the form of Natural Logarithm is processed again to get the general form of regression equation  $Y = a + bX$ , or returned to the original variable with  $Y = \text{Ln } X$ . Then, the regression equation becomes  $\text{Ln } Y = \alpha + \beta (\text{Ln}X)$ . Furthermore, the linear regression is transformed into Cobb-Douglas production function, namely:

$$Y = \alpha + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 \ln X_3 + \dots + \epsilon_i \quad (2)$$

### ***Farmers Income Concept***

According to Soekartawi (2003) the income of farmers is affected by factors of production (input) and the amount of production (output). Factors of production (input) are divided into two main aspects - availability and price. If the availability of rare market input will affect productivity, similarly, high prices will determine the size or cost and the income of the farm. The amount of production (output) consists of the demand and the price. If the demand is high then, the price at the farm level is also high so with the same cost farmers will earn a high income as well. Conversely, if the farmer has succeeded in increasing the production, but the price goes down the farmer's income will also fall. Therefore, production factor (input) and amount of production (output) will influence cost and earnings of farming.

### ***The Concept of Poverty***

According to Thompson, (1995) poverty is multidimensional, meaning that because human needs are diverse, poverty has many aspects. The aspect in question is from the general policy, then poverty includes the primary aspects of poor assets, social organization, knowledge, and skills; then secondary aspects include poor social networks, poor information, and poor financial resources. Sub-aspects of poverty are evident from the lack of nutrition, sources of clean water, health is less well maintained, poor occupancy, and low levels of education. According to Maipita (2014) poverty contains elements of space and time. Meanwhile, according to the World Bank, poverty regarding the absence of shelter, sickness and un-ability to go to the doctor, un-ability to go to school and not knowing how to read or write. According to Kartasasmita (2003) poverty means being unemployed to fear the future, lack access to clean water, powerlessness, lack of reference and freedom. More simply, the World Bank (2000) means that poverty is a deficiency, often measured by welfare.

## **5. Hypotheses**

Based on the problem formulation and the paradigm of research, hence researcher make the hypothesis as follows:

- a. Production area, labor, pepper price at farmer level, foreign pepper demand and working capital credit have positive effect on pepper production simultaneously.



- b. Production area, Labor, Price of pepper at the farmer level, Foreign pepper demand and Working capital credit have the positive effect of partial pepper production.
- c. Pepper production has a positive effect on the income of pepper farmers in Bangka Belitung.
- d. Income of pepper farmers negatively affects the poverty level in Bangka Belitung.

## 6. Research Methodology

### Population, Sample, and Sampling

In this study, the research population is all data related to pepper production, pepper farmer income growth, and poverty level exists in the province of Bangka Belitung archipelago. While the sample used is the pepper production data, pepper farmer's income and poverty level from every quarter of the years 2006 to 2013. If the data is available and considered to be complete and possible to be a researched. The research method used in this research is the quantitative method and time series data for 8 years or 32 quarter.

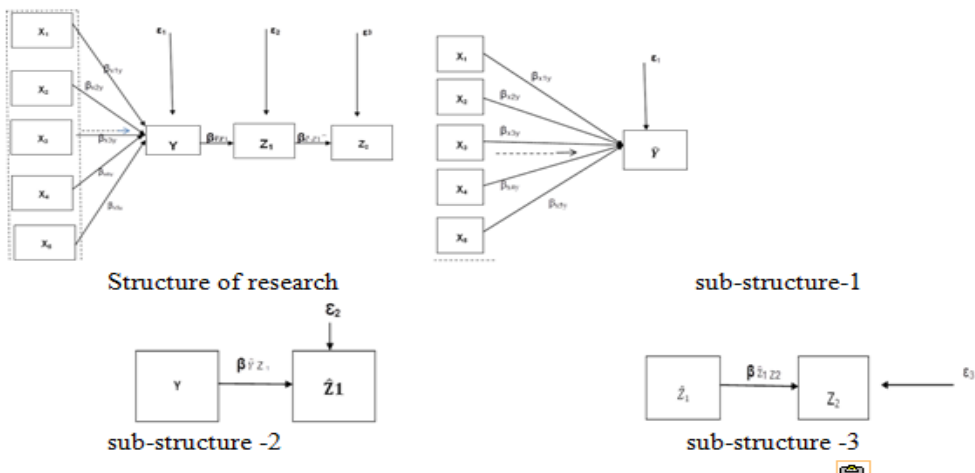
### Research variable

The independent variables in this research include: production area (X1), labor (X2), pepper price at farmer level (X3), foreign pepper demand (X4) and working capital credit (X5), whereas in this research is the production pepper (Y), Pepper farmer's income (Z1), and Poverty Rate (Z2).

### Data Analysis and Hypothesis Testing

Data analysis used is quantitative analysis by using regression analysis. The structure of this study is:

Figure 1. Structure of research



## 7. Research Result and Discussion

### *Classic assumption test*

Based on the J-B test that shows if the Jarque Bera value of the data is normally distributed, there are no symptoms of multicollinearity, the regression model of the equation is free from the symptoms of heteroscedasticity and the regression model of the equation is free from autocorrelation symptoms.

### *Multiple Regression Analysis*

As previously stated, the data used in this study is time series data with the aim to know the influence of independent variables on the dependent variable. To know the effect of the independent variable (X) ie., land area (X1), labor (X2), pepper price at farmer level (X3), foreign pepper demand (X4) and working capital credit (X5) to dependent variable pepper production (Y) then analyzed by double linear regression technique and to know its impact to other variables that is between the variables Production of pepper (Y) to earner growth of farmer (Z1), and variable growth of farmer earnings (Z1) to level of poverty (Z2) simple linear regression technique. Due to the data analysis using secondary data in unit ratio, the analyzes of the linear regression can be done through direct calculation, in the sense of not being needed to do data conversions.

In accordance with the predetermined model that is based on the theory, this research is limited to 5 (five) variables X namely land area (X1), labor (X2), pepper price at farmer level (X3), foreign pepper demand (X4) and working capital credit (X5) pepper (Y). In accordance with the results of classical assumption tested above, this study uses multiple regression analysis techniques. For further formulation can be formulated multiple regression as follows:

$$\ln Y = -9,771 + 1,106 \ln X_1 + 2,290 \ln X_2 + 4,299 \ln X_3 + 1,302 \ln X_4 + 0.437 \ln X_5 \quad (3)$$

$$\text{R-squared} = 0,789$$

$$\text{F-statistic} = 4,488$$

$$N = 32$$

Description: X1 = land area, X2 = labor, X3 = pepper price at farmer level, X4 = overseas demand, X5 = working capital credit.

The the regression equation above can be interpreted as follows: The quantity of negative constant of 9.771 has meaning if the independent variable (X) that is land area (X1), labor (X2), price of pepper at farmer level (X3), demand of foreign pepper X4) and working capital credit (X5) is 0 (zero), the dependent variable does not change (Y). If the production of pepper has decreased, the production of 9,771 units and the magnitude of these constants is significant and vice versa.

The coefficient of  $\beta_1 = 1,106$  has significance when the independent variable (land area X1) increases by 1 unit where labor variable (x2), pepper price at farmer level (x3), foreign pepper demand (x4) and working capital credit (x5) is considered

constant, then the dependent variable (Y) which is pepper production, has increased production of 1,106 units and the coefficient is significant and vice versa.

The coefficient of  $\beta_2 = 2,290$  has a meaning, if the independent variable of labor (X2) increases by 1 unit where the variable of land area (X1), pepper price at farmer level (X3), foreign pepper demand (X4) and working capital credit (X5) is considered constant, then the dependent variable (Y) is the production increased 2,290 units and the coefficient is significant and vice versa.

The coefficient of  $\beta_3 = 4,299$  has significance if the independent variable, the price of pepper's farmer (X3) increases by 1 unit where the variable of land area (X1), labor (X2), foreign pepper demand (X4) capital credit (X5) stays constant, then the dependent variable (Y) is the production of pepper for the Province of Bangka Belitung Islands which increased production of 4,299 units and the coefficient is significant and vice versa.

The coefficient of  $\beta_4 = 1.302$  has a meaning if the independent variable, the number of foreign pepper demand (X4) increases by 1 unit where the variable of land area (X1), labor (X2), pepper price at farmer level (X3), and working capital credit X5) is considered constant, then the dependent variable (Y), pepper production, has increased production of 1.302 units and the coefficient is significant and vice versa.

The magnitude of coefficient  $\beta_5 = 0.437$  has significance when the independent variable ie capital (X5) increases by 1 percent where the variable of land area (X1), labor (X2), pepper price at farmer level (X3), and demand of foreign pepper (X4) stays constant, then the dependent variable (Y) is the production increased production of 0.437 percent and the magnitude of the coefficient is significant.

The coefficient of determination (R<sup>2</sup>) is 0.789057 or 78.90 percent. This means that the pepper production variables are influenced together by the variation of 78.9050 percent, while the remaining 21, 10 percent is influenced by other factors not included in the model.

Of the five independent variables studied, the largest coefficient is the pepper price variable ( $\beta_3 = 4,299$ ), where the coefficient value indicates that changes in pepper prices have great impact on increased pepper production (elastic), while the smallest is the coefficient of the working capital ( $\beta_5 = 0.437$ ), meaning that working capital credit changes do not have much impact on changes in pepper production in the Bangka Belitung Islands Province.

#### ***Analysis of the effect of variable Y on Z1***

In accordance with the established model, which is based on the theory, the researcher determines the effect of Y variable (pepper production) on farmer's income (Z1.) in Bangka Belitung Islands Province. In accordance to the results of testing the classical assumptions above, this study is using simple regression

analysis techniques. As for the result of the model test of substructure II with model Estimate-Equation, researcher present a table as follows:

$$\begin{aligned} \text{Ln } Z_1 &= 9,225 + 1,877 \ln Y & (4) \\ \text{t statistic} &= 1,787 \\ \text{R-squared} &= 0,876 \\ \text{F-statistic} &= 19,954 \\ n &= 32 \end{aligned}$$

Description:  $Z_1$  = income of farmer's income,  $Y$  = pepper production

Based on the above regression equation can be interpreted as follows: The constant - 9,225, has meaning if the pepper production variable is constant, then the growth rate of farmer's income is 9,225 units, the magnitude of the constant is significant, whereas the  $\beta_1 = 1,877$  coefficient has a meaning if the pepper production variables increase by 1 unit, then the growth rate of pepper farmers' income increased by 1, 877 and the magnitude of the coefficient is significant.

#### ***Analysis of the Effect of variable Z1 on variable Z2***

In accordance to the predetermined model based on the theory, the researcher determines the effect of the  $Z_1$  variable (growth of pepper farmers' income) to the pepper sector's ( $Z_2$ ) poverty level in the Bangka Belitung Archipelago Province. The Growth of pepper farmers income growth on pepper sector. Based on the calculation results formulated the form of regression equation as follows:

$$\begin{aligned} \text{Ln } Z_2 &= 10,893 - 0.415 \ln Z_1 & (5) \\ \text{t statistic} &= 5,359 \\ \text{R-squared} &= 0,7891 \\ \text{F-statistic} &= 28.72681 \\ n &= 32 \end{aligned}$$

Description:  $Z_1$ . = Income of pepper farmers.  $Z_2$  = poor people

The above-mentioned regression equation can be interpreted as follows: The constant -10,893 has meaning if the variable of farmer's income growth ( $Z_1$ ) is constant, then the poverty rate is 10.893. And the magnitude of the constants is significant while the coefficient  $\beta_1 = - 0.415$  has meaning if the variable of economic growth is increased by 1 unit, then the rate of poverty decreases 4,415 units and the magnitude of the coefficients is significant. The coefficient of determination coefficient ( $R^2$ ) is 0.781 or 78.91 percent. It means that the growth variable income of pepper farmers has an effect of 78.91 percent on poverty level variables, while the remaining 21.09 percent is influenced by other factors which are not included in the model.

## **8. Conclusion**

With reference to the results of the study and other findings obtained during the study, several things can be summarized as follows:

1. Land area, labor, pepper prices at farmers, foreign demand and working capital credit simultaneously, have a positive and significant effect on the increase of pepper production in the province of Bangka Belitung Islands.
2. Land area, labor, pepper price at farmer's level, foreign demand and working capital credit positively and significantly affect the production of pepper in the province of Bangka Belitung Islands.
3. Pepper production has a positive and significant effect on the income of pepper farmers in the province of Bangka Belitung Islands
4. Income of pepper farmers has a negative and significant effect on the poverty level in Bangka Belitung Islands province.

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## Legal Protection of Taxpayers and Tax Insurers in Tax Disputes

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**Abstract:**

*This research examines from a theoretical point of view the position of the Tax Court in the judicial system in Indonesia and the legal efforts undertaken by the taxpayer and the tax insurers in a tax dispute resolution through the Tax Court under the provisions of Law Republic Indonesia Number 14 of 2002 concerning The Tax Court.*

*The study was conducted with the normative legal research methods, used a normative approach to the problem. The implication of this study is the Tax Court has the same the status of the special tribunals culminating in the Supreme Court, but its position is outside of the 4 (four) courts. Legal protection for the taxpayer in tax disputes cases through the Tax Court (based on Law Republic Indonesia Number 14 of 2002) in the form of filling an appeal or lawsuit to the tax court. The Tax Court Decree could be filled of judicial review to the Supreme Court instead of cassation.*

**Keywords:** *Legal Protection, Tax Disputes, The Position of Tax Court.*

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### 1. Introduction

Tax is one of the sources of revenue that the national treasury, ultimately used for development with the purpose of welfare and prosperity of the people. Tax is an obligation that must be paid by every citizen to participate in charge responsibility bearing load for the sake of the progress of the nation.<sup>1</sup> However, it cannot be denied, that, with the increasing number of taxpayers and tax insurers, the understanding of the rights and obligations in implementing the regulations and legislation, taxation can rise the incidence of the dispute tax which requires completion of the fair with a process that is fast, simple and the cost is small.

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<sup>1</sup>Saidi, Muhammad Djafar, 2007, *Perlindungan Hukum Wajib Pajak dalam Penyelesaian Sengketa PaJak*, PT. Raja Grafindo Persada, Jakarta, pp. 75.



Therefore, it requires means of resolving disputes tax, namely through the Tax Court, where the filing demands right through the tax court is a form of legal effort and also a form of implementation of the protection law for the taxpayers and tax insurers. Hadjon stated that the protection of the law for the people can be divided into two aspects, namely - preventive legal protection and safeguards of the law repressive.<sup>2</sup> Protection of legal preventive is the protection of the law under which people are given the opportunity to propose an objection or opinion before a decision is stated. Preventive form aims to prevent the occurrence of disputes, whereas on the contrary is the protection of repressive law that aims to resolve the dispute. Protection law provides very large preventive means for government actions that are based upon the freedom act, because with the existence of the protection of the law, that is based on discretion.<sup>3</sup> Based on the above description, the problem is: how are protection laws for taxpayers and tax insurer in tax disputes according to the Law of Republic Indonesia Number 14 of 2002 concerning the Tax Court?

## **2. Literature Review**

Disputes concerning taxation occur because of the difference in interpretation or opinion between taxpayers about the provisions of the taxation, having the tax on one hand, and the insurer and other parties on the other hand. The completion of the difference to the establishment of the interpretation should lead to treatment that is fair for both sides. In terms of this, the parties are obliged to tax, or duty taxes payment and can use the available remedy as appeals or lawsuits.

The efforts of the legal appeal are a continuation of the existence of discontent over the objectionable decision. In a sense, there is no appeal because the proposed appeal is the letter decision of objection as a form of settlement tax disputes at the level of the objection agency. The dispute objects at the stage of appeal based on a letter of objection against the decisions that are published by the tax officials, where the party is the breaker by the taxpayers or the insurer, does not reflect tax fairness, expediency, or legal certainty. The dispute object at this stage of the appeal is a continuation of the dispute of tax objections, but that is the material or content of letter decision objection stated purpose - for the appeal to be accepted for review by the Tax Court.

The term of time filing an appeal is a legitimate requirement of an appeal. Article 35 paragraph (2) of Law of Republic Indonesia Number 14 of 2002 affirmed that: "*the appeal was filed within the period of three months since the accepted decision that compared, except set differently in the regulation of statutory taxation. The three months period calculated from the decision is received with the date of the letter of appeal sent by comparison.*" If the examination of the appeal has been completed

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<sup>2</sup>Hadjon, Philipus M, 1987, *Perlindungan Hukum Bagi Rakyat Indonesia*, PT. Bina Ilmu, Surabaya, pp. 54.

<sup>3</sup>Ali, Chidir, 1993, *Hukum Pajak Elementer*, Eresco, Bandung, pp. 36.

and published, verdicts did not reflect the justice and the protection of the law, the verdict can be submitted to the Court.

A lawsuit according to Article 1 point 7 Law of Republic Indonesia Number 14 of 2002 is "*an effort of the law which can be done by compulsory tax or duty taxes against the implementation of collection of taxes or against a decision which can be filed based on the regulation militate-invitation of taxation that applies*". The dispute object at this stage is regulated by Article 23 paragraph (2) of the Law of Republic Indonesia Number 28 of 2007 concerning the change of the third Law of Republic Indonesia Number 6 of 1983 concerning The Provision of The Way of Taxation which stated that: "*The taxpayer lawsuit or the tax insurer against: 1) implementation letter mail, orders do foreclosures, or the announcement of the auction; 2) decision prevention in order of tax billing; 3) the decisions which are associated with the implementation of the decisions of the taxation, other than that set out in Article 25 paragraph (1) and 26; or 4) the issuance of a letter of tax statutes or decisions of the objections are in publication not in accordance with the procedure or the way which has been regulated in the provisions of taxation regulation can only be presented to justice taxes*".

In addition to the object of the suit that determine validity, there are also some requirements that should be filled with a lawsuit, i.e.<sup>4</sup>

- a. Lawsuit filed in writing in the language of Indonesia;
- b. Letter of the lawsuit is directed to the tax court;
- c. Lawsuit letter contains the clearly reasons and notes the date of received mail tax bill or the decisions being sued;
- d. Letters of the suit attach copies of documents that are being sued;
- e. Letter of the suit filed in with the period that has been specified, force major situations;
- f. If a lawsuit is signed by the power of the law of the plaintiff, it must be accompanied by a letter of the specific legitimate power;
- g. Judicial Review by Supreme Court as the Efforts of the Tax Court's Verdict.

The judicial review of the Tax Court's verdict to Supreme Court is the means of law for Supreme Court to conduct surveillance against the ruling of the tax court. The Supreme Court in checking and disconnecting the judicial review of the Tax Court's verdict, not only checks the law application, but includes the facts that occurred during the examination which is carried out by the Tribunal or judge.<sup>5</sup>

For the inspection to be done by the Supreme Court in the application of the Tax Court's verdict, especially in the past, it should have adhered to the norms of the law

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<sup>4</sup>*Ibid.*

<sup>5</sup>Sunggono, Bambang, 2005, *Metodelogi Penelitian Hukum, Cet.7, PT Raja Grafindo Persada, Jakarta, pp. 67.*

which are related to it. The petition can be submitted once to the Supreme Court through the courts.<sup>6</sup> If the verdict has never been filed, it cannot be submitted including the repealed before the court decided it. After the petition at the ruling of the tax court to the Supreme Court has filled and extended the application period of time, and not repealed, the inspection is undertaken by the Supreme Court. The reasons for the petition at the Tax Court's verdict as referred to Article 91 of the Law of Republic Indonesia Number of 14 of 2002 are as following:<sup>7</sup>

- a. If the ruling is based on a lie by party opponents and found out after the subjects is dropped out, or is based on evidence it is then declared false by the criminal judge;
- b. If there is written evidence of important and decisive aspects; when the stage of the proceedings is known, the court will produce a different verdict;
- c. If it has been granted an issue that is not required or more than required, unless terminated pursuant to Article 80 paragraph (1) letter b and the letter c;
- d. When some parts of the prosecution have not been disconnected without consider their causes;
- e. If there is a verdict that distinctively does not comply with the provisions of the applicable laws.

The period of submission of the application for judicial review as provided for in Article 92 of Law of Republic Indonesia Number of 14 of 2002, when examined carefully, in a period the application for the judicial review takes ninety-day work, which counted since:

- a. There are lies or guile or since the ruling of criminal court judge acquire force of law remain as referred to in Article 91 letter a of Law of Republic Indonesia Number of 14 of 2002;
- b. Letters found in evidence as referred to in Article 91 letter b of Law of Republic Indonesia Number of 14 of 2002 stated the day and date under oath and confirmed by officials of the tax;
- c. The verdict of the Tax Court sent to the parties as referred to in Article 91 the letter c, letter d, and the letter e of tax. Based on Article 90 of tax, associated with the efforts of the law stated that: "*The law events that are valid on the examination is at law event checks judicial review, as referred to in Law of Republic Indonesia Number 14 of 1985 about Supreme Court, except that arranged in special in this legislation.*"

### 3. Methodology

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<sup>6</sup>Subekti, Muhammad Sukri & Djumadi, 2007, *Menyelesaikan Sengketa Melalui Pengadilan Pajak*, PT.ElexMediaKomputindo, Jakarta, 44.

<sup>7</sup>Asmara, Galang, 2006, *Peradilan Pajak & Lembaga Penyanderaan (Gijzeling) dalam Hukum Pajak di Indonesia*, Laks Bang Pressindo, Yogyakarta, pp. 61.

This research analyzes the Tax Court's position in the justice system in Indonesia and the efforts that are undertaken by taxpayers and insurer in tax dispute resolution through the Tax Court based on the provisions of Law of Republic Indonesia Number 14 of 2002 concerning The Court Tax. This research uses the normative method i.e. with reviewing the law written from various aspects, theory, history, by comparison, the structure, composition, scope, content, consistency, formalities and power-binding as well as language law.<sup>8</sup> The kind of approach that is used is the one based on normative issues that the team examines in this research through regulatory legislation.<sup>9</sup> The technique of the analysis of the material law is:

- a. the snow ball method - legal material collected through literature groom which several sources were collected in order to support the research, and
- b. techniques processing and analysis of materials of law i.e. normative research by holding systematization against legal materials, making classification of materials against the law to facilitate the work of analysis and construction. Technique analysis is the analysis of the law materials - descriptive analysis.

#### 4. Results and Analysis

This means that the event of a legal examination of the judicial review - that is used as legal event examination of the judicial review - is contained by Law of Republic Indonesia Number 14 of 1985 along not governed specifically by Law of Republic Indonesia Number of 14 of 2002. Examination of application for judicial review to the Tax Court's verdict by Supreme Court does not require the presence of the parties to the dispute but will be in the corrections. The Supreme Court has authorities to order the Tax Court to conduct the examination of additional parties to the dispute, as well as requesting additional information and considerations from the court for tax matters that may be seen in the provisions of Article 18 of the Regulation of Supreme Court Number 3 of 2002, concerning the Procedures for the Filing of Judicial Review of Tax Court's Verdict.<sup>10</sup>

The Tax Court only gets to know one level, based on Article 33 paragraph (1) of Law of Republic Indonesia Number 14 of 2002 which stated that "*the tax court is the court of first instance and the latter in checking and disconnecting the disputed tax*". It is again confirmed in Article 77 paragraph (1) of Law of Republic Indonesia Number 14 of 2002 which stated that "*the Tax Court's verdict is a Tax the verdict of the end and the magnitude of the law remain.*" Under such circumstances, the Tax Court is the judicial institution of the first and last verdict which is final and binding,

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<sup>8</sup>*Ibid.*

<sup>9</sup> Ahmadi, Wiratni, 2006, *Perlindungan Hukum Bagi Wajib Pajak Dalam Penyelesaian Sengketa Pajak*, PT Refika Aditama, Bandung, pp. 119.

<sup>10</sup> WardahSridanBambangSutiyoso, 2007, *Hukum Acara PerdatadanPerkembangannyadiIndonesia, Gama Media, Yogyakarta*, pp. 90.

while not having a court level appeal and cassation as in the judiciary system. There are no efforts of legal appeal and appeal against the ruling of the Tax Court intended because tax holds the role of important and strategic location in the reception countries.<sup>11</sup> Therefore, in the settlement of the dispute over the required tax, the vertical level corrections need to be more concise. Vertical re-examination will result in the potential repeated examination of the whole case.

The only remedy which can be filed against a ruling of the tax court is the Supreme Court's judicial review, the provisions regarding this case can be found in Article 77 paragraph (3) of the legislation Law of Republic Indonesia Number 14 of 2002.<sup>12</sup> Judicial review is an attempt to the law, besides it will reduce the level of vertical re-examination, as well as assessment of the second aspect of the examination, covering the aspects of the application of the law and aspects of the facts underlying the occurrence of disputes of taxation. Procedures may determine positive impact, because it does not need to go on-late in the settlement of the dispute but will do on the other hand things with a negative impact for mandatory taxes and duty tax, if treated less fairly. Tax Court's verdict can be also seen as reducing the rights of taxpayers to seek justice.

## **5. Conclusion**

Based on above discussion, the conclusions are:

- a. The Tax Court has a position that is the same with the special court which is authorized to inspect and break the dispute. The Tax Court is a special judicial body which culminated with the Supreme Court, but its position is outside of the environment of the four courts;
- b. Law protection for taxpayers and tax insurer through the tax court based on Law of Republic Indonesia Number of 14 of 2002 is conducted under the shape of using the taxpayers and the tax insurer rights associated with the tax court, namely under the shape of filing claims as an appeal or a lawsuit. Meanwhile, against the ruling of the Tax Court there are no efforts of legal appeals and cassation but are only allowed through the efforts of the judicial review. Although it can reduce the perceived right of compulsory taxes to seek justice, it is based on reasons that can be justified.

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<sup>11</sup>Saidi, Muhammad Djafar, 2007, *Perlindungan Hukum Wajib Pajak dalam Penyelesaian Sengketa Pajak*, PT Raja Grafindo Persada, Jakarta, 11.

<sup>12</sup> Mertokusumo, Sudikno, 1971, *Sejarah Peradilan dan Perundang-undangan di Indonesia Sejak tahun 1942 dan Apakah Kemanfaatnya Bagi Kita Bangsa Indonesia*, Kilat Maju, Bandung, 1971, pp. 21.

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**Regulations:**

- Law of Republic Indonesia Number 6 of 1983 concerning The Provision of The Way of Taxation.
- Law of Republic Indonesia Number 5 of 1986 concerning The Judiciary State.
- Law of Republic Indonesia Number 14 of 2002 concerning The Tax Court.
- Law of Republic Indonesia Number 28 of 2007 concerning the change of the third Law of Republic Indonesia Number 6 of 1983 concerning The Provision of The Way of Taxation.

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## **Human Resources Development: Motivation and Job Satisfaction on East Lampung School of Economics**

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Gumanti, Miswan\* Utami, S.H. Bernadhita\*

**Abstract:**

*Globalization creates intense competition among companies to get on intended market. Human resources, in this case, work in the company's workforce, so it takes an educated and ready-made workforce to support the development of the company. Factors that can be used to improve employee performance, including motivation and job satisfaction.*

*The purpose of this research is to know the motivation and job satisfaction in the effort of increasing human resources of employees at East Lampung School of Economics. The research was conducted through questionnaires instruments addressed to 40 employees of East Lampung School of Economics.*

**Keywords:** *motivation, job satisfaction, human resources development*

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### **1. Introduction**

Management of human resources can not be separated from the employee factors that are expected to perform as well as possible in order to achieve organizational goals. The employee is the main asset of the organization and has a strategic role within the organization as a thinker, planner, and control of organizational activities. For the sake of achieving the goals of the organization, employees are required to work more diligently. Given the competition of other companies that are more developed this is what makes employees need more serious attention to the task undertaken so that the motivation in performance is achieved. With high work motivation, employees will work harder in carrying out their work. Conversely, low work motivation employees causing unspiritual of work, easily give up, and difficulty in completing the work [1].

In addition to work motivation factors, job satisfaction is also important in improving employee performance. Factors that affect job satisfaction or dissatisfaction are the types of jobs, co-workers, benefits, fair behavior, job security, opportunities to contribute ideas, salary, performance recognition, and opportunities to grow. According to Datta et al, job satisfaction is a general attitude that is more colored by feelings about the situation and work environment and, reflect an employee's satisfaction with the conditions associated with the implementation of work [2]. Delery argues that job satisfaction has a relationship with age. He mentioned that the older the employees, the more they tend to be better satisfied with their jobs [3].

To create a high performance, it is required an optimal work enhancement and the ability to mobilize the potential of Human Resources owned by employees in order to create organizational goals, so it will be useful to positively contribute to the development of the organization. In addition, organizations need to pay attention to various factors that may affect the employee's motivation, in this case it is necessary for the role of the organization to increase the motivation and create a conducive working environment to encourage the creation of professional attitudes and actions in completing the work in accordance with their respective fields and responsibilities - respectively.

This study was conducted to determine whether the motivation and job satisfaction have a significant influence on the performance of employees in an organization. This research is expected to provide benefits for the organization and provide motivation to employees. So that organizational goals can be achieved.

## 2. Methodology

The survey was conducted from May to June 2017 to determine the responses of respondents on several research variables by questionnaire instruments provided to 40 employees of East Lampung School of Economics. The total number of employees of East Lampung School of Economics is 40 people. Here profiles employees of East Lampung School of Economics by status and gender are presented:

**Table 1.** Profile of Respondents by Status

Status	Number	%
Pendidikan		
Permanent	31	77,5
Honorary	9	22,5
Total	40	100

*Source: Academic Data of East Lampung School of Economics, 2017*



The table shows that the number of employees in East Lampung School of Economics consist of 31 permanent employees and 9 honorary employees.

### 3. Results and Analysis

Primary data of this research is scores data obtained from respondents' answers about work motivation and job satisfaction for descriptive analysis.

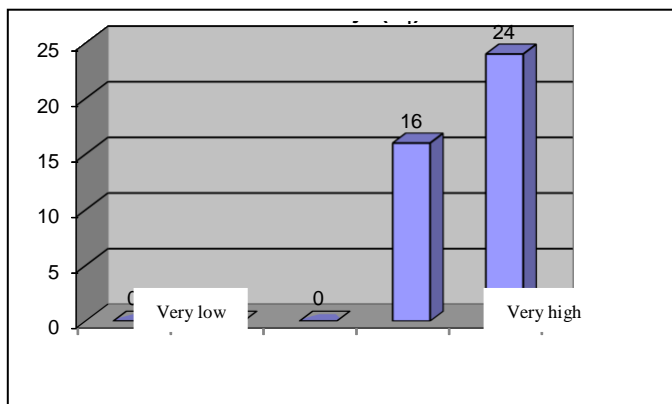
**Table 3.** Group Category of Work Motivation (X1)

Score Interval	Category	Frequency	( % )
10 – 17	Very Low	0	0,00
18 – 25	Low	0	0,00
26 – 33	High enough	0	0,00
34 – 41	High	16	36,00
42 - 50	Very high	24	64,00
Total		40	100,00

*Source:* Academic Data of East Lampung School of Economics, 2017

Leaving from the table above, the group of work motivation variable (X1) can be visualized in the bar chart below as following:

**Figure 1.** Chart of answers concerning work motivation

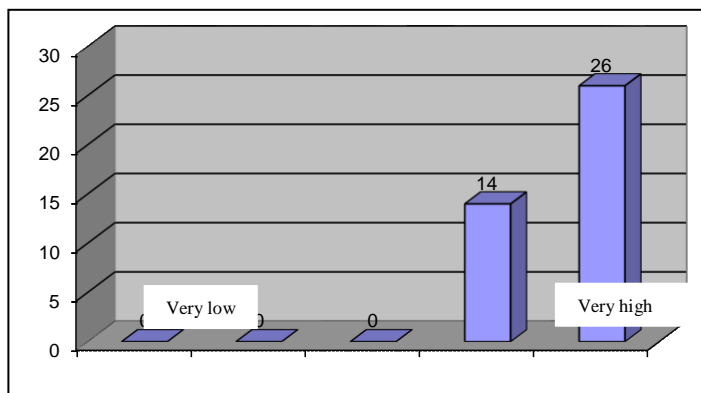


Based on this chart, most respondents or as many as 64% of respondents stated that the motivation of work was in very high category, it can be interpreted that the employee motivation of East Lampung School of Economics has been considered very good. From the questionnaire data obtained, the group respondents answer fall under the following categories:

**Table 4.** Group category of job satisfaction (X2)

Score Interval	Category	Frequency	( % )
10 – 17	Very Low	0	0,00
18 – 25	Low	0	0,00
26 – 33	High enough	0	0,00
34 – 41	High	14	28,00
42 - 50	Very high	26	72,00
<b>Total</b>		<b>40</b>	<b>100,00</b>

From category data group of respondents' answers to job satisfaction variable can be visualized in the graph below as following:

**Figure 2.** Chart of answers about job satisfaction

Based on the chart above, most respondents or as much as 72% who stated that job satisfaction in this very high category was interpreted that job satisfaction of the employees of East Lampung School of Economics is very good. From the questionnaire data answers processed and obtained from the respondents concerning employee performance variables, they fall under the following categories:

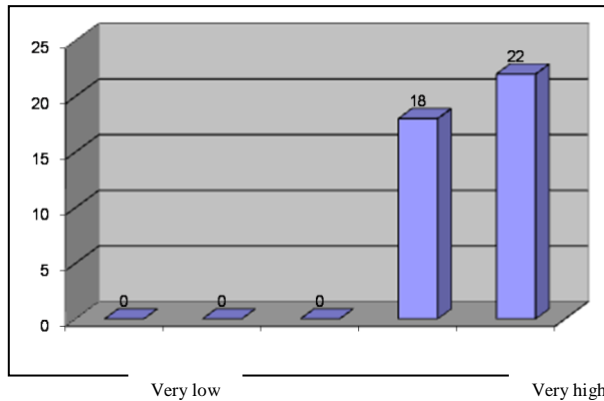
**Table 5.** Group category of employee performance (Y)

Score Interval	Category	Frequency	( % )
10 – 17	Very Low	0	0,00
18 – 25	Low	0	0,00
26 – 33	High enough	0	0,00
34 – 41	High	18	44,00
42 - 50	Very high	22	56,00
<b>Total</b>		<b>40</b>	<b>100,00</b>

Source: Academic data of east Lampung school of economics, 2017.

From the table above, the data categories can be visualized in the graph below as following:

Figure 3. Chart of answers concerning employee performance



Based on Table 5 and Figure 3, diagram of performance from 40 respondents research show that as many as 18 respondents or 44% that high category performance variables, as many as 22 respondents or 56% means no respondents who stated in the category low and very low. To find out how far the influence of work motivation and job satisfaction on employee performance goes, we have used multiple regression analysis.

Table 6. Results of multiple linear regression analysis

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.275	8.847		.257	.799
Motivation	.067	.295	.047	.227	.822
Satisfaction	.328	.257	.225	1.277	.210

a. Dependent Variable: Performance

Based on the result of regression analysis above the following equation can be determined:

$$Y = 2,275 + 0,067X1 + 0,328X2$$

T-value of variable job satisfaction is 1.277 lower than the value of t-table with the value of 2.028, so that the hypothesis for the variable job satisfaction is reject H0 or

job satisfaction variable does not significantly affect the improvement of employee performance of East Lampung School of Economic.

**Table 7.** Determination coefficient

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.651a	.424	.376	2.07249

a. Predictors: (Constant), Satisfaction, Motivation,

The result of determination coefficient R<sup>2</sup> equal to 0,424 indicated that work motivation variable and job satisfaction influence to employee performance equals 42,4%, while 57,6% is influenced by the other variable not examined, for example work process, leadership, working infrastructure, and others. Result of t-test (partially) of motivation (X1) is equal to 0,227 and satisfaction (X3) is equal to 1,277 where overall t-value lower than t-table is 2,028, thus H<sub>0</sub> shows that both work motivation and job satisfaction partially or individually have no positive effect on the performance of employees.

Leaders of East Lampung School of Economics need to put effort into improving employee motivation and give attention and support to aspects such as placement, position and experience as these are the issues that get lowest scores from respondents. One of the things that can be done is to promote the achievers who have enough experience, in accordance with their educational background to occupy existing positions in the East Lampung School of Economics in addition to the leadership also rewarding skillful employees and provide penalties against employees who did not do their jobs well. Job satisfaction needs to be increased especially by means of equipment and office equipment. This has not been adequately met for it is expected that leadership gives responsibility to all employees to maintain the office equipment that already exists and use it according to its functions.

#### 4. Conclusion

Based on our analysis, it can be concluded that there was a positive influence of work motivation and job satisfaction variable on employee performance of East Lampung School of Economics.

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## Legal Issuance in Investment

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**Abstract:**

*Creating a prosperous society is the goal of the government and the goals of the nation, development and economic growth are factors to be considered. Development in all sectors, not small ones, but funds for big development in Indonesia.*

*Inviting foreign investors is something the government should do to improve and start the development in Indonesia. Legal Certainty is an absolute requirement that must be owned by the Government of Indonesia to attract investors.*

*The birth of Law No. 25 Year 2007 on investment is a proof of the seriousness of the government to ensure the investors to invest in Indonesia. The law enforcement is expected by investors to maintain and sustain its business in Indonesia.*

*With legal certainty well implemented and put forward before the law will make Indonesia a place that is sought by investors who can run their business activities.*

**Keywords:** Legal, issuance, investment.

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### 1. Introduction

Development in principle must continue and take place to achieve prosperity for the people in Indonesia as a whole. Development carried out throughout the territory of Indonesia in its implementation required very large fund to accomplish the sustainability of the development. The government ultimately needs funds for the development. Inviting investors is something the government must do in this regard to ensure the sustainability of the development. Foreign investors become the main choice for investment in Indonesia.

Legal certainty is the main requirement for the government in order to invite foreign investors to invest their capital in Indonesia. Why is legal certainty necessary? Because investors bring a lot of capital, which is needed to be maintained in Indonesia, especially in terms of legal certainty so that they feel comfortable in carrying out business activities in Indonesia. The legal certainty is a form of to assure businesses, from the licensing stage of the activity to the moment when it is absolutely implemented.

Law is entirely directed to support development, development should be just a mean to enhance human dignity. So, by law we will have a prosperous society (Faisal Santiago: 2014). The issuance of Law No. 25 in 2007 on Capital Investment in Indonesia, is a proof that legal certainty is highly regarded by the Government of Indonesia.

A growing issue is that the government states less attention for protection, enforcement and legal certainty of foreign investors and this is a challenge. Inviting foreign investors is an inevitable need to increase economic growth in Indonesia, therefore we must keep up with it. With the opening of globalization, legal certainty becomes an interesting issue to be considered.

In order to provide legal protection to foreign investors, the Government of Indonesia, in addition to participating as a party to several multilateral agreements, the government also entered into bilateral agreements with its citizens who invest their capital in Indonesia. Either the recipient country or the investment country favors bilateral agreements. This can be seen from the large number of bilateral agreements in the field of investments that have been made, compared with the number of multilateral agreements that are still limited in number (Faisal Santiago, 2016).

For the investor's country, bilateral agreements would be more favorable because the capital investment protection law granted by the host country is given specifically to it, so this guarantee is stronger, compared to the general guarantee provided through multilateral agreements (Faisal Santiago, 2016).

Investment is an activity to invest all activities either in the form of goods, money, technology or services that aims to find a chance. Investment is one good means to carry out development for the sustainability of a country. This is what drives a nation to continue to invite investors to invest in their country, without exception Indonesia is doing the same to attract foreign investors to invest (Faisal Santiago, 2010).

## **2. Literature Review**

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Investment is an activity to invest all activities either in the form of goods, money, technology or services that aims to seek profit. Investment is one good means to carry out development for the sustainability and progress of a country.

A country can't avoid investments at this time, competition in economic activities is a factor to be faced. Investors will look for available Natural Resources as well as for support from cheap Human Resources and the support of adequate skills in the place for investment. This is what encourages a nation to continue to invite investors to invest in their country, without exception Indonesia is doing the same to attract foreign investors to invest. Investment or investment today become like a struggle for countries or regions to be partners in carrying out development in all areas (Faisal Santiago, 2010)

Currently the Indonesian nation is experiencing increasing competition in attracting investment, especially foreign investment. To that end, the Indonesian nation should be able to establish a conducive business climate, which is to maintain macroeconomic stability as well as ensuring legal certainty and smoothness of efficient investment. In addition, local governments together with relevant agencies or institutions should be further empowered (Dhaniswara and Harjono, 2007). There are several challenges to empower investment in Indonesia. These obstacles and challenges are (Faisal Santiago, 2010):

- Competitive investment policies by competing countries such as China, Vietnam, Thailand and Malaysia;
- The lack of legal certainty;
- Weak investment incentives;
- Low quality of human resources and limited infrastructure;
- The absence of a clear policy to encourage technology transfer from foreign investment;
- High economic costs due to high cases of corruption, security and abuse of authority;
- Effective real rupiah exchange rate increase;
- Not yet optimal giving incentives and facilities

Foreign investors have a very important role; therefore, the use of foreign capital should be utilized as much as possible to accelerate economic development in Indonesia. So that it is used in the fields and sectors that soon have not and/or can't be implemented by Indonesian investors, but so it is needed to be held clear provisions to meet the needs of the investors as a national development and the benefits to be gained by both parties both government (community) and the owner of capital.

While Article 4 paragraph (2) of Law No. 25 of 2007 states that: In establishing the basic policy as referred to in paragraph (1) of the government:



- To provide equal treatment to domestic investors and foreign investors with due regard to national interests;
- Ensure legal certainty, business certainty, and security of business for investors since the process of licensing until the end of investment activities in accordance with the provisions of legislation;
- Opening opportunities for development and providing protection to micro, small, medium and cooperative enterprises.

### **3. Hypothesis**

How Indonesia's investment in demand by foreign investors to run business activities in Indonesia legal certainty and the role of government is needed to provide ease of investing in addition it is necessary how law enforcement is run for the business.

### **4. Research Methods**

1. Method approach: The formulation of the problem shows that the research is done by approach of normative juridical approach. Where the normative jurisdiction is to examine a legal problem and make the settlement through the applicable legislation.
2. Research specifications: The specification of this study is a descriptive analysis to provide an overview of the real facts along with an accurate analysis of laws and regulations that can be used as material analysis or analysis related to investment in Indonesia.

### **5. Result and Discussion**

#### ***Legal Certainty***

Given the legal certainty will at least undermine investors' hesitancy to invest their capital, it should be noted since the economic crisis in 1998 and to this day still leaves its impact. This is especially the case with the decrease of foreign investors in investing in Indonesia. Law is directed entirely as a means to support development. Whereas that should be development is just a means to improve human dignity. So, it is clear that by law we will create or make prosperity for society (Faisal Santiago, 2012).

Field of business is a field of activity that is allowed or allowed to invest. Procedures and conditions are the ordinances that must be met by investors in investing. The country is the country where the investment is invested. Usually the countries that receive investment are the developing countries (Salim HS dan Budi Santoso: 2008). So, it can be said that in the investment law there are several elements that must be considered:

1. There is a rule of law;

2. The existence of the subject, where the subject in the investment law is the investor and the recipient country of investment;
3. The existence of a business field that is allowed for investment;
4. Procedures and conditions for investing;
5. Country (Salim, H.S. and Budi Santoso, 2008).

In Article 3 paragraph (1) of Law No. 25 of 2007 on investment there are ten principles that must be considered:

1. Principle of legal certainty, namely the principle within a country of law that places laws and statutory regulations as the basis of any policies and actions in the field of investment.
2. The principle of openness, the principle that is open to rights and the public to obtain correct, honest, and non-discriminatory information about investment activities.
3. Principle of accountability, the principle that determines that every activity and the result of the implementation of investment accounted to the public or the people as the holder of state sovereignty in accordance with the provisions of legislation.
4. The principle of equal treatment which does not distinguish the origin of the country is the principle of treatment of non-discriminatory services under the provisions of legislation, whether between domestic investors and investors from other countries.
5. The principle of togetherness, a principle that encourages the role of all investors together in their business activities to realize the welfare of the people.
6. The principle of fair efficiency is the underlying principle of the implementation of capital investment by promoting fair efficiency in the business of creating a fair business climate, conducive and foreign power.
7. The principle of sustainability is the principle that is planned to work through the process of development through investment to ensure welfare and progress in all aspects of life, both for the present and the future.
8. The principle of environmental insight is the principle of investment that is done with due regards to and prioritizes the protection and maintenance of the environment.
9. Principle of independence is the principle of capital investment that is done by maintaining the potential of the nation and the state by not closing themselves to the entry of foreign capital for the realization of economic growth.
10. The principle of the balance of progress and national economic unity is the principle that seeks to maintain the balance of regional economic progress in the national economic unity.

These ten principles need to be considered well in terms of optimizing investment, especially in Indonesia. So, the authors say there must be a linkage between the associations of the law with the law of investment:

1. The economic principle of the company, the principle through which the investment can be cultivated and done optimally, and according to the principle of efficiency.
2. The principle of international law is a principle in the dispute settlement between the government and the investor, if the government takes full nationalization/dispossession and the settlement must be based on international legal principles.
3. The principle of economic democracy, which is the principle in which investment is based on the principles of democracy.
4. The principle of benefit, which is a principle where in the investment, can provide the greatest benefit for the prosperity of the people of Indonesia (Faisal Santiago, 2016).

Implementation of investment and the sustainability of the use of legal rules in the implementation of investment, it is necessary to note Article 16 of Law No. 25 Year 2007 regarding investment:

1. Ensure the availability of capital derived from sources that do not conflict with the provisions of the law of the legislation.
2. Bear and settle all obligations and losses if the investor discontinues or abandons or abandons his or her business activities unilaterally in accordance with the provisions of the statutory regulations.
3. Create a healthy business competition climate; prevent monopolistic practices and other things that harm the state.
4. Maintain environmental sustainability.
5. Creating safety, health, comfort and welfare of workers.
6. Comply with all laws and regulations.

Every implementation of the Capital Investment needs to be done a good governance so that the implementation is expected not to cause legal problems in investing. Investors should pay attention to Article 15, which provides that every investor has an obligation:

1. Applying the principles of good corporate governance.
2. Carry out corporate social responsibility that is the responsibility inherent in every investment company to keep creating a harmonious relationship, balanced and in accordance with the environment, values, norms and local culture.
3. Making a report on investment activities and submitting them to the Investment Coordinating Board (BKPM), wherein this report is a report of investment activities, which includes investment developments and constraints faced by investors submitted periodically to BKPM and responsible local governments in the field of investment.
4. Respect the cultural traditions of the communities surrounding the location of investment business activities.
5. Comply with all laws and regulations (Dhaniswara, 2007).

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## **6. Conclusion**

Legal certainty in order to invite foreign investors to invest their capital in Indonesia is a major requirement that must be met by the government. Comfort and legal order in running the business need to be kept in mind in order to maintain a good business climate and conducive. With the creation of good legal certainty investors will be attracted to invest. Global openness is inevitable and must be run at the best without having to sacrifice the sovereignty of the nation.

Law enforcement and legal certainty will be of interest to foreign investors to invest in Indonesia. A good legal system will maintain the trust and the sustainability of the investment, so this will improve the welfare for the people of Indonesia as a whole.

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## **The Responsibility of Aviation Company Laws Against Giving Amount Compensation Benefits for Air-Asia Accident Victims QZ8501TO Indonesian citizens**

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Sabungan Sibarani\*)

### **Abstract:**

*Air transport is an option to transport passengers between cities and between countries, with the possibility of a relatively higher consideration of other transport services. The research method used in this research is the method of legal research of normative that gives systematic explanation of rules governing a certain legal category, analyze the relationship between regulation explain the difficulty area which may predict future development.*

*The result of the research indicates that the legal effort which can be used as the basis for the compensation claim for Air Asia QZ8501 accident victim of Indonesian citizen is Article 141 Paragraph (1) Law Number 1 Year 2009 concerning flight accidents and Article 2 Sub-Article a of Implementation of Minister of Transportation Number 77 Year 2011 About Responsibilities of Air Transporters.*

*And the Indonesian government's efforts to provide protection to passengers especially in the case of national aviation accident compensation are to demand Air Asia to provide compensation of 1.25 Billion Rupiah with reference to the provisions in Ministry of Transport Regulation (Permenhub) No.77 Year 2011 on Responsibilities of Air Transport Carrier. Air Asia Company pursuant to Permenhub No 77 Year 2011 that the airline should provide compensation or compensation of Rp1, 2 billion - Rp1, 4 billion for consumers who died due to plane crash.*

**Keywords:** *Flight law, compensation, Air Asia.*

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### **1. Introduction**

It is undeniable that in this dynamic world the development of all aspects of life is so advanced, supported by the development of science and technology. In the world of commerce for example, distance is not a problem for the implementation of a sale and purchase transactions because of advances in the field of transportation that support the implementation of the sale and purchase transactions. Advances in the field of land, sea and air transportation, as they are now happening more smoothly,

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the flow of goods delivery between inter-city, inter-island, and even between countries. (Soegijatna, 1995)

The importance of transportation is reflected in the increasing need of transportation services for the mobility of people and goods in the country, from and abroad, which acts as a driver of regional growth and regional development. The responsibility will be greater if the distance traveled in terms of transporting passengers is further away. For that, the underwriters answer that they will usually try to use the means of transportation that is fast, safe and the cost is not too high compared with other modes of transportation (Martono, 1987) Air transport is an option to transport passengers between cities and between countries, with the possibility of a relatively higher consideration of other transport services.

The higher the flight technology, the higher the flight safety. However, the fact proves that the calamity that hit the aviation world is still happening, as well as the accident that hit Air Asia flight number QZ8501 that fell in the waters of Karimata strait, Central Kalimantan.

The aircraft type Air Bus A320 series 200 was made in 2005, first flown on 25 September 2008 and was accepted by Air Asia airlines on October 16, 2008. On December 28, 2014, the Air Asia flight QZ8501 Surabaya-Singapore takes off from Surabaya at 05.20 WIB and is scheduled to arrive in Singapore at 08:30 local time, but the Juanda Airport control tower, Surabaya, East Java declared lost contact with the aircraft at 7:55 pm. The manifest plane was carrying 162 Passengers, consisting of 138 adult passengers, 16 children, 1 baby, and 7 crew members. (nasional.harianterbit.com).

Within the black box there is no indication of the effect of weather being the cause of the fall of the aircraft. It was stated, before the discovery of the cause of damage to the aircraft type Airbus A320, that the warning sign or master caution was four times activated. The first disturbance occurred in the system Rudder Travel Limiter Unit (RTLU) at around 06:01 PM when the plane was at an altitude of 32,000 feet. The pilot performs the procedure as stated in Electronic Centralized Aircraft Monitoring (ECAM). The second disturbance occurred in the next 8 minutes, again on the RTLU system. Similarly, which occurs during the third disturbance around 06.13, where the pilot can still continue the flight.

The Air Asia accident event QZ8501 certainly left deep wounds for the victims' families. There are issues stating that the flight is illegal in order to panic the family and raise concerns weather or not they will get compensation in accordance with the regulations by national and international legislation.

The Air Asia QZ8501 accident case is the alleged flight outside of the flight schedule so that the flight is declared an illegal flight. This is complicated, because according to the Executive Director of the General Insurance Association of

Indonesia (AAUI) Julian Noor, insurance will not guarantee events that are against the law and violate public policy (Prathe, 2018).

At the level of international practice, the value of compensation and insurance is governed by the Montreal Convention 1999. The international agreement is known as the MC99 document code, which refers to a meeting - The International Civil Aviation Organization (ICA) in Montreal-Canada, in 1999. The Montreal Convention 1999 has not been ratified by Indonesia to date so that it has implications for the provision of indemnification by the victim's heirs. In the case of the Air Asia accident QZ8501, Martono considers the convention as applicable as the Warsaw Convention of 1929, because this Convention has been ratified by Indonesia (Martono, 2018).

## **2. Literature Review**

### **2.1 Concept of Consumer Protection Based on the Principle of Responsibility**

The main basis of this legal responsibility theory, states that if consumers suffer losses due to using services and/or a product, then the business actor must pay compensation to the consumer as a form of responsibility. Thus, the settlement of the problems caused by aviation accidents, the users of air transport services suffering losses due to aircraft accidents, was born due to the demands of responsibility based on justice in exercising the rights and obligations of the parties involved in the operation of air transport by considering the principle of expediency and the principle of legal certainty (Sudiro, 2015).

In the transport law there are three principles or teachings to determine the responsibility of the carrier, as follows (Martono, 2007):

1. Principles of liability based on the fault principle;
2. Principles of responsibility based on presumption (rebuttable presumption of liability principle);
3. The absolute liability principle (no fault, or strict liability, absolute liability principle).

The theory of responsibility based on the presumption of liability theory states that the defendant is always held liable, until the defendant can prove otherwise that the defendant is innocent. Thus, the burden of proof in filing a lawsuit for compensation with the application of presumption of liability theory is still placed on the defendant. In addition, the responsibilities based on the presumption of responsibility have 4 (four) variations in the lawsuit comprising (Atiyah, 1975):

- a. The Defendant may acquit himself to pay compensation to the plaintiff, if the defendant can prove that the loss is caused by matters outside the defendant's power;

- b. The Defendant may acquit himself to pay compensation to the plaintiff, if the defendant can prove that his party has taken the necessary actions to avoid any loss;
- c. The Defendant may acquit himself to pay compensation to the plaintiff, if the defendant can prove that the losses incurred are not due to the fault or negligence of the defendant;
- d. The Defendant is not liable to pay compensation to the plaintiff, if the loss is by the plaintiff's own fault or negligence.

The amount of compensation for carrier losses continues in the Government Regulation, while the Government Regulation Number 40 Year 1995 stipulated in Article 43 through Article 45 of Government Regulation Number 40 Year 1995 concerning Air Transports regulating the compensation states that:

- a. Limit compensation for passengers who died is set at Rp. 40.000.000,00;
- b. For passengers who suffer injuries from an aircraft crash or any event within the aircraft or during the time between embarkation and debarkation take place, set as high as Rp. 40.000.000,00;
- c. The limit of compensation for passengers who suffer permanent disability due to air accidents is determined based on the level of permanent disability experienced up to as high as Rp. 50.000.000,00, -;
- d. For checked baggage, including delayed losses shall be as high as Rp 100,000.00 per kilogram;
- e. For cabin baggage, the carrier error is limited to a maximum of Rp.1.000.000,00,0 for each passenger;
- f. For indemnification of cargo including loss due to delays due to error of carrier is limited to a maximum of Rp 100.000,00, for each kilogram;
- g. Benefit for a deceased third party is set at Rp.40.000.000,00;
- h. Benefits for third party injuries are set as high as Rp.40.000.000,00;
- i. Compensation benefits for third parties who suffer permanent disability due to plane crash are determined based on a fixed defect of Rp. 50.000.000,00.

Further regulated in the Regulation of the Minister of Transportation Number 77 Year 2011 on Responsibilities of Air Transport Transporters, in lieu of Government Regulation No. 40 of 1995 on Air Transport, the limits of responsibility of air transport carriers. The limits of responsibility for air transport carriers are:

- a. On passengers commencing since passengers leave the airport waiting room to aircraft until the passenger enters the arrival terminal at the destination airport;
- b. On checked baggage, since the carrier receives the checked baggage at the time of check-in until receipt of checked baggage by passenger; and
- c. On cargo begins since the shipper receives a copy of the air cargo letter from the carrier until the time is set as the capture limit as stated in the airway bill.

## **2.2 Insurance theory**



Insurance or coverage is an agreement, whereby an insurer binds himself to the insured by accepting a premium, to provide reimbursement to him for a loss, damage or loss of expected profit, which he may suffer for an event which is not certain. (Code of Commercial Law)

Article 1 point 1 of Law Number 40 Year 2014 concerning Insurance states that insurance or coverage is an agreement between two or more parties, whereby the insurer binds itself to the insured, accepting the insurance premium, to provide reimbursement to the insured, due to loss, damage or loss of expected profits, or legal liability to a third party that may be subject to the insured, arising from an uncertain event, or to provide a payment based on the death or life of an insured person.

Based on the above formulation whether contained in Article 246 of the Code of Commercial Law and Article 1 Sub-Article 1 of Law Number 40 Year 2014 there is a difference in the definition of insurance, where Article 246 of the Code of Trade Law covers only the definition of liability insurance only, while the definition of insurance listed in Article 1 of Law Number 40 Year 2014, includes life insurance and liability insurance. The definition given in Article 1 of Law No. 40 of 2014 is broader, able to follow the development.

### **3. Research Methods**

This study, using normative legal research done by studying the legislation and legal materials relating to this writing (Soekanto, 1986). The data used in this study include:

1. Primary legal materials in the form of legislation, which is binding and authenticated by the competent authorities, namely the Warsaw Convention 1929, the Montreal Convention of 1999, Act No. 1 of 2009 on law and Regulation of the Minister of Communications No. 77 of 2011 on the responsibility of Carrier Transport Air.
2. Secondary law, legal materials that support the primary legal materials such as books, articles, papers and research results such as journals, etc.
3. Tertiary legal materials, ie materials that give legal instructions and explanations of the primary and secondary legal materials such as the Indonesian dictionary.
4. Material non-law is research material consisting of textbooks which are not a law-related research as a political book, economic book, census data, the company's annual report, dictionaries and general encyclopedias. This material is important because it supports the process of legal analysis. Within this study, the non-legal entity can be obtained from interviews with the Department of Transportation.

### **4. Result and Discussion**

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#### **4.1 Remedies to cite this as the Basis of Compensation Claims for Accident Victims of QZ8501 Air Asia Indonesia Citizen**

The carrier, which in this case is Air Asia, should be responsible for passengers who are victims. It is written in the Law of the Republic of Indonesia Number 1 Year 2009 on Aviation. In Article 141, Paragraph (1) of the Law of the Republic of Indonesia Number 1 Year 2009 on Aviation states that "the carrier responsible for the loss of passengers who died, disability, or injuries caused by the incidence of air transport in the fuselage and / or increased down the aircraft. " There is a matter that needs to be underlined, that restitution is applicable per passenger. Although many of the victims were from one family, fixed compensation in the form of compulsory insurance provided is per passenger, not per family.

Under Article 2 point a Implementing Regulation of the Minister of Transportation No. 77 Year 2011 on Liability Carrier Air Transport stating that "the Carrier operating the aircraft shall be liable for damages against: (a) the passengers who died, disability or injury and Article 3 letter a Implementing Regulation of the Minister of Transportation No. 77 Year 2011 on Liability Carrier air Transport stating that "passengers who died in an aircraft as a result of an aircraft accident or incident which solely has to do with air freight given compensation amounting to Rp. 1.250.000.000,00 (one billion two hundred fifty million rupiah) per passenger ".

So, in the case of aircraft accidents Air Asia QZ8501 crash victims who died as one family, the heirs of the victim's parents and brother are both male and female, who are classified as second category. In this case to obtain compensation, as already described previously, the Company Air Asia issued a requirement that must be fulfilled by the heirs of the victims died. These victims are residents of several diverse group of different breeds. These requirements are also listed in Permenhub Number 77 Year 2011 on Article 22 that the victim's family needs to submit evidence related documents, evidencing as a heir in accordance with the provisions of the legislation in force, tickets, proof of checked baggage or mail the charge of air or other evidence support and accountability.

#### **4.2 Indonesian Government's efforts to Provide Protection for Passenger regarding the National Aviation Accidents Compensation**

This international agreement issued by ICAO (the UN agency that handles civil aviation) based in Montreal Canada in 2009. In Article 21 of the Montreal Convention states that airlines should compensate passengers or families of passengers of 100,000 special drawing rights (SDR) for victims, injury or death.

Moreover, compensation for airfreight has also arranged. If the goods are transported lost, damaged or late, the airline must provide compensation amounting to 17 SDR per kilogram. SDR is a currency unit used by the International Monetary Fund (IMF). Through its website, the IMF gave a value of 1 SDR is equivalent to US \$

1,5 or exactly US \$ 1,449. SDR is a unit of measure which will then be converted to the local currency with the equivalent value of 65,5 milligrams of gold per SDR, as the wording of Article 23, paragraph 1 MC99.

The issue is that Indonesia has not ratified that convention to have implications for the absence of an obligation to follow these rules. Indonesia has regulations governing the responsibility of the air carrier, the Transport Minister Regulation No. 77 of 2011 on the Liability of Air Transport Carrier. Prior to 2011, the amount of money representing compensation for families of the victims who died in Indonesian air crash was of Rp50 million per passenger from the insurance company PT Prog. These quantities, which are determined based on several norms of judgment and reason, is considered no longer adequate and too small.

Air Asia Indonesia demanded the government to provide compensation amounted to 1,25 billion rupiah with reference to the provisions in Permenhub 77 of 2011 on the Liability of Air Transport Carrier. Therefore, Permenhub No. 77 of 2011 on Liability Carrier Air Transport increased the amount of compensation to Rp1.250.000.000,00 (one billion two hundred fifty million rupiah) per passenger. Compensation rules of air transport has also been adapted to the rules of another higher as Act No. 2 of 1992 on Insurance Business which has been amended by Act No. 40 of 2014 on Insurance, Law No. 8 of 1999 on Consumer Protection, and of course Law No. 1 Year 2009 on Aviation.

Based on the authors' opinion, that the Indonesian government's efforts to provide protection to passengers concerning the national aviation accident compensation is to sue the AirAsia to provide compensation of 1.25 billion rupiah with reference to the provisions in Permenhub 77 Year 2011 on Carrier's Liability Air transport. Compensation rules of air transport has also been adapted to other higher rules as Act No. 2 of 1992 on Insurance Business which has been amended by Act No. 40 of 2014 on Insurance, Law No. 8 of 1999 on Consumer Protection, and of course Law No. 1 Year 2009 on Aviation.

## **5. Conclusion**

After authors analyzed data obtained from previous discussions and write the results of the analysis in Chapter IV, the author can draw the conclusion that:

1. Remedy which can be used as the basis for a claim for compensation for the victims of the crash of Air Asia QZ8501 Indonesian citizen is Article 141, Paragraph (1) of Law No. 1 Year 2009 on Aviation, noted that "the carrier responsible for the loss of passengers who died, disabled fixed, or injuries caused by the incidence of air transport in the fuselage and / or up and down the airplane. " and Article 2 a Implementing Regulation of the Minister of Transportation No. 77 Year 2011 on Liability Carrier air transport stating that" the carrier that operates the flight air shall be responsible for damages against: (a) the passengers who died, were disabled or injured "and Article 3

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letter a Implementing Regulation of the Minister of Transportation No. 77 Year 2011 on Liability Carrier air Transport stating that passengers who died in the aircraft because of an accident of the aircraft in the air or as a cause of events if there solely is a relationship with air transportation they should be given a replacement loss amount of Rp.1.250.000.000,00 (one billion two hundred and fifty million rupiah) per passenger ".

2. Indonesia's efforts to provide protection to passengers concerning the national aviation accident compensation is to sue the Air Asia to provide compensation of 1.25 billion rupiah with reference to the provisions in Permenhub 77 of 2011 on the Liability of Air Transport Carrier. Compensation rules of air transport has also been adapted to other rules higher as Act No. 2 of 1992 on Insurance Business which has been amended by Act No. 40 of 2014 on Insurance, Law No. 8 of 1999 on Consumer Protection, and of course Law No. 1 Year 2009 on Aviation.

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## The Role of Perceived Organizational Support, Job Satisfaction, and Work Engagement in Post Graduate Lecturers Performance

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### **Abstract:**

*Job performance has become an important issue in any organization. An employee, who is able to perform well, will be able to promote productivity inside the organization. That is why performance evaluation becomes paramount in an organization to make sure that all employees attain the set goals.*

*The purpose of this research is to analyze the effect of the perceived organizational support, job satisfaction, and work engagement on the job performance of postgraduate lecturers at Universitas Pelita Harapan (UPH) Master of Education Program.*

*The data is collected using questionnaires distributed to 29 lecturers. Using quantitative approach and utilizing Smart PLS 3.2.7 software program, this research is to evaluate the effect of those variables.*

*The result showed that perceived organizational support, job satisfaction, and work engagement had a positive effect on job performance.*

**Keywords:** *Job performance, perceived organizational support, job satisfaction, work engagement.*

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### **1. Introduction**

Universitas Pelita Harapan (UPH), whose main campus is in Lippo Karawaci Tangerang, currently has 29 lecturers teaching in the Master of Education program at the Faculty of Education. The lecturers at Universitas Pelita Harapan are qualified since Indonesian government has legally certified almost 90% of them. Based on the regulation clearly stated in Three Principles in Higher Education (Tri Dharma Perguruan Tinggi), certified lecturers must fulfill several tasks such as teaching, doing research, and contributing to the society through community service. To

ensure that all lecturers can fulfill their responsibilities and in order to minimize the turnover and increase the number of students every year, the management of Universitas Pelita Harapan has established some regulations to satisfy all lecturers and maximize their job performance. The regulations are also combined with the values of Universitas Pelita Harapan, in which Christian values are included. In order to encourage all lecturers to achieve their maximum job satisfaction and job performance, the university implements some strategies. Those strategies are talent pool to draw future leaders with relevant skills, flexi-time system as an agreement between the management and the lecturers to motivate the disciplinary of the lecturers regarding their working hours, and Christian values as well as Pelita Harapan vision and mission to be nurtured in all activities.

## **2. Literature Review**

Kirkpatrick [2006] explains that the end of a goal of an organization is to make sure how the organization understands and achieves the maximum job performance of all employees in that organization. Shield [2007] also explains that job performance has varied definitions. It depends on who provides that definition. Colquitt et al. [2015] divides job performance into more details that involve task performance in which several responsibilities are explicitly fulfilled by the employees to obtain continuous compensation; citizenship behavior, which is defined as the volunteerism of the employees in providing help for the goodness of the organization; and also, counterproductive behavior involving several attitudes done in purpose in an organization, which always contradict all legal regulations. It can be concluded that job performance is series of activities done by someone through series of processes that can affect the result and can impact the achievement of organizational goals.

Eisenberger et al. in Bukhari and Kamal [2015] defines perceived organizational support as a global trust of the employees about how an organization appreciates employees' contribution and cares about them. Another definition from Robbins and Judge [2013] explains that perceived organizational support is a level of trust and belief of the employees in the appraisal of their contribution and well-fare done by the organization. It can be concluded that perceived organizational support is the employees' perception of the organization they work for, which is related to how much the organization appreciates employees' contribution and how much the organization cares about their existence and their well fare.

Work engagement remains a relatively new construct. As explained by McShane and Von Glinow [2008], work engagement is defined as a condition where employees own their very best motivation and their good belief in accomplishing their job well. Iyer [2016] explains that the most important matter in a job or work is to understand when the people are fully engaged in doing their job and fully perform their physical, emotional, and cognitive ability even when they withdraw themselves from their job. It can be concluded that work engagement is a positive side of employees' psychology that make them become enthusiastic, dedicated, committed, and possess

high level of attention to their job. This can be seen from their fitness and ability in fully expressing their energy, mind, and emotion in their job that is regarded to be very important and meaningful for them.

One of the experts says that job satisfaction is a level of pleasure feeling obtained from someone's job appraisal or someone's experience [Colquitt et al., 2015]. Bakan et al. [2014] also shows that job satisfaction involves some dimensions such as salary, promotion, supervision, allowance, bonus, operational procedures, co-workers, the job itself, and communication. McShane and Von Glinow [2008] define it as one's evaluation of a job and its contexts. This evaluation involves the evaluation of job characteristics, job environment, and emotional experience in the job felt by everyone. It can be concluded that job satisfaction is employees' emotional condition that shows the positive emotion occurred, because of job appraisal, conformity to the expected job characteristics, and the meaning of the job.

A research done by Karatepe and Aga [2016] found that perceived organizational support has a positive effect on work engagement, and work engagement has a strong positive effect on job performance. Mohammed and Durai [2017] also conducted a research that found a strong correlation between job satisfaction and job performance. Furthermore, Vokic and Hernaus [2015] found in their research that job satisfaction has a positive effect on work engagement. Guan et al. [2014] also found that perceived organizational support has a correlation with job performance, even it can still be modified by job satisfaction, positive affect, and affective commitment.

The objective of this research is to study the role of perceived organizational support, job satisfaction, and work engagement in Post Graduate lecturers' performance. Therefore, there are five proposed research questions in this research as shown below:

1. Does perceived organizational support (POS) have a positive effect on work engagement (WE)?
2. Does job satisfaction (JS) have a positive effect on work engagement (WE)?
3. Does work engagement (WE) have a positive effect on job performance (JP)?
4. Does perceived organizational support (POS) have a positive effect on job performance (JP)?
5. Does job satisfaction (JS) have a positive effect on job performance (JP)?

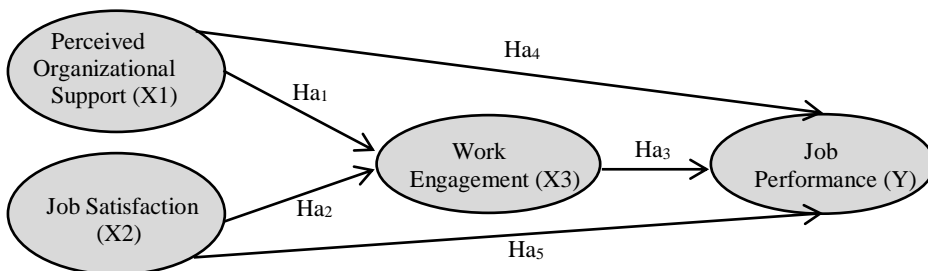
### **3. Methodology**

This research was conducted at Universitas Pelita Harapan Graduate Campus in Jakarta and also at Universitas Pelita Harapan in Lippo Karawaci, Tangerang. Researchers decided to adopt census method, which involved all Post Graduate lecturers of Education at Universitas Pelita Harapan with the total number of 29 lecturers. 29 questionnaires, as the research instruments, were distributed to them

and were returned in 100%. Data analysis was performed through inferential statistic. Supardi [2012] explains that inferential statistic, which is known as inductive statistic, is a part of statistics that studies general interpretation and conclusions from the available data. This kind of statistic is related to population estimation and hypothesis testing of data, a condition or a phenomenon.

To perform inferential statistic, the data analysis was divided into two parts, outer model (measurement model) and inner model (structural model). Researchers performed the analysis using SmartPLS 3.2.7 version. PLS-SEM (Partial Least Squares-Structural Equation Modeling) is conducted to test the predictive correlation between constructs or latent variables to see whether there is a correlation or effect between constructs or latent variables [Ghozali and Latan, 2015]. This method is very precise to use when there is no solid theoretical basis, no assumptions (non-parametric), and no precise parameter of prediction model seen from the coefficient of determination (R-square). The constructs in this research consisted of POS and JS as exogenous latent variables, WE as endogenous and exogenous latent variable, and JP as endogenous latent variable (see Figure 1). The four constructs were in the questionnaires as the research instruments, where there were 46 positive statements as manifest variables. A five-point Likert Scale was used to measure with the gradation of answers from strongly disagree to strongly agree (1= strongly disagree; 2= disagree; 3= neutral; 4= agree; 5= strongly agree).

**Figure 1.** Research Model in 2017



#### 4. Results and Discussion

After doing the calculation using SmartPLS 3.2.7 version, researchers found that the value of AVE of each construct is > than 0.5, and the loading factor of each point of statement of each construct is > than 0.5 so that this research met the requirement of convergent validity test to measure the correlation of each construct manifestation that was supposed to have high correlation with the related construct. In this research, researchers found 5 out of 12 points of JP statements, 6 out of 10 points of WE statement, 6 out of 12 points of JS statements, and 6 out of 12 points of POS statements that met the requirement of convergent validity test. Researchers also performed discriminant validity test in order to measure that the manifestations of a



construct should not have high correlation with another construct. In this research, researchers found that the square root of each AVE variable or construct was > than the AVE value itself. Researchers found that the value of each construct was higher than the correlation value between constructs by performing the Fornell-Larcker Criterion. Therefore, this research met the requirement of discriminant validity test.

Reliability in this research was tested through composite reliability to measure the consistency of each construct. Researchers found that the composite reliability of each construct in this research was > than 0.7. It showed that each construct in this research met the requirement of reliability test. Model suitability test in this research was defined by the value of coefficient determination or R<sup>2</sup>. Researchers found that POS, JS, and WE explained the variable of JP with the value of 18.7% and the remaining value of 81.3% was explained by other unknown variables. Meanwhile, POS and JS explained the variable of WE with the value of 44% and the remaining value of 56% was explained by other unknown variables. Researchers also found that this research had no problem with multi co-linearity as seen from the value of VIF (Variance Inflation Factor) that was < than 5.

The hypothesis of this research was tested by looking with the path coefficient of the research model (Table 1). If the value of path coefficient is equal to zero, H<sub>0</sub> is accepted. If the value of path coefficient is not equal to zero, H<sub>0</sub> is rejected. Meanwhile, t-test is a comparative test to compare the means of two groups with a two-sample t-test. But in this research, t-test was not performed because this research performed census method which involved all population.

**Table 1.** Hypothesis Test Result

Hypothesis	Path	Path Coefficient t Value	Decision
There is a positive effect of POS on WE.	POS → WE	0.037	Supported
There is a positive effect of JS on WE.	JS → WE	0.646	Supported
There is a positive effect of WE on JP.	WE → JP	0.252	Supported
There is a positive effect of POS on JP.	POS → JP	0.245	Supported
There is a positive effect of JS on JP.	JS → JP	0.036	Supported

*Source: Primary Data Processing in 2017.*

The equation results are as follows:

WE	= 0.037 POS + 0.646 JS + 0.560 other variables
JP	= 0.245 POS + 0.036 JS + 0.252 WE + 0.813 other variables

The equations above show that the work engagement of Post Graduate lecturers of Education at Universitas Pelita Harapan is influenced more by their job satisfaction than by their perception of the organizational support. Satisfied Post Graduate lecturers will be more engaged and enthusiastic than those who have good perceptions of support from the organization. Meanwhile, their job performance is more influenced by their work engagement than by their perceptions of the organizational support and their job satisfaction. Lecturers who feel satisfied will be more engaged in their job and will be able to maximize their job performance. However, satisfaction will not have direct significant effect on lecturers' job performance. Lecturers who have good perceptions of the organizational support will be able to directly maximize their job performance than those who feel satisfied.

## **5. Conclusion**

Based on the data analysis result explained above, it can be concluded that:

1. There is a positive effect of perceived organizational support on work engagement.
2. There is a positive effect of job satisfaction on work engagement.
3. There is a positive effect of work engagement on job performance.
4. There is a positive effect of perceived organizational support on job performance.
5. There is a positive effect of job satisfaction on job performance.

There are some suggestions related to the result of this research:

1. For foundation and management level of Universitas Pelita Harapan
2. Provide transparency of career development, allowance, reward, and other facilities for both permanent and non-permanent lecturers.
3. Prepare some more varied skill-based activities for lecturers so that they will be more challenged to be more innovative and more engaged in their own job.
4. Conduct more gathering activities for the lecturers so that they could build the sense of kinship and support among them.
5. Provide more activities to nurture Universitas Pelita Harapan values and Three Principles in Higher Education (Tri Dharma Perguruan Tinggi) involving teaching, research, and community service in order to generate a sense of ownership and pride in the work done by the lecturers.
6. Improve the creativity and expertise of the lecturers in order to provide new challenges and develop their competencies.

Further research:

1. Add more latent variables such as motivation, leadership, quality of work-life, and organizational culture, which affect job performance. By adding some variables, it is expected that further research will be able to identify better things of how to improve job performance of Post Graduate lecturers of Education at Universitas Pelita Harapan.

2. Use a larger number of respondents and use model suitability test with CB-SEM approach.
3. Conduct a research on all undergraduate and postgraduate lecturers of all faculties at Universitas Pelita Harapan so that researchers will get a comparison of job performance between undergraduate and postgraduate lecturers based on different demographic backgrounds.
4. Perform deeper analysis of effect strength, either direct or indirect effect, so that researchers will know the most influential factors in further research model.

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## **The Influence of Inflation Against the National Consumption and Import in the Process of Economy Bubble in Indonesia**

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**Abstract:**

*The interest rate of consumption credit is insignificant in driving consumption. While the inflation rate, exchange rate, and JCI are significant in driving consumption. JCI is insignificant to drive the investment while the inflation rate, exchange rate and loan interest of investment are not significance to drive the investment.*

*Inflation rate and loan interest of investment are insignificant to drive the export while the exchange rate and JCI are significance to drive the export. Loan interest of investment is insignificant in driving imports while the inflation rate, the exchange rate and JCI are significant in driving the import. Consumption and investment are significant to lead unemployment while the export and import are insignificant to lead unemployment.*

*Suggestions made to the Government and Bank of Indonesia (BI) are; 1) To drive consumption, investment and export with lower loan interest policy are expected to lower the number of unemployment, 2) To keep the exchange rate at certain level when, it can drive the balancing of export and import and also, balancing the domestic and foreign investment, 3)*

*To strengthen the efficiency market in IDX and banking sector with independence regulation and controlling of Financial Services Authority (red: Otoritas Jasa Keuangan), 4) Government and Indonesian people make the 'link and match' at Indonesian Business or Industries with the academic and educational institutions.*

**Keywords:** *interest rate of consumption, inflation rate, kurs of dollar, and IHSG versus. consumptions, and import*

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### **1. Introduction**

Under the conditions of the real economy in Indonesia, there is a phenomenon which evokes the concerns as stated by Yati Kurniati, et al. (2008) in her research: *“Indonesian economy that improved, has led us to the new hopes but the growth is*

sustained by the high of consumption. The contribution of consumption to GDP ratio has improved about 67% in the last five years. Otherwise, the role of investment in the formation of GDP is only about 22% in 2003-2007.” It is agitated, considering that the investment should take the wheel of the economy. Investment, either domestic or foreign investment (FDI) can have an impact on improving the performance of the real sector. Meanwhile, Basri (2009) in Sukarni et al. (2010, 1) stated that the investment should be “*the most nutritious food*” then surely, other sources are not as good as investment. Consumption is increasing and gets a stronger influence in propping up the economic growth, as well as the government outlay these days. However, due to consumption, the government activity (in addition to the investment expenditures) is not directly related to the product or output, then the growth that generates it does not reflect the increasing capacity and the real economy or the production itself. In general, the contribution of the investment only takes about 20% against the domestic output in Indonesia. During the economy crisis is encouraged by the consumer expenses. Nevertheless, the economic growth sustained by the consumer spending may not be sustainable.

According to Marzuki (2010), the banking behavior that wasted in disbursing a credit to a non-productive realm, i.e. consumption, has become a serious problem because the credit is used to the imports products which obviously has no relation with the real domestic productive field.

**Identification Problem:**

1. The magnitude of the consumption growth compared to the investment in GDP growth.
2. The increased interest for credit could not stop the consumption growth but on the other hand, the growth in the consumption field is much greater for the imported goods.
3. The investment growth is not determined by the development of loan interest but by other factors such as infrastructure, regulatory, social and security conditions and other non-economic factors.
4. Inflation, exchange rate of dollar and JCI, either partially or simultaneously give negative impact to the investment growth.
5. The above conditions are not able to encourage the growth of labor absorption, in other words, the unemployment rate is increasing.

**Research Question:**

1. How does the inflation influence the interest rates and loan rates consumption, JCI against consumption, investment, exports and imports, simultaneously?
2. How does the inflation influence the interest rates and loan rates of consumption, JCI against consumption, investment, exports and imports, individually?

**2. Methodology**

There are many perceptions from one another in seeing theories that explain the influence of inflation with the consumption outlay. For example, the theory of substitution effects stated that as the prices rise or income decrease, the consumers will replace more expensive items with less costly alternatives but because the inflation is generally marked by the rising price of goods, then there will be more substitution effects between consumption spending and savings.

Thus, the theory of Keynes showed the relation between spending on consumption more determined by the level of income than the influence of inflation. Meanwhile, the expectation of inflation theory states that the rise in inflation can encourage a rise demand for goods and services for the purpose of vigil/accumulating stock (abstracted from the Theory of Quantity of Irving Fisher, Theory of Keynes and Structural Theories).

***Inflation Theory:*** In various literature, the experts have different definition about inflation, but it still can be taken a fundamental conclusion out of these various definitions. Inflation is a symptom that indicates the increases of the price in general and runs continuously (Amri Amir, 2006). From the notion above, if price only increases temporary, it cannot be considered as inflation. According to Puspoprano (2004), inflation is the average increase of price for all goods and services, which occurs in general and runs continuously. Based on various definitions, it can be concluded that inflation happens when the average price level of all prices is continuously rising in certain period. The rising prices can be caused by many factors; inefficient provision between the supply and demand of goods in a country.

***The Theory of Exchange Rate (Dollar):*** The exchange rate and the relation between export and import, are closely associated to both the export or import which the movement of the exchange rate affects by means the competitiveness of the export products (in terms of relative prices). Depreciation of a country's exchange rate against other currencies makes the competitiveness of export products rise in the country, so there are export increases. At the same time, imports are becoming more expensive for these countries, so the imports are likely decreased. The combination of increased exports and decreased imports improve the balance of payments and furthermore boost the income. On the contrary, impact occurs if the exchange rates become appreciated, i.e. the performance of national income and the balance of payments deteriorate. In addition to exchange rates, export and import also influenced by terms of trade, exports good supply side and demand side (exports and imports). Terms of trade improved will give a positive impact against exports but negatively impact the imports. For exporting countries, the availability supply of goods can be reflected on its production. On the demand side, the demand of the goods is reflected by income.

Thus, export and import equations can be expressed as follows:

$$X = f(e, \text{TOT}, \text{IP}^*)$$

$$M = f(e, \text{TOT}, Y)$$

X is export, M is import, e is the exchange rates, TOT is terms of trade, IP\* is industrial production index, a country trading partners which represents the income. Furthermore, the export and import influence the national income as indicated by the equation of the identity domestic output in an exposed economy system:

$$Y = C + I + G + (X - M)$$

Y is GDP, C is consumption, I is investment, G is government expenditure and X-M is net export (export-import). The impact of changes in exchange rates through indirect pass-through is through marketing shifts orientation of the domestic market into the international market. Depreciation makes the price of goods exports become cheaper, so it encourages exports. For producers, this is a profitable potential to sell the production abroad, rather than domestically. Due to changes in investment market, the price of the goods in the country become more expensive (inflation).

**Composite Stock Price Index:** Composite stock price index is an overview of activities on capital markets. JCI is a number which simply describes the average rise or fall the prices of shares in the capital market at the time. JCI that increases can be used as benchmarks in the excitement of the capital market and vice versa. The rise and fall of stock price index, is a reflection of the rise and fall of the investor belief towards the condition of the economy in a country or in other words, known as leading economic indicator. Jakarta Composite Index (JCI) is a stock market index used by the Indonesian Stock Exchange (IDX; formerly the Jakarta Stock Exchange (JSX)). First introduced on April 1, 1983, as an indicator of price movement of stocks on the JSE, this index includes the price movement of the entire common stock and preferred stock listed on IDX. The basic calculation of JCI is August 10, 1982. On that date, the index is set with a value of 100 base and the stocks recorded at that time amounted to 13 stocks. The highest position ever reached by JCI is 3,357.032 points recorded on September 15, 2010.

$$IHSG = \frac{\sum p}{d} x 100$$

The basic calculation of JCI is the sum of the market value of total shares recorded on August 10, 1982. The amount is the total market value of stocks of any listed product (except for the companies that are in a restructuring program) with prices at JSX on that day. The calculation formula is as follows: p is the closing price on the regular market, x is the number of stocks and d is the basic value.

The index calculation represents the price movement of stocks in the market/exchange that occurs through the auction trading system. Basic values will be quickly adjusted when there is a change in capital issuers or other factors that are unrelated to the price of stocks. Adjustments will made if there are additional new issuers, right issue, partial/company listings, convertible obligation and also



delisting. In case of stock split, stock dividend or bonus shares, the basic value is not adjusted because the market value is not affected. The price used in calculating the JCI is the price of stocks in the regular market based on the auction system. JCI calculations performed daily after the closing of the trading in each day. Soon, the calculation of JCI is expected to be done a few times or even in a few minutes, this can be done after the trading automation system is implemented properly.

To provide more complete information on the development of stock to the public, IDX spread the price movement data through the newspaper and electronic media. One of the indicators of price stock movement is the price of stock index. Currently, IDX have seven kinds of stocks index, namely: JCI, Sector Indices, LQ45 Index, Individual Indices, Jakarta Islamic Index, Main Board Index and Developed Board, Kompas100 Index.

***Factors that Affect Stock Prices:*** According to Weston and Brigham (2001), factors that affect stock prices are: earning per shares, interest rate, the amount of the dividend cash, the amount of profit gained by a company, the level of risk and return.

***Theory of Interest Rate:*** According to the classic, money has no influence on the real sector, none of it affects interest rates, the opportunities of employment or national income. National income is determined by the number and quality of the workers, the amount of the used of equity and technology. Irving Fisher and Alfred Marshall are two classic experts that support this theory. Whereas J.M. Keynes, sentenced that money has an impact on the real sector. The theory of Keynes is based on the interest rate. The interest rate is determined by the supply and the demand of money in the money market. Money will affect the economic activities as long as the money affect the interest rates. The next interest rate will affect the desire to hold an investment and thus will affect the national income.

Several aspects that can explain the phenomenon of the high interest rates in Indonesia are: the high interest rates associated with the banking sector performance that acts as intermediaries, the habit to hang out and the low utilization of the bank services relatively, and it's hard to lowering the banking interest rates if the inflation rate is always high (Prasetyantoko, 2008).

The interest rate itself is determined by the two forces, namely: the savings offer and the query for capital investment (mainly from the business sector). Savings is the difference between income and consumption. Interest rate essentially acts as the main impeller, so people are willing to do the savings. The amount of savings will be determined by the height or the low of interest rate. The higher interest rates, the interest of people saving money will increase and vice versa. High or low the offer of the investment fund is determined by the height or low of the interest rates on society.

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**Theory of Mortgage Interest:** Mortgage interest is an amount of indemnification/retribution over the use of money by the bank's customer. The credit for employers means the customer require a liquidity for their business activities. The interest is an element that must exist on a grant of credit. The bank needs the interest as a profit earned from granting the credit.

In the determination of the credit interest, bank should be able to determine how big the interest will be charged to its customers because if the interest charged is too high then the bank would have trouble in finding clients who want to borrow from them. If interest rates are too low, then the bank will earn a very small profit and that will lead to a negative spread. In general, the credit interest rate set by the bank on a certain region is the same: 5% of the maximum credit interest above the BI rate set by the Bank of Indonesia.

At the mercantilism time, the economic experts in Europe are covered with the insight that says that the interest is a statement of the value of money. The theory of the mercantilist adherents about interest is very simple. They consider the interest as the price of productive credit and the interest rate is linked to the amount of money in circulation. The interest will go down along with the increasing amount of money supply. Another expert stated that the mercantilism theory is invalid but after Keynes found a monetary theory in 1936, people start to recognize the truth of the mercantilism theory about interest. The theory of productivity or fructification emerged after the theory of mercantilism. According to this theory, each owner of money will be able to buy the land and that land will be able to obtain profits from the crops grown on the land. If the money is used for other purposes, then it should be generating.

According to Turgot, the interest rate should not be less than the rent of land. Then J.B. Say said that the results of the land arose because of the cooperation between the land, labor and the equity (money). These three factors provide services in production. The income from that production must be paid to the indemnity to those who provide the services; give the rent to the owner of the land, paid the labor wage and given the interest to the owner of equity.

Malthus then discover a theory that shows the layout of the productivity money. This theory also assumes that the productive money services are the base subject of an interest existence. The combination of equity and the factor of production is greater than the wages + rent + depreciation of equity. This excess must be used for replacement of the services for the owner of money.

At the end of 18th century, a theory, which addresses the issue of mortgage interest from Psychology's view, was emerged (Soewito, 1994). This psychological theory varied: (i) the theory of used, (ii) abstinence theory, (iii) blackmail theory and (iv) theory of AGIO. The theory used says that the equity of goods has been used. Anyone who lend the capital goods, would lose the "use" of the item. If it loses, the

equity owner is entitled to receive a reimbursement and that replacement is called interest. Abstinence theory says that to have the equity, people will spend half of their income and thus they would sacrifice the consumption. This sacrifice must get a replacement and that replacement is in the form of the interest.

The real blackmail theory is from the mind of Willian Thomson and Odgkin (Soewito, 1994) then enhanced by Karl Rodbertus and Marx (Soewito, 1994). Marx with his theory of value say that the entrepreneur's income is the result of the labor extortion. In this case, the interest rate is obtained from the equity and Marx said that the interest is a result of private property in the production tool of capitalist society.

The AGIO theory from Von Bohm Bawer (Soewito, 1994) concentrates on the interpretation of human appreciation of goods for now and then. Generally, man appreciate the on-going goods rather than the future goods even if it has the same type and quality. People think that the gratification purposes in the on-going time is more important than later. This difference is called AGIO. The cause of the AGIO occurrence of the current time goods above the later goods are affected by the psychological factor, economic and the technical factor.

From the theories of interest above, none of them relate to money. In the 1936 emerged a new theory about interest that connected with money. This theory is called the monetary of interest, advanced by Keynes. According to Keynes, an interest rate is the replacement from sacrificing the liquidity. Keynes stated that the interest rate is determined by the preference of liquidity or the amount of money. Liquidity preference caused by three things:

1. First, Transaction motive, where people need the money to do a daily payment transaction.
2. Second, Precautionary motive, where people like to have the money supply to cope with unsuspected events.
3. Third, Speculative motive, people want to have money by seeking an advantage in a speculative way.

Thus, the interest can be considered as an income or as an expense. For the owner of money, if the money is loaned then the interest is known as income although it is not an employment income. If he did not lend the money, he can use it for the equity of his business in which he can gain an advantage. For the one who lend the money, the interest is for sure considered as an expense.

***Determinants of Credit Interest Rate:*** As seen from the economic banking as a company, there are factors to consider in determining the interest rates, namely: the situation of money market, the degree of risk, the relation of the customer account with the bank, cost of money (deposit interest, interest and other), the needs of funds, the desirable profit target, the assurance quality and competitors.

**Export and Import Theories:** The discussion about the theory of exports and imports cannot be separated from the discussion of the international trade theory. The international trade refers to the transactions of the economic subjects of one country with the other economic subjects of the other country either about goods or services. Also, the subjects, economically referred as the citizens, the company of export or import, industrial companies, country enterprises or the government departments, which can be seen from the trade balance. Trade or exchange can be defined as the process of voluntary exchange from each party. Each party should have the freedom to determine the profit and loss from each significance then determine whether he wants to do the exchange or not (Boediono, 1998). Basically, there are two theories that explain about the international trades: classic theory and modern theory.

**Facts and Reality of Indonesia:** Paying attention to the development of GDP in Indonesia which calculated on the basis of spending approach;  $Y = C + I + G + (X - M)$ , where Y is the national income, C is the national consumption, I is the national investment and (X-M) is the net exports, then the data which indicates the contribution of consumption, turned out to be the highest and likely rising in three decades, where on 1st decade (1981-1990) takes 50.94%, in 2nd decade (1991-2000) up to 54.19% and on 3rd decade (2001-2010) is 59.17%. Similarly, data on the development of the realization of credit consumption since 1997 to 2010, indicating the increase of consumption credits contributions from 11.78% in 1997 become 28.78% in 2010 with the average 24.30% of total loans banking credit investment, which only has an average of 20.5%.

### 3. Results and Discussion

In the dissertation research, Meirinaldi (2012), tested the five models; the influence of inflation, against consumption, investment, exports and imports by using the data from three decades in 1981-2010, the results as follows: the value of t statistics for the variable inflation against the consumption takes 2.22 showed the influence is significant, so does the value of the t statistic of inflation against imports amounting to 1.70 showed that the inflation affect imports significantly. Meanwhile, inflation did not affect investments and exports significantly because the value of the t statistic respectively amounted to -0.78 and -0.15. From the dissertation research, it can be summarized that it turns out that the imports and the national consumption are significantly affected, especially by the inflation factor, yet insignificantly inflation affect the national exports and investment.

The debate between the interests of macro-economics and micro-economics happened afterward with a reflected statement: what is good for an individual (micro) did not necessarily went well for the economy (macro) and can be explained through the following phenomenon of consumption: from the individual side, saving and frugality is good as an individual should indeed buying stuff only when they have enough money and not doing debts. An individual also shouldn't make

speculation about the wrong calculation which can mess up their financial condition. However, the macro-economic theories stated that people who live frugally, do not like to make debts and do not want to speculate will ruin the economy. The greater the desire to consume (the concept of marginal propensity to consume = MPC), the better improved is the economy ( $\Delta Y = \Delta I \times 1/(1-MPC)$ ) where  $1/(1-MPC)$  is the multiplier effect. If people like to be frugal, the business will be lethargic because it does not have many buyers, and if the business is sluggish then the economy will not grow.

The price that rises continuously (inflation) is also good for business. The decreases price (deflation) is a sign of a dreary business. The economic growth will be slowed down, and it can even be negative. So, from what has been said in the theory of macro-economic, consumers are not allowed to indulge the decreased prices because the prices decreased means a sluggish business and the fallen of the economic growth. For individual, the price that increased rapidly (the increased of inflation) caused the individual to be slacking in savings. The saved money will be reduced in value even the interest rate will be lower than the inflation. As a result, the net value of savings will be decreased if affected by the administration fee and taxes. Consequently, with the higher inflation, people become less keen to save. If people think the prices of goods will keep increasing, they will be compelled to increase the consumption because adjourning the consumption means they have to pay more for the consumption. When inflation increase, the option of becoming indebted will be more interesting. Therefore, people like to indebt before the prices are increasing more.

The debt is usually generated by financial institutions, both banks and non-banks. However, the retail agencies that are selling goods in credit and even not receiving cash are emerged lately. These retail institutions encourage people to debt. They also function as a financial institution and not as a trade institution. This macro-economy also showed that speculation also encouraged the economic growth. If someone has the courage to speculate, people don't have to increase the production. The same goods can be sold with higher price. The general public indeed not having profits from this speculation because the product does not increase but individually, the participants of this speculation gain more profit. The profit of these speculators is calculated in the economic growth. Thus, the speculation (that have no use to the society) can be calculated as the important contributor in the economic growth. It means society compelled with the speculation acts.

When the society is encouraged to speculate, that means that, they buy some goods with the hope that the price of those goods will increase, and then they will gain profit from those increasing prices. In that situation, the more expensive the price of something will not decrease the demand; instead it will increase the query. The increasing prices give a sign that the prices will keep increasing. Thus, people will compete to buy before the prices increase more. Then, this behavior will really stimulate the price to increase more and more and the cycle repeats. The speculator

gains more profit while the society in a macro are not gaining anything. This speculation behavior can be applied to the “concrete” goods like land and house. Yet, this behavior can be applied to the “not real” goods like debt letters, stocks and various derivatives in the financial markets. Then, the business activities keep pushing people to enhance the consumption.

At the same time, financial institutions continued to encourage people to take loans. The investor exemplifying the public how to do the acts of speculation, for example, by buying a home because the prices are expected to rise rapidly.

All activities that encourage people to be more extravagant, dare to make loans, and behave in speculative way are escalated in which all of these are expected to ignite the economic growth but until when? The economic observers critiquing this condition by using the term “economic bubble” (Ponzi economic; the term was popularized by Hyman Minsky (Prasetyantoko, 2010)) which is feared it will be exploded into a prolonged crisis at times.

#### **4. Conclusion**

National import and consumption are significantly influenced, especially by the inflation factor but the inflation did not significantly affect the investment and national export.

The significance of the inflation influence towards consumption and imports, the inflation control policy is required on some level in which it is hoped that it could withstand the pace of rising consumption and imports are not oriented on production and providing of employment.

On the other hand, the inflation rate is expected to be able to encourage the investment and export growth, so it can provide a multiplier effects that are more significantly to lower the unemployment rate.

The results of this research expected the subsequent research to provide answers to the concerns presented in the title above by examining data and updated information up to 2017.

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## **The Efforts to Improve Non-Tax State Revenues Through the Management Revitalization of the Seized and Confiscated Goods of the State**

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### **Abstract:**

*The criminal act of corruption is a threat to democratic principles that uphold transparency, accountability, and integrity. The criminal law policy in the seizure and confiscation of the proceeds of crime utilized such objects as evidence in a trial. It also aims to reduce the level of crime and to provide justice through the confiscation and seizure, set forth in the Criminal Procedure Code. In the criminal justice system, the evidence constitutes a prominent component which must be included and utilized to reveal the material truth.*

*The length of time spent in legal proceedings, including investigation, to the establishment of the final and binding judicial verdict (inkracht), will expose the goods of seizure and confiscation to damage, both physically and functionally. Such exposure will generate a significant depreciation on the quality of the evidence, which is to be auctioned and liquidated in value into the state treasury as a form of Non-Tax Revenues (PNBP).*

*The proposition which will be discussed in this research is: What are the efforts conducted by the authority to increase the Non-tax State Revenues through the management of seized and confiscated goods? This research is conducted in normative juridical perspective to be able to obtain the primary and secondary legal material. The result shows that the existence of the States's Storage House for Seized and Confiscated Goods is to keep confiscated goods well maintained, i.e. their value, shape, and condition to be used during the trial and eventually to be auctioned and contributes to Non-Tax State Revenues.*

*Keywords: Non-tax state revenue, storage house for seized and confiscated goods.*

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### **1. Introduction**

The criminal act of corruption is a contaminant to the democratic principles which uphold transparency, accountability, and integrity. Corruption is a systemic extraordinary crime, not only adversely inflicting our national development, it is also



disintegrating the cores of our national and state life. People are demanding the government to converge on the prevention and to impose maximum financial penalties to corruptors. Responding to such demand, the Government institutes several legislations, such as Statute Number 20 of 2001 on The Amendment of Statute Number 31 of 1999 on The Eradication of Corruption. The Anti-Corruption Eradication Statute is not merely aimed at the prevention of the criminal conduct or to intimidate the society, but further, it aims to restore the deprivation caused by corruption.

The criminal law regulates the procedure of seizing and confiscating the proceeds of crimes. Not only serves as an exhibitin criminal proceedings, such proceeds of crimes are also presented and used as evidence during the trial. They also aim to reduce the level of crime and to provide justice for the society based on the Criminal Procedure Code (KUHP), which is to be confirmed on Article 44 subsection (1), in conjunction with Article 27, subsection (1) of The Regulation of The Republic of Indonesia Number 27 of 1983 on the Implementation of the Criminal Procedure Code.

There are profound expectations on the eradication of corruption within the current legislation. It contains at least three main issues, namely: prevention, eradication, and the recovery of assets.

However, in addition to such issues, a new issue has arisen which is how to maintain/manage confiscated goods which are under the control of law enforcement officers (Police, State Attorney, Corruption Eradication Commission). The issue arose because, in the criminal justice system, the evidence constitutes a prominent component which must be included and utilized to reveal the material truth. The length of time spent in legal proceedings, including investigation, to the establishment of final and binding judicial verdict (*inkracht*), will expose the goods of seizure and confiscation to damage, both physically and functionally. Such exposure will generate a significant depreciation on the evidence, which is to be auctioned and liquidated in value into the state treasury as a form of Non-Tax Revenues (PNBP).

PNBP is the accumulation of central government's revenue which was not derived from tax revenue (Article 1, subsection (1) of Statute Number 20 of 1997 on PNBP). The Minister of Finance, Sri Mulyani Indrawati, stated in a press release that most confiscated goods obtained by The State were in form of land and buildings. The estimated value of such goods declared by KPK a.k.a. Corruption Eradication Commission (limited period to July 2016) is Rp. 142.370.000.000 (one hundred and forty-two billion and three hundred and seventy million rupiah). The estimation shows that the state has the potential to receive substantial revenue from confiscated goods related to corruption.

The Criminal Procedure Code has mentioned the existence of an establishment for storing confiscated goods, as it is described in Article 44, subsection (1) "The State Confiscated Goods are stored in The State's Storage House for Seized and Confiscated Goods". However, in implementation, the confiscated goods are still managed by the law enforcement officers resulting in a significant depreciation in the value of such goods, which contradict the purpose of confiscation itself.

### ***Problems***

Based on the facts presented on the previous introduction section, the problems are: What are the efforts conducted by the authority to increase the Non-tax State Revenues (PNBP) through the management of seized and confiscated goods from the proceeds of crimes of corruption?

### ***Theoretical basis***

The theoretical scientific basis we apply within this writing are:

#### **1. The Role Theory**

The Role means a behavior, an action. The Dictionary of Indonesian Language explained that a role is a behavioral device domiciled in society. While such role described can be seen through status, position and the role in society. The role from the perspective of social science defined as a function that a person obtained when occupying a certain position, such person is able to exercise its function because of the position it occupies.

Role theory describes a social interaction performed by actors in accordance with rules which is defined by culture. According to this theory, someone who has a certain role is to be expected to behave according to such role. A sociologist named Glen Elder in Suprpto was extending the use of role theory. The approach called "Life-Course" means that every society embodied the hope of each member to have certain behaviors in accordance with the categories passed within such society. <sup>1</sup>

#### **2. The Authority Theory**

In order to be able to justify a legal action performed by a person or by an institution based on his / her position, such person will need to exercise his/her "Authority". Scientifically, the law of authority is a core concept in the realm of constitutional law and state administrative law. Such authority, in the concept of legal science, has also been recognized as a theory commonly known as "The Authority Theory". The authority contains certain elements, namely: 1. There is a public legal action; 2. Such action is conducted by the subject of public law; 3. The subject possesses the ability to act; 4. To conduct public legal relations; 5. It was awarded by The Law; 6. It contains rights and obligations; 7. A legal consequences.

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<sup>1</sup>Soeprpto. Riyadi. *Teori Interaksi Simbolik. Averroes Community – Membangun Wacana Kritis Rakyat*, 2012.

The authority containing such elements aforementioned is not always automatically attained or awarded to any government officials. Theoretically, there are three ways to obtain authority: 1. Attribution; 2. Delegation; and 3. Mandate.

### ***The Theory of Law Enforcement***

Law enforcement is a process of the enforcement of real or legal function of the legal norms as a guidance for actors in an interaction or legal relations within the life of society and the state.

According to Soerjono and Soekamto, factors which affect the law enforcement are:

- Law Enforcement Factors
- The mentality or personality of law enforcement administer an important role if the rules are considerably well, but the quality of the officers is not well, then the rules will not be well implemented. Therefore, one of the keys to be successful in law enforcement is to possess the mentality or the personality of a law enforcement.
- Facilities and Infrastructure Factors
- Facility and infrastructure factors (sarpras), including software and hardware that will support the enforcement process.

### ***Community Factors***

Law enforcement comes from the community and aims to provide peace within the community. It is to be expected that every individual of the society has an awareness to obey the living laws in the community.

## **3. Methodology**

### ***Type of Research***

This research was conducted based on the normative perspective of law.<sup>2</sup> With its distinctive scientific character, the normative type of research examines legal matters from the angle of a positive law which covers three layers of legal science, namely: legal dogmatic, legal theory, and legal philosophy. The characteristic (*sui generis*) of normative scholars as it was described by D.H.M Meuwissen are: a) empirical-analytical in nature, which provides the exposure and analysis of the content and structure of the law; b) systematization of legal symptoms; c) interpretation of the applicable law; d) asses of applicable law; and e) the practical meaning of jurisprudence that is closely related to the legal dimension. The scientific approach toward the research can be divided into two types of approach, the statute

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<sup>2</sup>Philipus M Hadjon, *Pengkajian Ilmu hukum Dogmatik (Normatif)*, *Yuridika*, No. 6 Of IX, November 1994, h. 8 *Kajian ilmu hukum normative adalah suatu proses nalar (penalaran). Penalaran hukum juga tertumpu atas aturan berfikir yang dikenal dalam logika.*

approach, and the conceptual approach. 3 The statue approach was conducted by reviewing all laws and regulations that were used as the basis for the seizure and management of the proceeds of crime. This type of approach is used to find the ratio legis and the basic ontology which delivers the legislation that regulates authority, duties and functions, and the management of the proceeds of crime. In this type of approach, the law is considered as a closed system that has the following characteristics:<sup>4</sup>

- Comprehensive means, that the legal norms are related to each other in a logical manner;
- All-inclusive, that the collection of legal norms is sufficient to accommodate the existing legal issues, so there is no absence of law.
- Systematic, that in addition to their interrelated nature, the legal norms are also bounded to a hierarchical structure.

#### 4. Result and Discussion

##### *Seized and confiscated Goods and The Storage's Purposes.*

A seize is an act of expropriation of goods to be stored. Seizable goods, as the Statute define, are goods that are related to a criminal offense. According to Andi Hamzah, items that can be confiscated are the ones which used to commit an offense. They also can be recognized by the phrase 'by which the offense is done' and 'goods that become the object of an offense', and also by the expression of 'the offense is done'.<sup>7</sup>

Article 39 of the Criminal Procedure Code states that the foreclosure is subject to:

1. Goods or accounts receivable of the suspects or defendants, wholly or partly, allegedly obtained from a crime or part of proceeds of a crime (subsection 1 letter a);
2. Goods that were used directly in committing a crime or in the preparation of a crime (subsection 1 letter b);<sup>5</sup>
3. Goods that were used to prevent criminal investigations (subsection 1 letter c);
4. Other items specially made or functionalized to commit a crime (subsection 1 letter d);
5. Other goods that were related to the crime committed (subsection 1 letter e).

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<sup>3</sup>Peter Mahmud Marzuki, *Penelitian Hukum, Yuridika, Vol. 16, No. 1, h. 104, menyatakan bahwa penelitian normatif berupa penelitian Regulation perStatutean, yurisprudensi case law), kontrak, dan nilai-nilai hukum yang hidup dalam masyarakat.*

<sup>4</sup>Johnny Ibrahim, *Teori Dan Metodologi Penelitian Hukum Normatif, cet.I, Bayumedia Publishing, 2006.h.303.*

<sup>5</sup>Andi Hamzah, *Pengusutan Perkara melalui Saranateknik dan Sarana Hukum, Ghalia Indonesia, Jakarta, 1986.*

6. Goods that are placed under seizure due to civil cases or due to bankruptcy and are also a subject to a seizure for the purposes of an investigation, prosecution and the trial of a criminal cases, as far as they comply with the provisions of subsection (1) and (2) of the Criminal Procedure Code.

Article 39 of the Criminal Procedure Code must be cared for which determines goods that can be confiscated, they are:

1. Goods that belong to the convicted persons obtained for the crime.
2. Goods that belong to the convicted person who has been intentionally used to commit a crime.

Foreclosure and confiscation are two different things. Foreclosure is a temporary seize, where one's control over an object are revoked for the purpose of verification in legal proceedings (whether in an investigation, prosecution or a trial). If the result of such verification conducted has come into conclusion that such goods are indeed proceeds of a crime, then the goods shall be permanently seized (confiscated) and placed under the control of the State. Confiscation can only be performed under the authority given by a final and binding judicial verdict (*inkracht*), clearly stating that the object is seized by the State in the name of the law.

After the confiscation, the object shall be secured by the investigator in a special establishment for confiscated objects of The State. Article 44 subsection (1) of the Criminal Procedure Code stipulates that "confiscated items shall be kept in The State's Storage House of Seized and Confiscated Goods." *If such establishment has not been created yet, the goods can be placed at the Police Department, Prosecutor's Office, Government buildings or to remain in the premises as they were*". The purpose of storing the seized and confiscated goods in *Rupbasan*, Article 2, subsection (3) of Government Regulation Number 27 of 1983, is to ensure the safety and security of confiscated goods.

### ***Seizure Conducted by the Corruption Eradication Commission***

Article 26 of the Statute Number 31 of 1999 juncto Statute Number 20 of 2001 on Corruption stipulates that an investigation, prosecution, and examination in court shall be conducted in accordance to existing legal provisions, except if it was differently determined by the Statute itself. It has also been accommodated by Article 284, subsection (2) of KUHAP.

Several exceptions related to the authority of investigators in conducting seizure can be founded within The Statute on Corruption, among others, the provisions within the Article 45 regulates KPK investigators and provides certain criteria, namely:

1. The Investigator is the investigator of the Corruption Eradication Commission appointed or dismissed by the Corruption Eradication Commission;
2. The investigator as referred to in subsection (1) shall carry out the investigation on corruption.

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The confiscation of corruption is stipulated in Article 47 subsection 1 of Statute Number 30 of 2002 on the Corruption Eradication Commission, which states: "*Under a strong suspicion with sufficient preliminary evidence, investigators are allowed to confiscate without a warrant from the Chief Justice in relation to his investigative duties*"

Contrary to the provisions of the Criminal Procedure Code, Article 47, subsection 2 of Statute Number 30 of 2002 on the Corruption Eradication Commission, it is unnecessary to obtain a warrant from the Chief Justice (The principle of *lex specialis derogat lege generalis*).

### ***Rupbasan In the Integrated Criminal Justice System***

Conceptually, the establishment of Rupbasan as an important institution in KUHAP is based on two important principles in KUHAP. First, the principle of functional differentiation. This principle requires that there will be no "overlapping of authority" in any the law enforcement process. Most importantly, the centralization of authority over one institution is "forbidden ". In that context, Rupbasan is meant to ensure legal certainty.

Second, the principle of coordination. Under the circumstances where each of the Government's law enforcement instruments are entitled to exercise their own specified authority, they are also working in coordination to each other based on a check and balance system. Based on such relational condition, Article 27, subsection (4) of PP 27 of 1983 on the Implementation of Criminal Procedure Code, states that "The Chief of Rupbasan shall not accept any objects to be stored as evidence in an examination, if it is not accompanied by a recommendation from authorized official, whom legally responsible for the confiscated goods".

It is an undeniable fact that currently, Rupbasan possesses no significant power. In addition to the existence of sectoral egoism in departmental interest and funding, besides of the Criminal Procedure Code, there are no other legal instruments, which comprehensively substantiate the existence of Rupbasan.

We can also compare the circumstances with the Police which is regulated by the Statute Number 2 of 2002 on the Police of the Republic of Indonesia, Attorney by Statute Number 16 of 2004 on the Attorney of the Republic of Indonesia, and the Penal Institution by Statute Number 12 of 1995 on Correctional Institution.

### ***Rupbasan in the Future***

The empirical facts have proven that the abandonment of Rupbasan has led to injustice, abuse of authority and provides no benefit for the state and our society. On the cases of financial crimes, the State has become the victim who constantly being afflicted. This is because the State's finance has been corrupted, the proceeds of corruption cannot be utilized, which is indistinctive to the crimes in which the victims are individuals.

The decision to revitalizing/strengthening Rupbasan's legal standings after more than 35 years relying on Criminal Procedure Code is an improvement. The Government has finally realized that the law enforcement is not only about restriction and restraining the individual freedom, but it is also related to the economic value of the confiscated objects which is needed to be preserved.

Based on such descriptions, in order to increase Non-Tax State Revenue (PNBP), it is necessary to revitalize the management of confiscated goods obtained from the proceeds of corruption. PNBP are consists of natural resources revenue, revenue gained from shares of State-owned enterprises, other non-tax revenues as well as revenues from the Public Service Fee (BLU), set forth in Article 1, subsection 6 of Statute Number 27 of 2015 on APBN 2016.

PNBP Group is managing the Government's funds, utilization of natural resources, earnings from other State's assets management, Government's service activities, Court's decisions and the imposition of administrative fines, grants which are the rights of the government as well as other receipts as regulated in a separate law (Article 2, subsection 1 of Law No. 20 of 1997). Under such circumstances explained, it is imperative that the legal standing of Rupbasan needs to be established immediately. The goal is to provide justice, legal certainty and the maximum utilization of the confiscated goods for the people by professionally managing the assets to ensure that the value will remain high and can be auctioned by the State at the highest bid, which will maximize the contribution to Non-Tax State Revenues.

Revitalization of Rupbasan in the future needs to be able to accommodate three important aspects, namely: First, the existence of financial contribution which is the legal basis related to confiscated goods; Second, confiscated goods are needs to be managed by a professional Rupbasan bodies under the supervision of the Ministry of Law and Human rights; and Third, strengthening the institutional structure and authority of Rupbasan.

It will take a certain effort to be able to reinstate Rupbasan as it was desired by the legislators. The 'habits' on exercising authority and power has been well established in law enforcement practices. However, it is possible as long as intended to provide a better protection for seized and confiscated goods of the State for the benefit of the people.

## **5. Conclusion**

The existence of Rupbasan will provide a legal clarity to avoid misappropriation of confiscated goods. The importance of the existence of the State Treasury Storage Agency in maintaining the integrity of the state confiscated goods (Basan) and the seized goods of the state (Baran) is related to the protection of the ownership rights of the evidence.

The existence of Rupbasan is imperatively needed as a State Institution that serves to maintain the basan and baran in a professional manner, but in practice, the existence of Rupbasanis constrained by the contradicting regulations. Article 4, subsection (1) of KUHAP which requires the existence of Rupbasanis contradictory to Article 39, subsection (1) of Statute Number 27 of 1983 on the Implementation of the Criminal Procedure Code which allows the storage of basan and baran in other institutions. Such conflicting provisions are disrupting the existence of Rupbasan.

The existence of the Rupbasan Institution is to professionally maintain the quality of confiscated goods, i.e. their values, forms and conditions to be used during the legal proceedings and to be auctioned and liquidated in value into the state treasury as a form of Non-Tax Revenues (PNBP). Therefore, it is necessary to consider the legal standing to integrate Rupbasan between the existing institutions, either the Police department, the Prosecutor's office and the Corruption Eradication Commission and/or other related institutions.

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## **The Effect of Financial Literacy and Financial Capability Toward Financial Satisfaction Through Financial Behavior**

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### **Abstract:**

*This paper aims to see the direct effect of financial literacy and financial capability on financial satisfaction, and indirect influence through financial behavior.*

*Questionnaires are distributed online. For the analysis it was used Smart-PLS Version 3.0. The result of the research shows that financial behavior becomes the intervening variable of the relationship between financial capability and financial satisfaction.*

*But financial behavior is not a variable intervening relationship between financial literacy and financial satisfaction because financial literacy has no significant effect on the financial behavior.*

**Keywords:** *Financial Satisfaction, Financial Literacy, Financial Capability, Financial Behavior*

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### **1. Introduction**

Happiness in life is desired by every human being. One form of happiness is the feeling of satisfaction, the individual gains. Life satisfaction occurs if what is desired and the individual endeavor can be realized. Obtaining what one wants, there will be a feeling of fasting. Satisfaction is a subjective condition/state of feeling like a sense of pleasure and a person's relief of the desired result and cultivated.

Everyone wants to achieve satisfaction and happiness in running their lives, and for this purpose the individual will try to meet the own needs and desires. There are several factors that individuals desire in living life such as job security, status or power, and income (Praag and Carbonell, 2004). The satisfaction of one's life is influenced by various factors. There are three factors that most influence the most the satisfaction of one's life, namely healthy, wealth or finance, and education. Satisfaction in the field of health is influenced by attitudes and behavior of

individuals on matters relating to their health. This also applies to wealth and education (White, 2007). Based on the description of satisfaction, it can be concluded that to obtain satisfaction, individuals need funds to get what they want through a business process to get it. When these things are obtained, one will feel satisfied.

The Central Bureau of Statistics (BPS, 2017) notes the economic state of Indonesian society shown in the poverty profile in Indonesia through the results of its surveys. BPS survey results show that the percentage of poor people in Indonesia in March 2017 reached 10.64 percent or 27.77 million people. The greatest part is caused by food poverty that is equal to 73.31 percent, the rest is caused by non-food poverty, such as housing, clothing, education, electricity, and health. This data shows that the satisfaction enjoyed by the Indonesian population from the income earned has not been equally enjoyed. Mostly because of unmet food needs to be able to live normally. If the income of the population cannot meet the needs of life, is normally to be considered poor.

Although the government has made efforts to eradicate poverty, people's purchasing power still declines in 2017. According to Deputy Speaker of the House of Representatives Fadli Zon, the community is experiencing greater economic difficulties. This led to a decline in their purchasing power (Kompas.com, 2017). This decline in purchasing power indicates that the economic condition of the community is not improving but is getting worse. A survey conducted by the Indonesian Political Indicators (IPI) in September 2017 showed that 43% of the respondents found it increasingly difficult to meet their daily needs (Kompas, 2017). The population is said to be poor i.e. the population who has average per capita expenditure per month below the poverty line. The poverty line consists of two components, the food poverty line, and the non-food poverty line. Types of food commodities that have a major impact on food poverty, if the need for food which is not met, such as the need of rice, chicken eggs, chicken meat, instant noodles, sugar, coffee, and onion. Non-food commodities that have a major impact are the cost of housing, electricity, gasoline, education, transportation, health, and toiletries (BPS, 2017).

Based on the description of economic welfare satisfaction, related to the concept of ability to meet basic needs. This concept views poverty as an economic inability to meet the basic needs of food and not food as measured by expenditure. Based on the concept of BPS, it can be said that to get satisfaction, it is necessary to have an income so that the economic needs are met. If economic needs are met, it will generate a sense of satisfaction. This feeling of complacency is called financial satisfaction.

One's financial satisfaction is related to one's economic ability. Therefore, economic inequality is one of the important issues in assessing financial satisfaction. Minister of National Development Planning, Bambang Brodjonegoro, said there are four

causes of economic imbalances in Indonesia: First, the difficulty of access to basic services such as education, health, clean water, and sanitation. Second, the inequality in the quality of work. Third, income and asset inequality. Fourth, the absence of social security (Tempo, 2017).

How individuals manage their earnings in order to achieve economic prosperity and satisfaction is explained in the basic concept of Theory of Planned Behavior (TPB). TPB is an extension and modification of the Theory of Reasoned Action (TRA) required by the limitations in discussing behavior when one does not have self-control (Ajzen, 1991).

TPB includes four influencing variables, beliefs, attitude, intention, behavior and perceived behavior control. Perceived behavior control as a factor to control individual behavior because of the limitations caused by lack of resources used to perform the behavior (Ajzen, 1991).

Pompian (2006) argues that behavioral finance is a tool for identifying and learning about human psychological phenomena in financial markets and in investors. Thaler (1999) argues that individual behavior is not only related to the foundations of financial theory and economic law, but individual behavior is more influenced by psychological factors. Behavioral finance combines economics and psychology. Ricciardi and Simon (2000) describe the main factor of behavioral finance: trying to explain what, why, and how from finance and investment from a human perspective. From TPB and Behavioral finance it can be concluded that the existence of Perceived behavior control then with limited resources, individuals will manage and control the income so that he can meet the needs of life. The individual will adjust what he wants with his income so that with that income he will gain financial satisfaction.

This means that financial capital can be gained by everyone not only because of the large income, but the important thing is how he can set his wish by adjusting to his income. So, each person can earn financial satisfaction at various levels of income as long as there is the ability of controlling the desires. If the individual is able to manage and control the wants by adjusting to the income, the greater the income, the higher the individual's financial satisfaction, the quality, and the variation. Assuming its earnings can meet the basic needs for everyday life or income above the poverty line level. In Islamic belief, it is said that to be such a person is a reason to be grateful. Because with gratitude one was able to eliminate the sense of disappointment. Disappointment arises because one does not feel roomy for what he gets. Disappointment will eliminate happiness, which means reducing the rupture, including financial satisfaction.

Sahi (2013) defines Financial satisfaction as a subjective measure of financial well-being and indicates the level of satisfaction felt by individuals with regard to aspects of their financial condition. Joo (2008) shows financial satisfaction as a good

person's financial condition and the person is happy and free from worry about personal financial condition. Toscano et al (2006) found that the more satisfied a person is about personal finance (high financial satisfaction), the happier the person will be. Hira and Mugenda (1998) stated that financial satisfaction is an evaluation of everyone's satisfaction with the personal financial condition. Ali et al. (2015) state that financial satisfaction is an individual perception of the current financial situation. Lown and Ju (1992) explain that financial satisfaction is a measure of the difference between the desire and the actual financial condition. The less the difference between the desire and the financial condition, the more the financial desire is achieved, the financial satisfaction is higher. Plagnol (2011) argues that financial satisfaction is related to objective financial circumstances (income and wealth) and perceived financial needs.

So, financial satisfaction is closely related to the presence of awareness and ability in managing its finances. It relates to one's financial literacy (Toscano et al., 2006). Those who do not have financial knowledge or have relatively low levels of financial knowledge tend to make bad financial decisions such as spending their income without considering savings. This poor financial decision will have an impact on the time the individual is retired, by not having enough savings, so that one will no longer be able to meet his needs. Eventually, this individual will fall into poverty. So, individuals who have high levels of financial literacy have a high level of financial welfare or have a low level of financial concern. High financial welfare logically means to escape poverty (Taft et al., 2013).

## **2. Methodology**

The population of this research is built of all the lecturers who actively teach in universities throughout Indonesia. The samples is a lecturer who has an account on social media or has an active email address. The sampling method is non-probability sampling. The object of research is financial literacy variables, financial capability financial satisfaction with variable financial behavior. Measurement variable with Likert scale. The questionnaire is created using a Google document. Respondents were selected through social media and email addresses. Social media used is WhatsApp application, Facebook, and Facebook manager. Statistical analysis using inner and outer model tests. Testing is done by using Smart PLS version 3.0.

The statistical test used in this research is Convergent Validity, Discriminant Validity, and Average Variance Extracted (AVE). Meanwhile, the result of reliability can be observed through the coefficient of Composite Reliability and Cronbach's Alpha. In this research, the parameters of R-Square and Goodness of Fit (NFI) are also used, as well as the value of t-statistics for the purpose of hypothesis testing.

**Figure 1. Research Model**

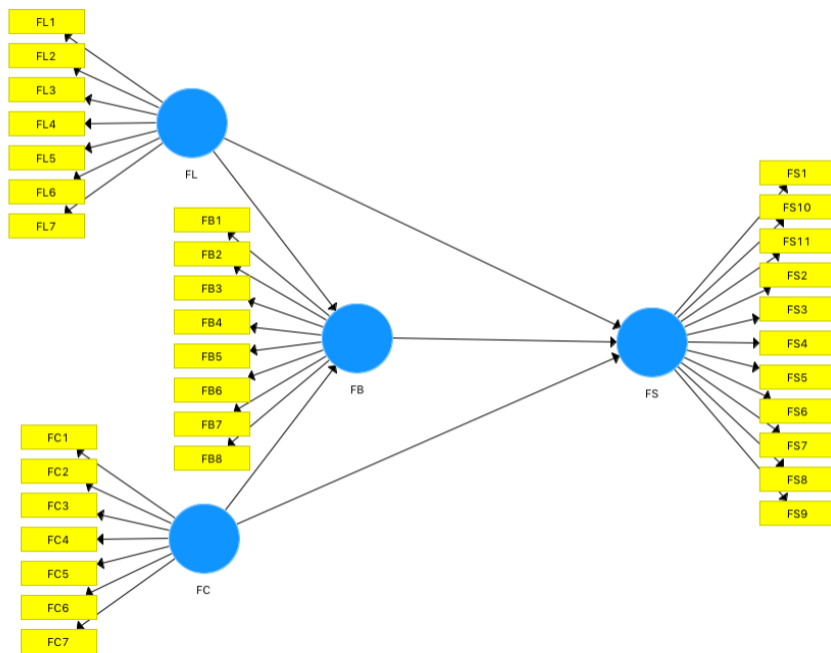


Figure 1 illustrates the effects of Financial Literacy (FL) and Financial Capability (FC) on Financial Satisfaction (FS) through Financial Behavior intervening (FB) intervening variables. Financial Literacy (FL) was measured using seven indicators (FL1-FL7), Financial Capability (FC) was measured using seven indicators (FC1-FC7). Financial Satisfaction (FS) is measured using the Nine indicators (FS1-FS9). Financial Behavior (FB) was measured using eight indicators (FB1-FB8).

### 3. Result and Discussion

#### *Test Outer Model*

Test outer model is done to test the validity and reliability. Validity test is done by Convergent Validity and Discriminant Validity test. Test Reliability is done by using Cronbach's Alpha test and Composite Reliability. The result of the convergent validity test in the first stage has shown some invalid indicator. The indicator is: From the variable Financial Satisfaction there are two indicators, namely FS1 and FS2. From the invalid Financial Capability variable that is FC5. Invalid Financial Behavior searchable is FB1 and FB6. After the invalid indicators are issued, then tested again with convergent validity, then the result will be valid. The convergent validity test is related to the discriminant test results which conclude to the same result. Reliability Test using Cronbach Alpha test and Composite Reliability. The variable is said to be reliable according to Cronbach Alpha if it has a value above

0.6. According to composite criteria, if it has a value of 0.7 (Arifin, 2017). The reliability test results are presented in Table 1.

**Table 1. Reliability with Cronbach's Alpha and Composite Reliability**

	Cronbach's Alpha	Composite Reliability
FB	0.761	0.834
FC_	0.803	0.859
FL_	0.926	0.941
FS	0.917	0.932

From Table 1 it is shown that the Cronbach's Alpha test results of all variables above is 0.6, and Composite Reliability is above 0.7. Thus, the entire variable of research is stated reliable.

**Inner Model Test**

The inner model test is performed to test the research hypothesis or to answer to the research problem. This test includes a goodness of fit test, partial test, and coefficient of determination.

**Goodness of Fit Test**

The goodness of fit test is done by measuring the value of NFI. NFI value ranges from 0 to 1. The closer to 1, the more fit the program is. The minimum NFI criterion is 0.7 (Arifin, 2017). The NFI test results are presented in Table 2 which concludes that the model is fit enough because the NFI value > 0.7.

**Table 2. Goodness of Fit Test**

	Saturated Model	Estimated Model
NFI	0.764	0.764

**Test of Statistical Hypothesis**

The hypothesis test is a test to measure the level of significance of the relationship of one variable with other variables and how the nature of the relationship. A variable is said to have a significant relationship if the value of p-value is less than 0.05 (Arifin, 2017). The results of this test are presented in Table 3.

**Table 3. Test results of significance among variables**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	P Values
FB -> FS	0.154	0.152	0.05	0.002
FC_ -> FB	0.437	0.442	0.046	0

FC_ -> FS	0.29	0.293	0.062	0
FL_ -> FB	0.081	0.078	0.057	0.157
FL_ -> FS	0.344	0.346	0.044	0
FC_ -> FB -> FS	0.067	0.067	0.022	0.002
FL_ -> FB -> FS	0.012	0.012	0.01	0.228

Table 3 shows that Financial Capability (FC) and Financial Literacy (FL) partially have a positive and significant relationship to Financial Behavior (FB). Financial Capability (FC) and Financial Behavior (FB) partially have a positive and significant relationship to Financial Satisfaction (FS). This is proved because the value of P V is smaller than 0.05. But the Financial Literacy (FL) has no significant relationship to Financial Behavior (FB) because the value of P value is 0.157, that is greater than 0.05.

In order to determine the indirect hungering between FL and FC against FS through FB, Table 3 proves that FC has an indirect relationship with FS through FB because the value of p-value is 0.002. In other words, FB becomes the intervening variable of the relationship between FC and FS. But FB does not act as the intervening variable of FL relationship with FS because it has a value of p-value of 0.228.

In this study, there are two endogenous variables of Financial Behavior (FB) and Financial Satisfaction (FS). Thus, there are two coefficient values of determination (R<sup>2</sup>). The relationship between FL and FC to FB has R<sup>2</sup> = 0,239 or 23,9%. This value indicates that FL and FC are together able to explain FB of 23.9%, the rest is explained by other variables not examined. The relationship between FL, FC, and FB on FS has a value of R<sup>2</sup> = 0.422 or 42.2%. It states that FL, FC, and FB are together able to explain FS of 42.2%, the rest is explained by other variables not examined.

Financial Literacy has no relation to Financial Behavior. This relationship explains that the higher the financial literacy of a person, it will increase the financial satisfaction. Financial literacy related to the knowledge in making the planning and financial control. Knowledge can be gained from education and experience. This relationship is strongly supported by the condition of the respondents because all respondents have a high level of education, that is bachelor's degree. In terms of experience also supports it, because the respondents are those who are considered to have a mature age with the support of his work as a lecturer. Such conditions can be said that the respondents have high financial literacy, so they feel gained a high satisfaction as well. The results of this study are consistent with Grable et al (2009), Ida and Dwinta (2010), Robb and Woodyard (2011), Henager and Cude (2016) and Arifin (2017).



Financial Capability has a positive relationship to the Financial Behavior. This Huungan has the meaning that if a person's FC is getting better, then his financial behavior will be better. Financial capability can be demonstrated by the level of financial literacy and performance of financial behaviors desired by a person. Therefore, financial literacy and financial behaviors are closely related to financial capability (Atkinson et al., 2006 and Taylor, 2011). A person who could control his desire by adjusting to the financial ability, will feel that what he gained is something reasonable and should be achieved based on the financial ability. Such individuals will manage their finances well.

Financial Literacy has a positive relationship to Financial Satisfaction. This relationship states that the better one's FL is, the higher the financial satisfaction. Financial literacy deals with knowledge and financial control. The individual to obtain what he wants is done based on knowledge and exercised control, so that if he succeeds in obtaining it, he feels that it is the result of a genuinely sacrificial effort by himself, consequently the level of his acquisition is also high.

Indicators for measuring the Financial Literacy use knowledge indicators on instrument selection, financial issues, financial management, financing options, advisory resources and financial knowledge. This indicator is related to the ability in financial knowledge. The high level of one's financial knowledge will lead one to tend to behave financially better like creating a budget; record expenses; set aside money for sudden conditions, savings, pension funds, and insurance funds. This results in a person feeling or feeling satisfied with his financial condition. This is supported by samplers coming from groups of people from higher education. Samples with a high level of knowledge strongly support the individual has a high financial literacy as well because it has a high educational background so that in obtaining financial satisfaction is also higher. The results of this study are consistent with research by Joo and Grable (2004), Coskuner (2016), and Xiao and Porto (2017).

The financial capability has a positive effect on Financial Satisfaction. These findings prove that the higher the financial ability of a person will get a higher financial satisfaction. Indicator financial capability is dominated by the FC2 indicator (self-confidence) with 52.2 percent. Financial capability is one's ability to manage and control finances (Taylor, 2011). Financial capability can be considered as a financial self-efficacy. Self-efficacy is an important psychological factor that affects human behavior. Self-efficacy is concerned with the assessment of how well a person can take the necessary action to deal with a prospective situation (Bandura, 1982). It means that one is in making a financial decision to get something, not just because of financial literacy, one also considers the good and bad impact he will get if he makes the decision (prospective situation). One is making financial decisions not only considering the abilities, also considering aspects of positive and negative impacts that will impact on oneself due to the decision. When he gets what he wants, not only is he happy to have it, it also has a positive impact on the surrounding

environment or does not harm the environment. It can be concluded that for a person with good financial capability, the behavior will be more based on goals and directed so that the own satisfaction of finances reaches the maximum state. The results of this study support the results of research conducted by Xiao et al. (2014), Jing Jian Xiao and Nilton Porto (2017), Jing Jian Xiao, Cheng Chen, and Fuzhong Chen (2014).

Financial Behavior has a positive relationship to Financial Satisfaction. These findings prove that the better the financial behavior of a person, the higher the financial satisfaction. Positive influence indicates that individuals who have good financial behavior tend to be more satisfied with the financial condition. This study is in accordance with Utility Theory. Dienter and Dienter (2002) state that individuals will do their best to maximize their utility with certain financial situations. Therefore, the level of satisfaction derived from a financial situation will ultimately be the benchmark of individual happiness. Joo and Grable (2004) argued that there are factors that affect one's financial satisfaction one of them is the Financial Behavior.

The results show that a person who behaves financially well like creating a financial budget; record expenses; putting money aside for sudden conditions, savings, pensions, and insurance funds so that people will be more organized so that happiness and financial satisfaction can be achieved. Satisfaction arises because individuals have financial knowledge, able to discuss financial problems, able to set aside money to save, have financial planning, and are satisfied with the financial condition. The results of this study are in accordance with the research of Joo and Grable (2004), Xiao et al. (2006), Robb and Woodyard (2011), Leila Falahati, Mohamad Fazli Sabri and Laily H.J. Paim (2012), Coskuner (2016), and Xiao and Porto (2017).

Financial Capability has an indirect relationship with Financial Satisfaction through Financial Behavior. These findings prove that the existence of financial behavior will further strengthen the relationship between financial capability against financial satisfaction. Taylor, (2011) Financial capability is the ability of a person to manage and control the financial potential of new capabilities, potential if balanced with good financial behavior he will manage and control his finances more responsible, to get what is planned. More leverage received will be greater.

Financial behavior is not a variable mediator relationship between Financial Literacy and Financial Satisfaction. This proves that between financial literacy and financial behavior is a relationship which is unrelated to financial satisfaction. Econometrics is a multiple regression model of the influence of financial literacy and financial behavior to financial satisfaction.

#### **4. Conclusion**

Based on literature studies and research results, it can be concluded that several research results are: (1) Financial literacy has a positive effect on financial satisfaction in active lecturers throughout Indonesia; (2) Financial behavior has a positive effect on financial satisfaction in active lecturers throughout Indonesia; (3) Financial capability positively affects the financial satisfaction of active lecturers throughout Indonesia; (4) Financial literacy does not affect the financial behavior of active lecturers throughout Indonesia; (5) Financial capability positively affect the financial behavior of active lecturers throughout Indonesia; (6) Financial behavior is not a variable mediation relationship between financial literacy with financial satisfaction in active lecturers throughout Indonesia; (7) Financial behavior is a variable mediation relationship between financial capability with financial satisfaction in active lecturers throughout Indonesia.

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## The Analysis of the Influence of Internal and External Factor to Net Asset Value of Sariah Balance Mutual Fund

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### **Abstract:**

*The purpose of this research is to analyze the influence of internal and external factors of Net Asset Value of Sariah Balance Mutual Fund. The internal factors are including trading volume and age fund. The external factor is using macro-economic which include inflation, interest rate, and exchange rate.*

*The results show that internal and external factor have simultaneously influenced Net Asset Value of Sariah Balance Mutual Fund. Internal and external factors which are trading volume, age fund, inflation, and exchange rate also have significant influence on the 5% level of significance.*

**Keywords:** Net asset value, trading volume, age fund, inflation, exchange rate, interest rate

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### **1. Introduction**

The development of the Mutual Fund is experiencing periods of ups and downs, following the growth and economic issues that are developing all the time. Apart from fluctuating Mutual Fund developments, Mutual Fund has now become a prima donna for several classes as a promising form of investment. Jbagii Invetor who just started to invest and want a lower risk level with moderate profits, then mixed sharia mutual funds can be an investment alternative.

Mutual Fund is a popular investment tool for the investors. However, the financial market is so complex with dynamic and chaotic data series, thus, it is usually of much risk. Generally, the mutual fund is an investment management with benefit and risks. Investors enjoy the benefit but also perceived risk present in the equity market. It is difficult for the investors who have lacks in investment information to manage high return with low risk (Anish & Majhi, 2013).

The Islamic finance system offers financial products, which act in accordance with the Islamic Law (Shariah), while conventional finance system operates it function on

interest base. Islamic finance had a tremendous growth in the last decade with a growth rate of 15% in the mid-1990 (Hamid and Azmin, 2001; Aggarwal and Yousef, 2000). There have been various debates on both financial systems in which most of the research have found that the Islamic finance system has perform better than the conventional in the bearish financial crisis period (Abdullah, et al. 2007, Kräussl & Hayat, 2008, Mansor & Bhatti, 2009). In Recently times the Vatican considered Islamic Finance principles to western bank as a set for worldwide financial crisis. According to 'L'Osservatore Romano, the Islamic banking scheme may assist to overcome world financial crisis. The Vatican argued that the banks should look at the moral rules of Islamic management to refund confidence amongst their clients at a minute of global system crisis (Irfan, Junaid, & Muhammad Faizan, 2012).

The performance of mutual funds is the main consideration for investors in choosing Syariah Mutual Funds. Standardization of performance measurement becomes a necessity, so the performance of Mutual Fund can be compared with other instruments. Net Asset Value has been a reference performance of Islamic mutual funds. The good of an investment is inseparable from the existence of other factors that influence, the factors that are suspected to influence net asset value (NAV) or mutual fund value (NAV) of mutual fund.

Various internal and external factors also influence the Net Asset Value of Sharia Mutual Fund. Economic factors can be an external cause in the performance benchmark of Islamic mutual funds. BI Rate, Inflation and Exchange Rate. On the other side of the micro economic factors contained in the mutual fund can also affect the Net Asset Value of Mixed Sharia Mutual Funds.

## **2. Literature review**

### ***Mutual Fund***

The definition of standard equity mutual fund categories is generally broad enough to allow a wide range of different investment policies. The Investment Company Institute uses a very general description of the largest investment category: Growth Funds invest in the common stock of well-established companies. Their primary aim is to produce an increase in the value of their investments (capital gains) rather than a flow of dividends. (Investment Company Institute, 1991) (Brown & Goetzmann, 1997).

Essentially, Shariah-compliance IMFs conceptually and operationally differ from their conventional counter parts, even though both funds have the same objective to satisfy their shareholders and gain above average returns. Shariah compliance requires activities of the mutual funds (MFs) to be quarantined from companies involved in activities or products related to conventional banking, insurance or financial services for gambling, alcoholic beverages and non-halal food products. Similar to conventional mutual funds (CMFs), participants in IMFs become

shareholders and receive an equity position on the underlying securities. In Malaysia for example, about 88% of shares listed in Kuala Lumpur Stock Exchange (KLSE) are Shariah-compliant, which represents two-thirds of the Malaysian market capitalization (Mansor & Bhatti, 2011).

### ***Net Asset Value***

In the case of mutual fund forecasting, the network would map from units such as nominal dollars, real dollars, percentages, and indices to the net asset value (NAV) of the mutual fund (dollars). There has been a considerable amount of research conducted using neural networks for purposes of prediction (Chiang, Urban, & Baldrige, 1996).

### ***Volume of Mutual Fund***

The two methods of estimating a mutual fund's trading volume form a lower and an upper bound to actual trading volume. The first method, the trading volume floor, assumes all buy and sell orders are immediately matched to the greatest extent possible, as if investors traded directly with each other. The second method, the trading volume ceiling, uses a hypothetical framework whereby mutual fund shares are traded on an exchange, just like ETF shares (Dickson & Rowley, 2014).

### ***Age of Mutual Fund***

Theoretically, the fund performance may increase or decrease as fund age progresses. A mutual fund may perform better in the later stage of its life cycle due to accumulated experiences and resources as well as better understanding of the market. On the other hand, a mutual fund's performance may deteriorate over times due to slack and increasing complexity of the fund operation or increasing fund size. If mutual fund performance is an increasing function of its age, investors may generate higher profit by investing in funds with a relative long history. On the contrary, if fund performance decreases as age progress, investors should stay away from aging funds (Webster, 2001).

### ***Inflation***

The role of inflation is meant to set up the initial conditions for the standard model, conditions which otherwise would have to be assumed without explanation. Before inflation the total mass contained in the universe could have been as small as 10 kg. If inflation is right, then the inflationary mechanism is responsible for producing essentially all of the matter, energy, and entropy that exists in the universe today (Guth, 1993).

### ***Exchange Rate***

There are two types of nominal exchange rates used extensively throughout this book, namely - the spot and forward exchange rate. The bilateral spot exchange rate,  $S$ , is the rate at which foreign exchange can be bought and sold for immediate delivery, conventionally 1 or 2 days. The bilateral forward rate,  $F$  is that rate negotiated today (time  $t$ ) at which foreign exchange can be bought and sold for



delivery some time in the future (when a variable appears without a time subscript it is implicitly assumed that it is a period-t variable) (MacDonald, 2007).

Whether the parity of the dollar on the foreign exchanges was appropriate for the interests of the domestic economy may therefore have been given less attention than it should have been. In fact, the exchange rate of the dollar against all other world currencies has been as critically important in determining the US growth rate as it has been to all economies exposed to any significant degree of international competition, as US economic history clearly shows (Mills, 2012).

### ***Interest Rate***

Interest is the fee for the use of funds for some specified period. Interest is expressed as an interest rate; it is quoted as a percentage of the amount of funds and it is scaled to refer to a period of one year. Observed interest rates are different for several reasons: (a) they refer to time periods of different length; (b) they refer to borrowers with different credit quality; (c) they belong to markets with different liquidity; (d) or, finally, they are observed at different points in time (Webber, 2011).

Such behavior may be rationalized claiming central banks seek to “smooth” interest rates, in the sense that they seek to minimize the variability of interest-rate changes, in addition to other objectives of policy such as inflation stabilization. Yet it remains unclear why it should be desirable for central banks to pursue such a goal. There are several plausible reasons why policymakers should prefer policies that do not require the level of short-term interest rates to be too variable (Woodford, 2003).

## **3. Methodology**

The population used in this study are Islamic mutual funds that have been registered and published by the Financial Services Authority. And traded in Indonesia Stock Exchange period 2012-2016. The technique used in sampling is by purposive sampling to get a representative sample in accordance with the stipulated provisions. Based on the criteria of selection of the sample, then obtained as many as nine samples of Islamic mutual funds that meet the criteria each year.

### ***Panel Data Regression***

Panel data is a combination of time series and cross section data, which are often called pooled data. The special feature of time series data is numerical sequence where the interval between observations or several variables is constant, while cross section data is a unit of analysis at a certain point by observing several variables.

## **4. Result and Discussion**

***T Test:***

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.796194	0.523484	12.98263	0.0000
LOG(VOLUME)	1.042060	0.028397	36.69609	0.0000
USIA	0.036705	0.008468	4.334825	0.0001
INFLASI	0.251744	0.055022	4.575332	0.0000
BI_RATE	-1.760363	1.322551	-1.331035	0.1909
NILAI_TUKAR	-0.621651	0.099563	-6.243815	0.0000

Effects Specification		S.D.	Rho
Cross-section random		0.214458	0.9442
Idiosyncratic random		0.052144	0.0558

From the results of regression analysis panel data above can be made equation:

$$NAV_{it} = 6.67 + 1.04 Volume_{it} + 0.03 Usia_{it} + 0.25 INFL_{it} - 0.62 Nilai Tukar_{it} + \epsilon_{it}$$

***The Influence of Participation Units on the Net Asset Value of Mutual Sharia Mutual Funds:***

Number of units of participation significantly positive effect on the Net Asset Value Mutual fund sharia mixed with coefficient 1.0420. This indicates that if the number of units of participation increases, then NAV Mutual funds sharia funds will also experience a warning.

***The Effect of Mutual Fund Agreement on Net Asset Value of Mutual Sharia Mutual Funds:***

The aggregate of mutual funds significantly affects the Net Asset Value of Sharia Mutual Funds with the magnitude of 0.0367 coefficient. This indicates that NAV Mutual funds of sharia funds tend to be higher when older.

***Inflation Influence on Net Asset Value of Mutual Sharia Mutual Funds:***

inflation has a significant positive effect on the Net Asset Value of Sharia Mutual Funds with a coefficient of 0.251. This is because if inflation increases then it will be accompanied by rising interest rates, causing a bonus increase which then becomes an investor incentive.

***Effect of BI Rate on Net Asset Value of Mutual Sharia Mutual Funds:***

From the Table above the variable BI Rate of participation has a positive effect and is not significant to the Net Asset Value Mutual funds sharia mutual funds. With coefficient value 7,79 and t count 0,5.

***Effect of Rupiah Exchange Rate on Net Asset Value of Mutual Sharia Mutual Funds:***

The rupiah exchange rate significantly affected the Net Asset Value of mixed Sharia Mutual Fund. This indicates that if the rupiah exchange rate against the dollar declines or in this case rupiah terms strengthen, then the NAV of mixed mutual funds tend to increase.

***F Test:***

The probability score (F-Statistics) on the regression analysis result is 0,000 greater than the critical limit which means H1 is rejected or means the independent variable simultaneously affect the dependent variable. Then this means the independent variables used in research together (simultaneously) affect the dependent variable.

***Determination Coefficient Test:***

R Square value of 0.92, which means the dependent variable has a good ability in explaining the independent variables.

## **5. Conclusion**

Based on the results of analysis and discussion of research results, it can be concluded that:

1. Micro economic factors such as trading volume and age of mutual funds, and macroeconomic factors such as inflation, BI Rate and exchange rate influence Net Asset Value (NAV) of mixed sharia mutual fund. It shows that micro and macroeconomic factors are an important part of measuring the growth of mixed Islamic mutual fund NAVs.
2. Based on research of average age of mutual fund 8.56. This indicates that the average investment manager company has been operating for a long time, so it can be said that the average mutual fund managed by the investment manager has a good performance because it can survive for several periods.
3. Regression test results found that, macroeconomic factors such as inflation and exchange rates significantly influence the Net Asset Value of mutual funds. Internal factors such as trading volume of mutual funds and age have a significant positive effect on NAV of mixed sharia mutual fund.
4. The most dominant variable affecting NAV of sharia mutual fund is internal factor that is trade volume and age of mutual fund with significance value 0,0000.

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## Techno-entrepreneurship: Entrepreneurial-Orientation of Sustainable Handicraft Tourism in Lombok

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**Abstract:**

*Tourism craft has not become a pre-eminent sector in Lombok. Recently, the President of Indonesia has targeted to improve the performance of this sector to ten times in the next four years. In fact, the constraints faced with the development of handicrafts in Lombok include raw materials, facilities, and weaknesses in marketing.*

*Based on the concept of the techno-entrepreneurship, this mixed mode study would explore the present performance of entrepreneur orientation including the problem. Besides, this study explored the expected performance of the entrepreneurship in the future that tailored tourists' expectation - the trend of handicraft based on the community culture.*

*This study would discuss several factors that influence the performance of the craft and its designing and the presentation. The expected performance would enhance the demand of the tourist and improved artisans' knowledge on creating and developing new presentation of the craft. This important information is useful for the artisans and the government on reaching their target to improve the performance of the handicraft tourism in terms of sustainability. We suggest further research on the local cultural and the artisans' motivation on developing the handicraft business in the future*

**Keywords:** *Community culture; entrepreneur; sustainability;*

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### 1. Introduction

In 2019, the President of Indonesia is targeting international tourist arrivals to 20 million. While, domestic tourists increased from 250 million to 275 million. So far, the handicraft tourism sector has not become a leading sector. Moreover, the Ministry of Tourism supports the tourism program which was released under the name "Indonesia World of Wonderful. He started tidying Tourism Central Lombok, West Nusa Tenggara. It ranged from the northern side, the middle of the south, aim to attract tourists, the welfare of society, developing the potential for the region.

Craft is one of the supporting tourisms in West Nusa Tenggara that has various kinds of craft produced among other wooden crafts with furniture and carving, craft wicker, bamboo, pearl, ceramics, and so forth. Craft art is spread throughout the territory of Lombok, it has a distinctive characteristics style such as woven Kethak, Cukli ornaments, and finishing of natural materials (Dzul kif ar, 2017).

The other craft is the art of ceramics / pottery. This craft spread almost throughout the region, West, Central and East Lombok. Previously, ceramic was the traditional craft produced in order to fulfill the needs of the household. They don't only work on ceramic items to make-ends purposes, as a complement to the kitchen and ceremonial needs, but also clay pots that serves to cook placed above the Jangkin (Angelo), pitcher, Genthong, and others. Factually, obstacles encountered with the development of handicrafts include raw materials, facilities, and weakness in marketing. Consequently, it has an impact on the artisans, especially the young ones. In addition, there is the lack of public awareness that tourism can generate high returns. However, the awareness of tourism is not well ordered as a leading sector, and there is no special attention from the government to restructure institutions in supporting this effort (Nursyams, 2018).

The Ministry of Labor stated that it puts effort in to strengthen entrepreneurship in supporting handicrafts tourism in Lombok. It planned to make it in coordination with the Ministry of Tourism and Creative Economics Agency (Efizudin, 2015). Therefore, it needs the observations to give the feedback or information about an entrepreneurial-orientation in decisions that was taken by both institutions.

This research is responding the Indonesian President's target and Tourism Ministry's program by determining the performance gap between present and expected entrepreneurial-orientation of the handicraft sustainable-tourism in Lombok.

## **2. Literature review**

Instilling a business spirit and promotion of entrepreneurial skills applied around the world as an incentive to promote "Techno-entrepreneurship". Empirically (Weerawardena & Mort, 2006; Wong, 2013) examine sustainable entrepreneurship among non-business actors along the intervention (Krelling, Williams, & Turra, 2017). While, many companies have looked into information technology to help their businesses' competition in the future. They discussed efforts to improve and diversify to help improve the business (Chen, Parker, & Lin, 2006). Innovation, market-oriented, proactive, and risk-taking companies, and have access to superior information technology assets and capabilities. The contribution to factors of this innovative outcome assessed rarely in one study (Abubakar, Namin, Harazneh, Arasli, & Tunç, 2017). The data onto this study has been collected through personal interviews for startup biotechnology in the United States, Finland, and Sweden (Bhawe, Gupta, & Jain, 2006; Jain, 2009; Wong, 2013).

The barrier to entrepreneurial growth due to low operational productivity, and the difficulty of accessing capital on expanding their business (Goel & Karri, 2006). They argued for balancing with policy and support mechanisms must be sensitive to the potential and aspirations of business growth and diversification. Various forces influenced the entrepreneurial orientation. The model begins with illustrating the power of user-friendly utilization of enabling information technology. It motivated competitive power the perception of mediation of entrepreneurs and the moderate power of knowledge and networks that determined the speed of internationalization collectively (Brown & Ulijn, 2004).

Key success factors that influence the entrepreneurs are communication, technology and management (Defourny & Nyssens, 2010). Their study provides an understanding of how people should start their business by looking at all the factors that affect business success. It included customer management, products and services, collaboration, and financial resources, strategies, and the external environment. The stronger entrepreneurial orientation performance in the craft enterprise has a small risk in terms of financial and economic contribution, compared to the company in general (Chen et al., 2006; Goel & Karri, 2006). It helps entrepreneurial management to create flexibility in utilizing resources to build competitive advantages (Weerawardena & Mort, 2006).

Innovative business development and learning in user-friendly technology sectors play an important role in building their creativity - innovation in harnessing cultural potential. Artisans learn by sharing their knowledge in teamwork and creating networking of coworkers (Goel & Karri, 2006). A family firm took financial risks and economic contributions which were engaged in the entrepreneurial activity. It had a lower level risks compared to the professional companies. In addition, and most importantly for our understanding of entrepreneurial orientation in family firm that related negatively to performance (Wong, 2013).

The distinctive skills of entrepreneurs which make them differ from a person, are the ability to judge and co-ordinate scarce resources, and assertive people, tolerant of ambiguity, and conserved resources oriented (Rutasitara, 2018). The strategic orientation based on innovativeness on developing economics contribution, and aggressiveness. The strategy is implemented by sustainable development to improve economics contribution to the artisan (Mendoza-Ramírez & Toledo-López, 2014). However, the entrepreneurial-orientation (Seelos, 2005) of handicraft sustainable tourism (O'Reilly & Parker, 2013) is about the direction of implementing user-friendly informative technology to assist them in making the green business on the handicraft business (Urban & Barreira, 2007), creative and innovative in utilizing and developed cultural assets. Moreover, risk taking in financing and economic development the handicraft business, justified the handicraft business by using social livelihood; and Proactive in conserving resources (Fayolle & Gailly, 2015)

### **3. Methodology**

This quantitative and qualitative study was conducted in Lombok from October 2015 - October 2016. The data was collected purposive, in stratified sampling. Based on the concept of techno-entrepreneurship, the content analysis employed 180 respondents. It consisted: Staff of the ministry of tourism and creative economy; Department of Trade; Tour operator; The artisan crafts; Department of Transportation; and Tourists. It included Front Office officers; Taxi - Bus drivers; Local community; and Travel agents. Each respondent was questioned three different times for the consistency of their judgment (Jennings, 2001).

The composition of the respondent (person) is consisting of: Respondent group Number of respondents Bogor 20 travel agent, 10 Ministry of tourism staff, 10 tour bus drivers. In addition, 20 taxi drivers, 20 general car drivers, and 50 Craftsmen and collectors. Furthermore, this study also involves 20 City Hall Officers (Dept. Social and Environmental Impact Assessment), 40 local community members, and 10 tour guides. This study distributed the questionnaires purposively by employing 20 students. Its about entrepreneurial-orientation (Chen et al., 2006; Urban & Barreira, 2007; Wong, 2013): User-friendly informative technology; Creative and innovativeness (Gielen, Hoeve, & Nieuwenhuis, 2003); Risk-taking (Goel & Karri, 2006); Proactive (Mair, 2006).

The data was tabulated by using a content analysis (Cohen, 1960; Sabour & Ghassemi, 2013; Vaismoradi, Turunen, & Bondas, 2013). Based on entrepreneurial-orientation (Urban & Barreira, 2007; Wong, 2013): Exploratory analysis of technopreneurship: Posting each parameter; Frequency counted; Result and discussions. The value of  $K = \text{Kappa value} > 0.6 = \text{significant}$ , and  $K < 0.6 = \text{poor}$  (Belau, 2013; Czodrowski, 2014)

#### **4. Result and Discussion**

Based on entrepreneurial-orientation, this study explored the actual of it to determine the entrepreneurial-orientation of the handicraft tourism in Lombok (Table 1) that indicated not so significant ( $K = 0.4944$ ). The indicator was expressed by the weakness for the direction of a user-friendly information technology and creative-innovativeness compared to risk-taking and proactivity. On the one hand, Risk-taking on financing and economics contribution is the dominant one. Therefore, risk-taking could be an attribute of both personal and financial organizations. Woodcarvings have the potential to become an important basis of local community empowerment. While, craft associations have not been proactive enough in overcoming environmental problems. On another hand, its need actively in improving the handicraft business by making a judgment and co-ordinate scarce resources, tolerant, achievement oriented and committed on developing and creating it. It generated new design and color direction that tailoring the theme and need of the tourist.



**Table 1.** *Tabulation of the actual of the entrepreneurial-orientation*

The actual - entrepreneurial-orientation	Value	% Freq
Direction of user friendly informative technology	19	0.2135
Creative and innovative – utilize and develop cultural assets	20	0.2247
Risk taking – financing and economics contribution	29	0.3258
Proactives - conserved resources	21	0.2360
K= Kappa Value	0.4944	

The direction of user-friendly information technology would be as a promotion on a handicraft on social gathering and e-promotion on the social-media sites, improving communication skills in economic and social-development across national and international boundaries, and encouraging a sense of a social-ethical-promotional communication. The artisan crafts get to develop innovative business and learning in hi-tech sectors, which are essential to economic survival by sharing knowledge in teamwork. It would be done by promoting the craft, developing creatively fresh design and theme of the crafts, adapting lessons to the needs of tourist and meets their criteria, exploring traditional skill and rural activities to produce the newest design of the handicraft based on great heritage concepts, and using different material to make distinctive presentation and expression.

**Table 2.** *Tabulation of the expectation of entrepreneurial-orientation*

Factors	Value	% Freq
Direction of user friendly informative technology	35	0.2823
Creative and innovative – utilize and develop cultural assets	29	0.2339
Risk taking – financing and economics contribution	32	0.2581
Pro-actives - conserved resources	28	0.2258
K= Kappa Value	0.6889	

Furthermore, the expectation of the entrepreneurial-orientation is significant (Table 2). It is indicating by the Kappa values (K=0.6889). The direction of user-friendly informative technology becomes the first priority. It indicated by the gap between the expectation and actual (Table 3) of it is significant (28.21%). It means the artisan and association would strengthen their promotion and utilized social-gathering by improving communication and encouraging a social-ethical-promotional communication.

**Table 3.** *Tabulation of the gap of entrepreneurial-orientation*

Factors	Actual	Expectation	Gaps
Direction of user-friendly informative technology	0.2135	0.2823	0.0688
Creative - innovative – utilize- develop cultural assets	0.2247	0.2339	0.0092
Risk taking – financing and economics	0.3258	0.2581	-0.0678

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contribution			
Pro-actives - conserved resources oriented	0.2360	0.2258	-0.0101
K= Kappa Value	0.4944	0.6889	-0.1944

Besides, it would strengthen local government funding on supporting and sustaining their promotion on environment care. Nevertheless, the gap between innovativeness is indicating that the artisan needs more proactive in maintaining an environmental resource by developing, adapting, and creating new design, material, and finishing of the craft. It would tailor tourist's needs, expectations and trend. Table 3 indicated that there is a significant gap on the direction of user friendly of informative technology (0.0688). The use of computers in various businesses has evolved from coordination. The current situation needs to improve the appropriate information technology. A more appropriated entrepreneurship in the field of information and communication technology needs financing.

Furthermore, it is necessary to increase the partnership pattern of the private and public sectors, a more appropriate environment for entrepreneurship in the field of information and communication technology, furthermore, partnerships between the private and public sectors. Supporting the idea of entrepreneurship to turn it into a reality. The partnership between the two sectors is considered to be the most important solution for local governments together with the increasing demand patterns of the tourists, for a complete service in accessing information about the craft's product and price. However, it is necessary to develop sustainable tourism appeal sustainably to increase internal and external investment in the sector. The business is based on efficient and innovative production. These activities support the difference between innovation and reproduction in the entrepreneurial activity.

In terms of risk taking, unobservable economic risks constituted the entrepreneurship in the craftwork option model. Therefore, the government needs to provide incentives to reduce the loss. In the case of production effects, the concern about the personal goods tends to expand this sector. The development of innovative entrepreneurship is one of the niche opportunities for economic recovery. Digital technology and social media have a huge impact, with a variety of economic, social and cultural activities. In terms of sustainable handicraft tourism is a new and growing segment of cultural demand, especially for the active traveler who is willing to get information, knowledge and to emotionally and cognitively interact with the visited places. In the digital age, young tourists have the best skills exploring the online world and come up with new and successful business ideas, to support such consumption with their own software.

## **5. Conclusion**

Abovementioned, these studies found the gaps between the expected and the actual entrepreneurial-orientation are significant. Therefore, responding the president's

target and the Ministry of Tourism's program, needs to strengthen it together with the Ministry of Labor planned. The governments should increase the availability of ever-updated data and improve the application of rigorous evaluation methods of policy assessment and develop the possibility for closer collaboration between hand crafted and the stakeholders. To increase the demand of tourists, artisans need to instill creative ideas to create user-friendly services in terms of information about products and craft prices. In addition, it is necessary to develop sustainable craft tourism attraction.

The implication, in terms of an entrepreneurial-orientation, the Tourism Ministry and the Ministry of Labor get to prepare and develop new regulation on reducing the gap by accommodating the tourism trend by using distinctive raw material to express a different presentation and to meet their expectation, promoting the traditional craft, and creating brand-new design by exploring conventional skill and rural culture. Moreover, artisans should create new opportunities actively and constantly. It could introduce products that fit the expectations of young tourists by using natural resources in a sustainable way.

This study had a limitation on rural cultural and artisans' motivation. Therefore, it needs more research on those are to complete the study.

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## The Effect of Online Customer Perceived Justice on Post-Recovery Satisfaction

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**Abstract:**

*In the service recovery process, companies are needed to provide reasonable, timely and clear information to the customer. Unfortunately, this comes with limitations that usually are caused by the used online communication channels, that makes the effort of building relationships with online customer become more and more difficult.*

*There has not been much research that includes informational justice as a dimension of justice theory, in order to explain service recovery on online transactions. This study will begin with exploring online customer perceptions of interactional and informational justice, then looking at its effect on post recovery satisfaction. Structural Equation Modeling (SEM) will be used as the quantitative research methods.*

*This research is expected to contribute to marketing science, especially on service recovery and justice theory in online transactions. In order to generate post-recovery satisfaction, practical contributions are given in terms of a good service recovery strategy.*

**Keywords:** *Interactional justice, informational justice, post-recovery satisfaction;*

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### 1. Introduction

Some studies are using justice theory to explain the service recovery (Kuo & Wu, 2012). A lot of justice theory research examines three dimensions, namely procedural, distributive and interactional justice (Kuo & Wu, 2012; Gi Park, Kim, & O'Neill, 2014). Distributive justice is defined as the fairness in giving compensation in accordance to customers' losses (Tax, Brown, & Chandrashekar, 1998), and can both be in a monetary and non-monetary form (Smith, Bolton, & Wagner, 1999). Procedural justice is defined as the fairness in the process of delivering a result, relating to policies and procedures used to solve problems (Leventhal, 1976), such as service failure (Mattila, 2001).

In marketing, Gohary, Hamzeli, & Alizadeh (2016) added that the informational justice needs to be considered as an important factor in the service recovery process, particularly in Iranian online customers' context. However, there is only one research that studies informational justice and combines the four dimensions of justice theory simultaneously and one study that sees informational justice as its own, without the other three dimensions (Nikbin, Ismail, & Marimuthu, 2013). In the service recovery process, especially on online transactions, more attention is needed to be put in the delivery of information, since more limitations exist in the media that is being used for communicating. This makes online service recovery to be somehow more difficult (Hart, Heskett, & Sasser, 1990). Therefore, appropriate communication medium in the service recovery process (Kattara & El-Said, 2014) is required.

Another justice theory dimension that is going to be examined, is interactional justice. This is important because online transactions can be a double-edged sword with the emergence of dehumanization of the relationship. Online transactions do not involve human contact directly, thus click-and-mortar companies have more difficulties to build relationships with consumers, rather than brick-and-mortar companies (Chen et al., 2008). This is important, since online transactions also requires actions to maintain the relationship quality and to build trust (Verma, Sharma, & Sheth, 2015). It is true that online companies can provide good e-service without any direct human contact. However, service recovery process still requires a human touch (Parasuraman, Zeithaml, & Malhotra, 2005).

Interactional justice emphasizes the aspects of social interaction (Goodwin & Ross, 1992), which is how customers are treated (Blodgett, Hill, & Tax, 1997; Smith et al., 1999), including sensitivity and respect. Furthermore, the benevolence of the service personnel is also needed, that is the willingness to do the best for the customer and being selfless; this includes factors such as loyalty, openness, and willingness to help and give support (Gefen, 2000; 2002; Halim, 2017; Sutarso, Halim, Balqiah, & Tjiptoherijanto, 2017). However, benevolence has not been studied as an indicator of interactional justice. Even though benevolence still remains one of the important factors in online transactions (Chen, 2012). Therefore, this study will add benevolence as a dimensional indicator of interactional justice.

Informational justice, as a new dimension, is defined as the fairness on the given and provided information (Colquitt, 2001), that has to be trustworthy, reliable (Greenberg, 1990), and sincerely delivered (Bies, Shapiro, & Cummings, 1988). Information must be delivered on time, in line with expectations, open, honest (Gilstrap & Collins, 2012) and accurate (Kernan & Hanges, 2002). However, the choice of communication media has not been included as an indicator of informational justice, since this is considered to be necessary (Shapiro & Nieman-Gonder, 2006). Therefore, this study will include the communication media as a new variable indicator of informational justice.

Service recovery is defined as a required active action of the service provider company. This is needed to be done immediately as a correction due to a service failure or something that is happening outside the expectation (Grönroos, 1988). Post recovery satisfaction refers to customer satisfaction on the corrective action of the company after the occurrence of service failure.

## **2. Literature review**

Oliver & Swan (1989) formulated the influence of perceived justice on customer satisfaction, followed by Goodwin & Ross (1992), Blodgett et al. (1993), Tax et al. (1998). In the context of customer service, interactional justice is concerning on empathy (Roschk & Kaiser, 2013), sensitivity, efforts to solve a problem (del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009), politely (Blodgett et al., 1997), and etiquette (Lin, Wang, & Chang, 2011). In online services, Maxham & Netemeyer (2002) stated that interactional justice creates a higher level of satisfaction. The interaction between service personnel and customers during online service recovery has a direct effect on customer satisfaction and behavior (Lin et al., 2011). Even if the services are being done and provided online, building positive mood remains important and will positively impact post-recovery satisfaction (Chang, Lai, & Hsu, 2012). Hence, the following hypothesis is proposed: H1: The higher the interactional justice the higher the post-recovery satisfaction.

In the organizational context, perceptions of informational justice are evidently in relation to the employee job satisfaction (Colquitt, 2001). Informational justice is prioritized over explanations on why procedure and compensation are provided (Colquitt, 2001). Perception of informational justice will increase when customers receive information that helps them in taking decisions (Folger & Konovsky, 1989). Gohary et al. (2016) proves that informational justice is positively related to post-recovery satisfaction, making informational justice needs to be considered as an important factor in online shopping, particularly in the service recovery process. This gives rise to the following hypothesis: H2: The higher the informational justice the higher the post-recovery satisfaction

## **3. Methodology**

This research uses quantitative methodology to calculate data and make conclusion to the taken sample. Therefore, data collection and data analysis will be done structurally and will require a statistical analysis (Malhotra, 2010). The population for this study is built up of online customers in Indonesia. With non-probability sampling, sampling will be done by purposive sampling method based on predetermined criteria (Cooper & Schindler, 2014). This will be customers who transacts on the Business to Consumer (B2C) online store, experienced service failure in the last 6 months, submitted a complaint and received a response.



This research uses online survey questionnaire in a form of Google Docs with accessible link being spread to e-mail addresses. There were 869 incoming responses, but not all of them are in accordance with the criteria of respondents. Those who did not meet the criteria of the respondents, could not continue to answer questions, and for those who meets the criteria are welcome to answer the question to completion. For 50 lucky respondents, a pre-paid phone voucher of Rp25.000 was provided.

Respondents are welcome to answer questions in the link by clicking on the available answer options. Their answers will then be straightly transfered into the Excel data format and ready to be processed. This online survey technique is self-administered, and web-based. This is made possible since the respondent of this study are online customers who have been familiar with the internet. This data collection technique has been successfully used in several previous studies (Young Im & Hancer, 2014; Li, 2015). 317 respondents were collected between the first week of August 2017 until the third week of September 2017.

The data analysis method used in this research is a quantitative analysis, using the Structural Equation Modeling (SEM) with Lisrel program, that combines factor analysis, structural model and path analysis. The analysis includes analysis of the measurement model, structural model test, and hypothesis test. The test of moderation variables will be done with the interaction model, because both variables are continuous (Wijanto, 2015).

#### **4. Result and Discussion**

The validity and reliability test is done at pre-test stage with 30 respondents. KMO-MSA score shows 0.922 for interactional justice variable, 0.848 for informational justice variable, 0.812 for post-satisfaction variable. All of them are above 0.05, which means that all the measuring tools used (questionnaire) have been proven to be valid and that further testing can be done. The reliability test score using Cronbach's Alpha Based on Standardized Items shows the value of 0.959 for interactional justice, 0.958 for informational justice, 0.969 for post recovery satisfaction. All of them are above 0.6, which means that all of the four constructs with their respective items are reliable.

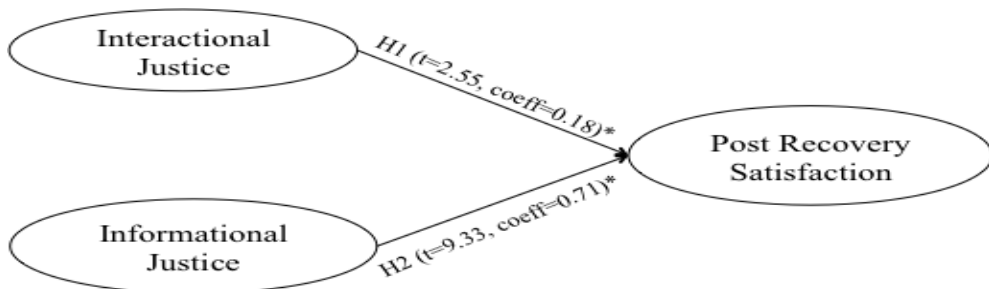
Results shows that service failure are commonly experienced by a mismatch in the expected product quality received (30%), the most used online store being Lazada (58%), and fashion (clothes, shoes, and bags) being the most purchased products (43%) that majority (34%) falls into a Rp101.000 – Rp250.000 price range. When experiencing a service failure, online chat is being the most used media to voice their complaint (46%). This is not a surprise, since generation Y tends to opt for text messaging to communicate, instead of e-mail or phone (Executive Voice, 2016).

Before passing the SIMPLIS analysis program by LISREL, a preliminary test was done and shows no negative error, no standardized coefficients exceeding 1, and no extremely large standard error. The validity was checked through the Standardized Factor Loading (SFL) value. The result indicates that all variables have Standardized Factor Loading (SFL) > 0.50 which means to be very significant (Hair, Black, Babin, & Anderson, 2009), t-value > 1.96 and RMSEA < 0.08, ie 0.063.

Reliability test is also done to see the consistency of the measurement model from latent variable of research, by calculating construct reliability (CR) and variance extracted (VE) values from standardized factor loading and error variances. The result shows that all constructs meet the reliability requirements of construct reliability value  $\geq 0.7$  and variance extracted  $\geq 0.5$ . The overall fit model test is done to see how fit the data is for the model. As a result, nine of the eleven measures of Goodness of Fit show a good fit.

Two things were done in the analysis of this structural model, which are the Goodness of Fit test and hypothesis testing for causal relationships, with measurement of RMSEA, NFI, NNFI, PNFI, CFI, IFI, RFI, SRMR, GFI, AGFI and PGFI. Most of the results show a good fit, and the results of hypothesis testing can be seen in Figure 1.

Figure 1. Hypotheses Testing Result



The result of significance test on Hypothesis 1 shows that there is positive significant influence; hypothesis (H1) which is supported with data which is supporting the research model (value  $t = 2.55$ , coefficient value = 0.18). Similarly, Hypothesis 2 is also proven, with informational justice having a significant positive effect on post recovery satisfaction ( $t = 9.33$ , value of coefficient = 0.71), which means that there is a significant positive influence; therefore, hypothesis (H2) is supported with data in this research model.

## 5. Conclusion

This study proves that the higher the interactional justice, the higher the post-recovery satisfaction will be. The finding in this study is consistent with previous

studies on interactional justice, such as Maxham & Netemeyer (2002), Smith et al. (1999), Smith & Bolton (2002) who stated that interactional justice can create a higher level of satisfaction. This study also proves that the higher the informational justice, the higher the post-recovery satisfaction will be. This supports the results of Gohary et al. (2016) research, stating that informational justice is positively related to post-recovery satisfaction and should be considered as an important factor in online shopping. Informational justice criteria are measured from the completeness and clarity of information, delivered openly and promptly that also includes further information.

Informational justice is also considered good if the information provided is reasonable, appropriate to the needs, helpful, and delivered through communication media in accordance with customer choice, such as online chat, e-mail or phone. This supports the research of Colquitt (2001), stating that informational justice takes precedence over the clarity of information. Not only information about what happened, but also explanations on rules or procedures applied (Ambrose et al., 2007) in a transparent, accurate, complete and reasonable manner (Gilstrap & Collins, 2012), as well as openness of communication; such as the process of sharing information between two parties (Ching & Ellis, 2006).

Previous studies indicate that interactional justice is the most powerful determinant in creating customer satisfaction. But this study shows that informational justice has greater impact on post-recovery satisfaction than interactional justice. Online store customers are more concerned with the clarity, accuracy and completeness of information than the attitude of service officers, especially if communication is done through online chat. This is consistent with the characteristics of Y generation as the majority of online customers, preferring to communicate through online chat, which is not involving deep emotional relationships.

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## Examine Brand Orientation on Brand Commitment Factor with Moderation Organization Change Readiness Toward Positive Internal Brand Equity at B2B Companies

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**Abstract:**

*Competition in B2B is very tight in today business. B2B Companies are required to adopt the right brand strategy by maximizing their resources to ensure financial viability and business activities. Nowadays marketing practitioners are required to contribute on revenue from all marketing activities to the company, in effort of building a company brand.*

*Brand is an intangible asset that can provide financial and nonfinancial benefits to the company through the results of brand equity performance. In the midst of the current market competition and the necessity to build a brand, however these efforts cannot be separated from the role of organization in the company.*

*This study is a conceptual paper with intention to observe the influence of the brand and moderate effects of the organizational readiness in South East Asia country in the face of change that gives effect to brand equity B2B companies.*

*Analysis of this research is using SEM (Structural Equation Modeling) with unit analysis is brand corporate at B2B companies. In the end the research wants to prove the influence of brand orientation on brand equity internally and externally.*

**Keywords:** Brand orientation, organization change, readiness;

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### 1. Introduction

B2B Consumer behavior today has changed significantly because of technological advances and the speed of information has led companies to global competition, eventually competitive that is not limited by the state anymore. Consumer behavior is based on self-identity, status and social class has creating a self-label category, that is representing the characteristics of its consumer (Reed et al., 2012; Halim, 2017). This determines every brand to be able to compete effectively for its existence in the market according to today's context of marketing. Essentially, the overall marketing activity is aimed to satisfy the consumer needs and wants, and at the same time to build up the company's brand reputation. Marketing today is

currently required to balance its activities between serving the customers and contributing to company financial performance for business's continuity.

The ability of an organization to adopt change, also known as organization change readiness, is also influenced by the internal understanding of the role of their brand and why is it important to them to have a good corporate identity. Organizational change readiness is influenced by many factors including the perception of changes in the environment and several internal factors which have been influenced by the organization (Armenakis, Harris and Mossholder, 1993; Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017). Harris and de Chernatony, (2000) said that if there is a great conformity between corporate values and corporate brand then it will result in a better brand performance. By having readiness to change, the company is enabled to be flexible and adjust itself, including the front end such as sales organization, for immediately adjust to products and services when the market suddenly becomes difficult and there is wished that the barriers to meeting the consumer needs are eliminated (D'Aveni, 1999). The degree of the organization's involving will affect the brand success through its brand equity (Gromark and Merlin, 2010). This conceptual paper aims to examine the relationship between brand as a part of marketing and the brand as part of corporate resources. It is also wished that the relationship between the marketing science and the science of corporate behavior will be further researched (organization behavior).

## **2. Literature review**

Oliver & Swan (1989) formulated the influence of perceived justice on customer satisfaction, followed by Goodwin & Ross (1992), Blodgett et al. (1993), Tax et al. (1998). In the context of customer service, interactional justice is concerning on empathy (Roschk & Kaiser, 2013), sensitivity, efforts to solve a problem (del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009), politely (Blodgett et al., 1997), and etiquette (Lin, Wang, & Chang, 2011). In online services, Maxham & Netemeyer (2002) stated that interactional justice creates a higher level of satisfaction. The interaction between service personnel and customers during online service recovery has a direct effect on customer satisfaction and behavior (Lin et al., 2011). Even if the services which are being done and provided online, building positive mood remains important and will positively impacts post-recovery satisfaction (Chang, Lai, & Hsu, 2012). Hence, the following hypothesis is proposed: H1: The higher the interactional justice the higher the post-recovery satisfaction.

In the organizational context, perceptions of informational justice are evidently in relation to employee's job satisfaction (Colquitt, 2001). Informational justice is prioritized over explanations on why a procedure and compensation is provided (Colquitt, 2001). Perception of informational justice will increase when customers receive information that helps them in taking decisions (Folger & Konovsky, 1989). Gohary et al. (2016) proves that informational justice is positively related to post-



recovery satisfaction, making informational justice needs to be considered as an important factor in online shopping, particularly in the service recovery process. This gives rise to the following hypothesis: H2: The higher the informational justice the higher the post-recovery satisfaction

### 3. Result and Discussion

Baumgarth & Schmidt (2010), Brand orientation construction is based on the perspective / point of view of decision makers who are involved in day-to-day business activities; also, they realize the importance of internal role of the company in building a brand culture within a company. Brand commitment is a basis of measurement of loyalty that will arise from internal and external consumers (Baumgarth & Schmidt 2010). Building internal branding plays an important role in shaping the overall brand orientation in organizations and research related to brand commitment (Punjaisri & Wilson, 2007). Papasolomou and Vrontis (2006), a linkage between internal branding known as internal brand equity, will result in the establishment of a brand loyalty within the organization (Reichheld, 1996; Baumgarth & Schmidt, 2010).

Thus, existence of organizational commitment to its brand will play an important role in determining the organizational success (Morgan & Hunt, 1994). Based on the above reason, the proposition related brand orientation that positively affects the brand commitment is establish as follows,

*P1: Brand Orientation has a positive effect on brand commitment:*

The empirically linkage between Brand Orientation and internal branding is represented by brand commitment; which is internal expression on a sense of belonging to brand, sense of pride toward the logo and brand name and somehow it is measured by level of fanaticism in every member of the organization; this all an all is relevant as internal brand equity. This is a complementary system for maintaining and improving the organizational performance over time (Lehr & Rice, 2002; Hult & Ferrell, 1997; Nevis, DiBella & Gould, 1995), cited in Yaniv and Farkas (2005). Armenakis (1993), there is an organizational factor influencing the readiness to change, which is: appropriateness, management support, change efficacy and personal beneficiary. Based on the above argumentation, proposition relating to the role of moderation of the organization's change readiness to brand orientation to internal brand equity as follows:

*P2: Organization Change Readiness gives a moderate effect of Brand Orientation on brand commitment:*

Organizations that are consistently ready to face change, can be seen from the commitment that has been implementing over time to make the organization operating as a competitive organization (Balogun and Hope Hailey, 2008); They become different to most others organization (By, 2005; Meaney and Pung, 2008). Baumgarth & Schmidt (2010), Brand Commitment is defined as a psychological

attachment of the individual to the brand, having a consistency level of the independence of internal viewpoints of the brand and investing all efforts to achieve the right brand image. The brand orientation approach is a combination of organizational culture as the core values with its organizational behavior (Burmann and Zeplin, 2005; Burmann, Zeplin, and Riley, 2009), and together they perform adjustment steps in a shared commitment to an organization in internal brand equity (Mowday, Steers, & Porter, 1979; O'Reilly & Chatman, 1986). Based on the above argument, the proposition of brand commitment has a positive effect on internal brand equity as it follows.

#### **4. Conclusion**

This conceptual paper aims for exploring the brand orientation implication to brand commitment toward achieving satisfaction in internal brand equity and external brand equity by taking the organization's change readiness as the moderating factor; Further, this effort also wants to explain the role of brand orientation as a resource to establish financially oriented marketing in the organization. Urde (2013), future brand orientation research may also focus on the implementation, measurement and relevance of brand performance, in which it is visioning into three (3) focuses, Paradigm, Leadership and brand management and Performance and measure of brand orientation implementation.

The first focus on the paradigm are the way of thinking and the brand orientation approach in use for this; the second focus relates to leadership and brand management; and a third focus on performance, measurement and implementation of brand orientation which may include the development of broader cross-sectorial and industry-wide empirical studies. Finally, this research wants to connect its managerial implication results to contribute to the glory of marketing science as a whole; and ultimately raise the accountability of brand management role in the decision-making circle for business continuity efforts.

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## The Influence of Social Networks and Debt Literacy Towards Credit Card Overspending

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**Abstract:**

*The focus of this study is to examine the effect of the social network environment and debt literacy towards credit card overspending, and weighing the effect of situational influence or, as we simply named it in this thesis, experiential norms.*

*The authors suspect that having positive perception towards the norms that are related with credit card overspending behaviors could positively affect individuals on overspending, by emphasizing the effect of experiential norms as moderator effect. They also suspect that having low debt literacy could increase the credit card overspending. The authors use a multiple regression to analyze these hypotheses. It turns out that only one hypothesis is proven.*

*A positive perception toward credit-related norms makes individual overspend more, when using credit card. Debt literacy effect towards credit card overspending is also not significant. So, is the experiential norm as a moderator effect, found to be not significant.*

**Keywords:** Debt literacy, overspending behavior, social network, experiential norm;

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### 1. Introduction

As a big country with high population, Indonesia could be considered as a big market regarding the number of young adults in Indonesia, being placed on the 4th position (Euromonitor, 2015). Young adults are considered to have a good product knowledge and to be able decide which goods or services they need to buy, but there are behaviors problems which arise, as the credit card which exists either to help having easier payments, or to pay offline or in online store. As we can see on daily basis, Indonesians are very consumptive, especially in Jakarta, many people buy things that they do not afford, so they are just going to use credit card. This is happening especially to young adults who just started to earn their money for the first time in their life (Euromonitor, 2015).

Referring from Indonesia's Financial Service Authority (Otoritas Jasa Keuangan, hereafter OJK), it is said that Indonesians prefer to spend rather than to save. OJK said that the recent trend on Marginal Propensity to Save (MPS) from the last 3 years is decreasing; people like to spend rather than to save. Credit cards could be the reason of recent spending trend, because credit cards support people to spend more (Feinberg, 1986; Sotiropoulos & D'Aastous, 2012).

## **2. Literature review**

Norms, according to Cambridge dictionaries, are an accepted standard or a way of behaving or doing things that most people agree with. There are many interpretations of norms. In the bigger picture, norms are cultural products derived from customs, values and tradition (Sherif, 1936; Halim, 2017). Norms represent individuals' basic knowledge of what others do and think that they should do (Cialdini & Goldstein, 2004). But in the term of psychology, norm is a generally accepted standard of behavior, not only within a society but also in smaller group, like in communities or working groups (Colman, 2008; Halim, 2017). Norms and behaviors have been of interest for analysts for over a century (Sherif, 1936; Sumner, 1906) and proceeds right up until today (McFerran, Dahl, Fitzsimmons, & Morales, 2010). Social norms described as "the rules and standards that are understood by a group and that guide and/or constrain social behavior without the force of laws" (Cialdini & Trost, 1998).

Referring to Daniel Lawrence Schacter, a professor of psychology at Harvard University, Perception is the identification, organization, and interpretation of sensory information to represent and understand the environment (Schacter & Nock, 2014). To be more precise, there are some steps before people develop a perception, firstly, humans receive a sensation which is a simple stimulation of a sense organ, usually in the form of light, sound, pressure, odor, or taste as parts of our body interact with any physical world (Schacter & Nock, 2014). After people receive the sensation in the central nervous system, the brain is having a perception, the brain does the organization, identification, and interpretation of the sensation, to make a mental representation (Schacter & Nock, 2014). So, perception is a state where your brain makes a point of view towards the sensation.

According to Hawkins and Motherbaugh (2010), situational influence is built of all those factors to a time and place that do not follow from a knowledge of the stable attributes of the consumer and the stimulus and that influence the current behavior. As an easy example, consumers may generally feel cheerful, they are feeling happy, but suddenly the consumer views a firm's ad and sees a disturbing news flash which puts her/him in a bad mood. This bad mood is a transient state (situational factor) caused by the contact with the surrounding media in which the focal ad appears. Consumer behavior occurs within four broad categories or types of situations, the communication situation, the purchase situation, the usage situation, and the disposition situation. The communication situation, where the consumers receive

information, has a sudden impact on their behavior (Hawkins & Mothersbaugh, 2010; Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017). Whether the situation is in a group or alone, bad mood or good mood, having a chat with someone or not, if the consumer listens or sees the marketing information, it is referred as influence based on communication situation (Hawkins & Mothersbaugh, 2010).

Another situational influence is called the usage situation; the usage situation is when someone uses a product which is more appropriate in a specific situation (Hawkins & Mothersbaugh, 2010). As an example, when someone is hanging out with friends and goes to a pub, may feel really thirsty and wants to drink something. Because the person is out with friends in a pub, might order beer or liquor instead of water because of the usage of the situation – the pub. The last situational influence is the purchase situation, where a consumer could be affected when he sees someone purchasing something. Having an introspect look, when the mother goes shopping with children, she is more likely to be influenced by the product preferences of their children than when she would go shopping without them (Hawkins & Mothersbaugh, 2010). This is the reason why most of the time people overspend, when they try to impress someone.

Based on previous statement and literature review, the authors propose several hypotheses:

- H1: High debt literacy decreases the propensity of overspending credit card;*
- H2: Credit related norms increases the propensity of overspending credit card;*
- H3: Experiential norms moderate the effect of credit-related norms toward overspending credit card.*

### **3. Methodology**

In this research, the authors will use a descriptive research design. The main respondents of this research are working people who are eligible, meaning that they are possessing a credit card and are in age span between 21 to 65. Supplementary, credit card users may not be eligible to answer the questionnaire. The respondents of this research are people who use credit card and they pay the bills by themselves. The author uses convenience sampling for the sample method of this research. The convenience sampling technique is a part of non-probability sampling method which gives all population the same chance to be selected as sampling population (Malhotra, 2010). Both primary and secondary data are gathered to support this research.

### **4. Result and Discussion**

To make sure of the validity and reliability of each item, the authors did a construct validity test. Reliability analysis is about how far the measurement scale that is used in the research can give the consistent result if the measurement and it is done



repeatedly. Validity analysis is the analysis which shows how big is the difference in a scale that shows the significant difference between the characteristics of the measured object. There are three types of validities that are usually measured. First is the content validity (Malhotra, 2010). Content validity is the validity that measures how good the content of a scale that represent the characteristics of an object that wanted to be measured is (Malhotra, 2010). Second, the criterion validity (Malhotra, 2010). The criterion validity is a validity that is used to measure a construct that has the same result as another construct chosen to become the comparison (Malhotra, 2010). Third is the construct validity (Malhotra, 2010). Construct validity is measuring how far the measurement scale has the correlation with another measurement scale in the same construct, how far the measurement scale has no correlation with another construct that should be different, and how far the measurement scale has the correlation with another measurement scale another different construct (Malhotra, 2010). To past reliability testing, Cronbach's alpha value must be above 0.5 (Malhotra, 2010). To past the validity test, the component matric must be above 0.5 (Malhotra, 2010). All variables meet the validity and reliability criterions

**Table 1.** Regression result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.014	.085		.161	.872
	Credit Card Related Norms	.506	.070	.506	7.193	.000
	Moderator (Credit card related norms x Experiential norm)	.034	.061	.039	.554	.580
	Score Debt Literacy	-.071	.105	-.045	-.671	.503

Table 1 above shows the result of the hypotheses; we display the statistic measurement to define the hypothesis. To prove that the result is significant, it must meet the requirements. The level of significance must be below 0.05 or 5% to reject the null hypothesis; and to accept the null hypothesis, the value of significance must be above 0.05 or 5%.

The study found that high debt literacy will decrease the propensity of overspending through credit card, so we suspect it will have negative beta. The hypothesis derived from several research from journal papers. In this case we already have negative

beta, but the significance statistics shows that the hypothesis is rejected since the significant value is 0.503. So, it proven that debt literacy does not give effect to credit card overspending. Then H1 is accepted. The result shows that the way respondent see the others about how others use the credit card, does influence the way respondents themselves spend through credit card, the Beta coefficient is about 0.506 and the significant value is .000. So, based on those 2-statistic result, the authors conclude that the hypothesis 2 is accepted. There is no moderation effect of experiential norms in relationship between credit related norms and overspending behavior. Based on the previous paragraph, the authors conclude that the hypothesis 3 is rejected. To reject the null hypothesis, the statistic result must have the significant value below 5% or 0.05, but in this case, for this hypothesis, author have a value above 0.05 which means that the author will reject the hypothesis.

## **5. Conclusion**

These results prove several theories provided in previous research, such as the Theory of Planned Behaviors referred by Ajzen, which states that one of the factors that people have the intention to do change behaviors, is attitude towards others' behaviors. Hence, the way people think about how others behavior, positively influence the intention of having a specific behavior. Not only that, but also each individual's subjective norm will drive the intention towards a specific behavior. The government should show that saving and investing is much more important than spending, indicator from OJK shows that the marginal propensity to save of Indonesian is decreasing, which mean people tend to spend more.

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## The Effect of Customer Value Anticipation Toward Customer Satisfaction and Customer Loyalty in High-Contact Service Industry

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**Abstract:**

*The concept of customer value anticipation (CVA) is very important especially for a company.*

*The CVA concept helps companies understand the change in customer value and develop products that suit to the changing customer value. By being able to present product that suit to what customers want and need, companies can increase the satisfaction and loyalty of the customers.*

*The purpose of this research is to analyze the impact of CVA concept on customer satisfaction and loyalty from customer perception. This research found that only customer value anticipation-capability has a positive impact to both customer satisfaction and loyalty.*

**Keywords:** *Customer value anticipation, customer satisfaction, customer loyalty;*

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### 1. Introduction

It is common knowledge for marketing managers to understand what a company should do to survive and thrive in a competitive market (Slater & Narver, 2000; Vargo & Lusch, 2004; Woodruff, 1997; Flint, Blocker & Boutin Jr., 2011; Halim and Zulkarnaen, 2017). However, knowing the current customer value is not enough because this is constantly changing over time (Flint, Woodruff, & Gardial, 1997; Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017). Woodruff and Gardial (1996) define customer value as a consumer perception of what they expect to get from a product or service so that it can meet the personal objectives. Customer value is a guide for companies in developing products and services that meet the needs of their customers (Flint, Woodruff, & Gardial, 1997; Sutarso et al., 2017).

A market-oriented company is encouraged to act in accordance with changing customer needs (Flint et al., 2002; Jaworski & Kohli, 1993; Narver et al., 2004) in (Flint, Blocker & Boutin Jr., 2011). Studies conducted by Kohli and Jaworski (1990) and Narver and Slater (1990) found that market-oriented companies have excellent

performance in terms of profit, sales growth, and the success of new products. Therefore, actions to create sustainable intelligence, capable of understanding the short needs of customers and latent needs are a wise move for the company (Slater & Narver, 2000).

Flint, Blocker, & Boutin Jr. (2011) through a thorough study of customer value anticipation, stated that the concept of customer value anticipation can be attributed to the dominant logic service concept. A dominant view of services is regarding the skills and the specialized knowledge as a focus in the economic exchange activities (Suryanto and Thalassinou, 2017). In addition, the dominant logic of the service represents a normally passive transfer of operand resources to dynamic operational resources and reacts to each other. Madhavaram and Hunt (2008) stated that the anticipation of customer value itself is a special skill form that is part of the operand resources.

This study aims to see whether the application of the concept of customer value anticipation in a service company can increase the customer satisfaction and customer loyalty to the company within the scope of business to consumer.

## **2. Literature review**

Zeithaml (1988) define customer value as a perceived value in the overall assessment of a consumer, based on perceptions of what they receive, and what they give. Otherwise Customer value is the perception of market quality (market perceived quality) adjusted to the relative price (relative price) of a product (Gale,1994). Holbrook (1994) defines the Customer value as a relativistic (comparative, personal, situational) preference that characterizes a consumer's experience when interacting with a product such as goods, services, and so on. Then Woodruff (1997) defines the customer value as the perception of consumer preferences and evaluation of product attributes, the performance of those attributes, and the consequences arising from the usage of a product that can facilitate or discourage consumers in meeting their needs.

### ***Customer Value Anticipation:***

There are two perspectives on customer value anticipation. The first perspective comes from the supplier's perspective on customer value anticipation. From the point of view of the supplier, customer value anticipation involves both the process of anticipation and prediction of the outcome of the offered products and services. While from a consumer's perspective, customer value anticipation is the supplier's ability to encompass their processes and perceptions of consumers' needs and wants, even before they themselves realize their own needs and wants (Sutarso et al., 2017; Flint, Blocker & Boutin Jr, 2011). Further, Flint et al. (2011) describes customer value anticipation as the supplier's ability to see how the future will be valued by certain consumer groups in relation to suppliers, including the offered products and

services and the benefits created, as well as the cost or sacrifice either materially or non-materially, to obtain such benefits.

Flint et al., (2011) divides customer value anticipation into two categories: customer value anticipation-capability which is representing the ability of suppliers to anticipate future customer value from customer; and customer value anticipation-calm representing supplier's wariness in the face of change of value from customer. This is based on observations and discussions with academic colleagues who conclude that CVA-calm has a different understanding with CVA-capability, so it must have its own construct. CVA-capability being a form of dynamic capability of a company (Eisendhardt & Martin, 2000). This is because CVA-capability is one form of extension of resource based view and more specifically is a special form of dynamic capability, that is operant resources. As a form of CVA operant resources will be aligned with information resources, people, and other organizational resources (Madhavaram & Hunt, 2008). Because CVA is difficult to do without a close interaction relationship with the customer it is a form of higher operant resources (interconnected or composite). Furthermore, if the CVA is categorized as interconnected operant resource then the CVA will fall into the category of relating capabilities, learning platform capabilities, organizational learning capabilities, or knowledge creation capabilities (Madhavaram & Hunt, 2008). As an operant resource, the CVA will fall into the categories of market knowledge competence, absorptive capacity, customer response capabilities, or knowledge management capabilities.

#### ***Customer Satisfaction:***

Customer satisfaction has long been defined as a central concept of marketing literature (Erevelles and Leavitt, 1992; Olivier, 1997). Customer satisfaction is seen as a condition where someone has fulfilled the own wish. The definition of customer satisfaction allows the marketer to evaluate the satisfaction of the consumption interactions experienced by a consumer. As a result, satisfaction can be established either on a single service encounter or based on multiple service times. Olivier, (2006) sees satisfaction as the fulfillment of consumer consumption goals. Olivier, furthermore, describes customer satisfaction as an assessment of the features and services of a product.

#### ***Customer Loyalty:***

Oliver (1999) defines loyalty as "an in-depth commitment to repurchase or subscribe to a consistently favored goods / service in the future despite the influence of marketing efforts that encourage change of brand preferences." The loyalty of a consumer to an object (brand, shop, service or company) is shown through a positive preference for the object. This tendency can be behavior or attitude. In the world of industry and service marketing, behavioral loyalty is seen as a brand retention of this trend may be behavior or attitude. In industrial and service marketing, consumer loyal behavior is seen as brand retention (Reinartz & Kumar, 2000).

#### ***Research Hypotheses:***

*H1: Perceived customer value anticipation-capability positively affects customer satisfaction;*

*H2: Perceived customer value anticipation-capability positively affects customer loyalty;*

*H3: Customer satisfaction positively affects customer loyalty;*

*H4: Perceived customer value anticipation-capability positively affects the customer value anticipation calm;*

*H5: Perceived customer value anticipation calm positively affects customer satisfaction;*

*H6: Perceived customer value anticipation calm positively affects customer loyalty.*

### **3. Methodology**

The sample of research in this research is built up of bank customers throughout Indonesia. While other characteristics of the sample to be tested in this study are women and men who have age range of 20 - 55 years coming from various groups of professions such as students or workers, first jobbers, or entrepreneurs. The application of judgmental sampling in this research is to select samples of BNI bank customers who use their accounts other than to save and withdraw money from their savings.

In the pre-test stage the number of respondents used is of 30 people. As for the main-test based on Hair et.al. (2014) that the ideal number of samples for the study using Structural Equation Method with the maximum likelihood method is 5 times the number of indicators, therefore, as this study has 19 indicators, a minimum of 95 respondents is required. Nevertheless, the LISREL 8.51 statistic program can not process data of less than 100 respondent so that the researcher decided to get at least 110 respondents with the same profile as in previous research, the one conducted by Flint et al., (2011).

### **4. Result and Discussion**

As shown in Table 1, we tested the six-hypothesis described above. The result shown there is an influence of CVA-capability toward customer satisfaction which has value T-value 6.86. Thus, H1 is accepted. We also found that there is a positive influence between CVA-capability toward customer loyalty (T-value 1.87). Then H2 is accepted. There is a significant effect of customer satisfaction on customer loyalty (T-value 2.68). Thus, H3 is accepted. We also found that there is a significant effect of CVA-capability both on CVA-calmness and customer satisfaction (T-value 5.58 and 3.98, consecutively). Thus, H4 and H5 are accepted. There is no significant influence between cultural motivation towards engagement (0.554). Thus, H6 rejected.

*Table 1. Hypothesis Testing*

<b>Hypothesis</b>	<b>T-Values</b>	<b>Conclusions</b>
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H1	Perceived customer value anticipation-capability positively affects customer satisfaction	6,86	Significant
H2	Perceived customer value anticipation-capability positively affects customer loyalty	1,87	Significant
H3	Customer satisfaction positively affects customer loyalty	2,68	Significant
H4	Perceived customer value anticipation-capability positively affects customer value anticipation calmness	5,82	Significant
H5	Perceived customer value anticipation calmness positively influences customer satisfaction	3,98	Significant
H6	Perceived customer value anticipation calmness positively affects customer loyalty	1,00	Not Significant

## 5. Conclusion

Customer value anticipation-capability or ability to anticipate customer value becomes relevant for customer satisfaction because in providing products or services that match the needs and wants of customers, the company must know exactly what is desired and needed by the customers. Research shows that generally suppliers that improve products and services in order to meet customer needs reap greater satisfaction from their customers (Anderson & Sullivan, 1993; Zeithaml, Parasuraman, Berry &, 1990). Customer needs and desires are reflected in one's customer value. But not only that, to improve customer value one is not only enough to provide products and services that can meet the needs and desires of customers.

Customer value anticipation-capability briefly refers to the company's ability to anticipate customer value (Flint, Blocker, & Boutin Jr, 2011). While customer loyalty refers to a customer's deep commitment to buy or re-subscribe to a consistently favored product/ service in the future despite the influence of marketing efforts that encourages changing brand preferences (Oliver, 1999). The relationship between customer value anticipation-capability and customer loyalty can be explained by looking at the attributes of customer loyalty formers. Rai & Srivastava (2012) explains that there are many factors that can shape customer loyalty some of them are service quality and customer satisfaction.

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## **Factors Influencing the Implementation of Marine and Fishery Accounting Database System of Coastal Regencies and Cities of North Sumatera to Support of Entrepreneurship**

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Iskandar Muda\*)

**Abstract:**

*This study is aimed to determine factors influencing the implementation of Marine and Fishery Accounting Database System of Coastal Regencies and Cities of North Sumatera. The variables used in this study were Application Procurement, Minimum Infrastructure, Weak Information Technology Personnel and Clarity of Regulation as the independent variables, Optimization of Implementation of Marine and Fishery Information System as the dependent variable, and Resistance against Accounting Database System Usage as the intervening variable. The research data was obtained from 203 processed questionnaires.*

*The hypotheses were analyzed by Structural Equation Model (SEM) of SmartPLS software 3.0. The subjects of this study were employees of Departments of Marine and Fishery of North Sumatera Province. The total sample in this study was built up of 203 people. The research results were that Application Procurement don't influence Resistance to the Accounting Database System Usage, Minimum Infrastructure negatively influenced Resistance to the Accounting Database System, Weak Information Technology Personnel positively influenced Resistance to the Accounting Database System, Clarity of Regulation positively influenced Resistance to the Accounting Database System and Resistance to the Accounting Database System Usage positively influenced Optimization of Implementation of Marine and Fishery Information System.*

**Keywords:** Accounting database system, application procurement, clarity of regulation;

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### **1. Introduction**

Indonesia is a maritime country with large marine territory and internationally recognized large marine potential in ecology and seafood. Indonesia's presence as a maritime country with large marine potential has serious problems because catch and cultivation yield lower almost every year. This problem occurs due to increasing and uncontrolled coastal and marine resources exploitation. This is also a problem for the marine and fishery condition in North Sumatera in particular. The marine and fishery potentials of North Sumatera consist of wild fishery and aquaculture fishery

potentials (Sirojuzilam, et al., 2017; Muda et al., 2018). Wild fishery potential consists of Malacca Strait potential, which is of 276.030 tons/year, and Indian Ocean potential, which is of 1.076.960 tons/year. Cultivation fishery production consists of 20.000 ha aquaculture ponds and 155.797 ha maricultural ponds. The coast of North Sumatera is 1300 Km long and Nias Islands and New Islands are 350 Km long (Muda et al., 2018). To maintain the sustainability of marine and fishery potentials of North Sumatera, there should be an integrated management effort which covers various sectors, i.e. ecology, economy, social, culture, law, and public institutions, as the basis of planning and decision making (Sihombing et al., 2017; Pohan et al., 2018; Erwin et al., 2018). The effort is developing an agro-marineopolitan system which is an agricultural and marine area. Agromarineopolitan System supports the realization of the Development of an Agromarineopolitan Area as the Agro, Fishery, Marine Tourism sector and are integration based on resources, to improve people welfare in sustainable marine and fishery industry in North Sumatera. Marine and fishery Accounting Database System is required to support the development of the agromarineopolitan area. In order to do this optimally, there are several factors to consider, including application procurement, minimum infrastructure, information, technology, personnel and clarity of regulation which will affect the resistance against Accounting Database System usage and optimization of implementation of marine and fishery information system in North Sumatera. Besides the benefits and usefulness, it turns out that the disadvantage of producing or creating a database is that it requires large funds to purchase hardware, software or other related to the making of the database, so that the company and the relevant institution must have sufficient capital (Bellanger et al., 2017; Ovando et al., 2017; Erisman et al., 2017; De Anda-Montañez et al., 2017; Cabral et al., 2017; Babcock et al., 2017; Stafford, 2018). Besides, it should also have qualified personnel in establishing the data base. Therefore, the database should be used for important purposes by companies and agencies in need, so as to reduce organizational overhead. Administrating the placement of new systems into operation is usually difficult, due to the existing old system. The analyst should be able to change something that is already used for something new and different, and also accompany the implementation mechanism.

Where is the concern of simultaneous conversion and normal implementation? The importance of planning the formal training of user personnel in the operation of new systems (Dalimunthe et al., 2017). A new method that drastically affects people's lives by changing their working methods, work styles and relationships with other employees. One of the most effective ways to deal with the potential impact of this change is to provide a well-designed training program. The research results into support for practitioners, as an information source and to be considered in decision-making, related with Accounting Information System on Marine and Fishery Accounting Database System. It also provides insight and discourse for information users to improve the performance of program implementers (Vaughan, 2017; Buck and Langan 2017; Lester et al., 2017; Klinger et al., 2018). For academicians, the research results are expected to help develop and use as a comparison item for

accounting science, especially Accounting Information System science, and to add insight and knowledge for researchers and others.

## **2. Literature Review**

Accounting Database System as system development can generally be considered as having two main components: systems analysis and accounting system design. System design is the process of planning a new system or to complement the existing system (Al-Hawari, 2017). The old system determines how computers are used for operations more effectively (Muda et al., 2018). The process of collecting and interpreting facts, diagnosing problems, and using that information to recommend system improvements.

The relationship between subsystems are: defining the structure of authority, determining the formal flow of communication and formalizing the chain of command. Computer systems are designed from inputs, central processing units, output devices and one or more storage units to produce information. A system is a sequential grouping of a dependency component, linked together according to a plan for achieving an objective. The main characteristics are organization, interaction, interdependence, integration and a central purpose (Haupt, 2017; Ihde and Townsend, 2017). To form a system, systems analysts must consider elements, inputs and outputs, processors, controls, feedback, and the environment. The benefits of the application of Accounting Database System are the following; if data is scattered in multiple files in unequal formatting, then this makes it difficult in writing application programs to retrieve and store data. So, the data in one database must be created easy as format, in order to make an application program (Kaplan et al., 2017; De Gorostiza et al., 2018). The difficulties that will occur if the needed program is unavailable, is to issue a data towards the Accounting Database System that is able to retrieve data directly in a language that is familiar and user friendly.

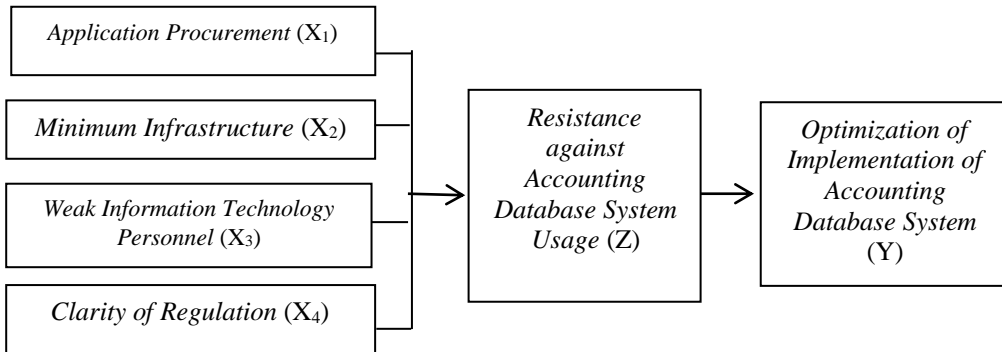
The database can be divided into four types: the individual database, the company database, distributed databases and public database. The individual database is the database used by the individual. Usually this kind of database is often found in a private environment commonly used to manage the database for personal gain. The company database is a database intended to be accessed by several employees within a company in a location (Sirojuzilam et al., 2017). A distributed database is a database stored on a number of computers located in multiple locations.

## **3. Methodology**

This study was performed on the Departments of Marine and Fishery of North Sumatera Province, Indonesia. This is a quantitative study because the data was numeric. The respondents of this study were employees of Departments of Marine and Fishery of North Sumatera Province. The total sample in this study was of 203 people. The independent variables in this study were Application Procurement,

Minimum Infrastructure, Weak Information Technology Personnel, Clarity of Regulation. The intervening variable was Resistance against Accounting Database System Usage. The dependent variable was Optimization of Implementation of Marine and Fishery Information System. The data analysis technique uses SEM (Structural Equation Model) analysis method with Smart-Partial Least Square (PLS) measurement.

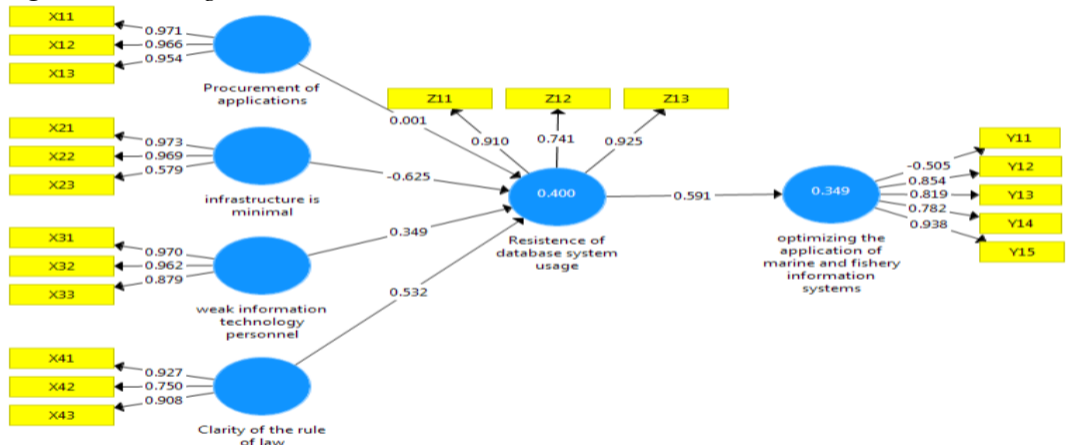
**Figure 1. Conceptual Framework**



**4. Result and Discussion**

Figure 2 shows that some loading factor values are above the suggested values of 0.70 or 0.50-0.60, e.g. indicators of Procurement of Applications, but some are below 0.50, Optimization of Implementation of Marine and Fishery Information System in which indicator Y11 is -0.505. It means that some indicators in the present study are valid or have met convergent validity and some indicators are not valid or did not meet convergent validity. Below is a diagram of the loading factor of each indicator in the research model:

**Figure 2. Loading Factor Value**



The data processing result is presenting in Table 1:

**Table 1.** *Table of Cronbach's Alpha*

	Cronbach's Alpha
Application Procurement	0,962
Minimum Infrastructure	0,890
Weak Information Technology Personnel	0,935
Clarity of Regulation	0,830
Resistance against Accounting Database System Usage	0,826
Optimization of Implementation of Accounting Database System	0,663

The composite reliability value of every exogenous and endogenous construct is reliable because it's above 0.70. But a Cronbach's Alpha value is below 0,70, i.e. Optimization of Implementation of Marine and Fishery Information System which is 0.663. R-Square values in the construct are in the Table 2.

**Table 2.** *R-Square*

	R Square	R Square Adjusted
Resistance against Accounting Database System Usage	0,400	0,388
Optimization of Implementation of Accounting Database System	0,349	0,346

Table 3 shows that R-Square values of Resistance against Accounting Database System Usage is 0.400 and Optimization of Implementation of Marine and Fishery Information System is 0.349, meaning Resistance against Accounting Database System Usage as an intervening variable could be explained by Application Procurement, Minimum Infrastructure, Weak Information Technology Personnel, Clarity of regulation by 40% and Optimization of Implementation of Marine and Fishery Information System could be explained by Resistance against Accounting Database System Usage by 34.9%.

**Table 3.** *Table of Path Coefficients*

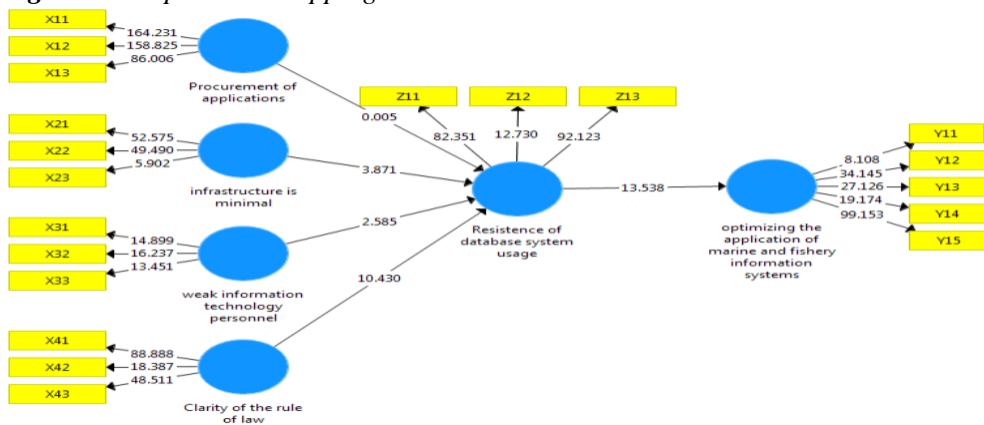
	Original Sample	Sample Mean	t Statistics	p Values
Application Procurement -> Resistance against Accounting Database System Usage	0,001	0,005	0,005	0,996
Minimum Infrastructure -> Resistance against Accounting Database System Usage	-0,625	-0,596	3,871	0,000
Weak Information Technology Personnel -> Resistance against Accounting Database System Usage	0,349	0,309	2,585	0,010
Clarity of Regulation -> Resistance against Accounting Database System Usage	0,532	0,534	10,430	0,000



Resistance against Accounting Database System Usage -> Optimization of Implementation of Accounting Database System	0,591	0,595	13,53 8	0,00 0
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The relation between constructs showed that Application Procurement does not influence the Resistance to the Accounting Database System Usage. Minimum Infrastructure had negative influence of Resistance to the Accounting Database System Usage with parameter coefficient value of -0.625 and significant at 5%, Weak Information Technology Personnel had positive influence on Resistance to the Accounting Database System Usage with parameter coefficient value of 0.349 and significant at 5%. Clarity of regulation had positive influence on Resistance to the Accounting Database System with parameter coefficient value of 0.532 and significant at 5% and Resistance to the Accounting Database System Usage regulation had positive influence on Optimization of Implementation of Marine and Fishery Information System with parameter coefficient value of 0.591 and significant at 5%. The t statistic value of SmartPLS 3.0 shows:

Figure 3. Output Bootstrapping



In business, Systems Analysis and Design refers to processes in order to improve methods and have better procedures. System and design analysis deals with organizing, improving performance and achieving goals for profitability and growth. The emphasis is on interacting systems, connecting between subsystems to achieve common goals (Muda et al., 2017). Changes will be made in the form of increased output generated. The System Accounting Database System has the potential to replace external reporting between fishermen and fisheries businesses. The use of such systems can form a financial database of fishermen and fishery businesses available to external users of traditional financial statements (Muda and Dharsuky, 2015; Lubis et al., 2016; Kim et al., 2018; Torten, 2018). The database system also has the potential to significantly change the nature of external reporting. Users can then freely analyze raw data in the form they want and can improve decision making

especially on local governments that create programs for fishermen. Relational databases provide a wide and easy-to-use language of demand. Financial and non-financial reports can be easily prepared to cover any period that decision makers need to know.

Operators and system builders should have a better knowledge of database systems, so they can participate in designing accounting information systems in the future. Constraints in the form of Application Procurement, Minimum Infrastructure, Weak Information Technology Personnel and Clarity of Regulation will be encountered and if managed properly, they will be able to Optimization of Implementation of Marine and Fishery Information System also constraints Resistance against Accounting Database System Usage encountered in various lines of organization. The results of this study support the research by Vassallo et al., (2017), Doyen et al., (2017), Salomon and Dahms (2018), Stafford (2018), Lynch et al., (2018), Zeller et al., (2018), Zeller et al., (2018), Benson et al., (2018), Hickman et al., (2018), Wimble et al., (2018) and Pondorfer and Rehdanz (2018). Such participation is essential to ensure that there is adequate control of the system to maintain data security and ensure the reliability of the information.

## **5. Conclusion**

Application Procurement is not significant to the Resistance to the Accounting Database System. Minimum Infrastructure negatively influenced Resistance to the Accounting Database System. Weak Information Technology Personnel positively influenced Resistance to the Accounting Database System. Clarity of Regulation positively influenced Resistance to the Accounting Database System and resistance to the Accounting Database System Usage positively influenced Optimization of Implementation of Marine and Fishery Information System. Future researchers should expand and add variables related to the optimization of implementation of marine and fishery Accounting Database System so that the result of the present study is being maximized, and the research result can be used as a comparison item for future researches. The Departments of Marine and Fishery of North Sumatera Province should apply integrated Accounting Database System so that integrated management effort by agromarineopolitan system can be applied. The society should maintain marine conservation so that seas are protected and can be utilized by people to fulfill their life necessities in the economic and socio-cultural sectors.

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## The Impact of User Interactions in Social Media on Brand Awareness and Purchase Intention

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Siswaningsih, N\*, Halim, E.R. \*)

**Abstract:**

*The objective of this study is to determine the effect of user interactions in social media on brand awareness and purchase intention. This study involves the Instagram account of NYX Cosmetics (@nyxcosmetics).*

*Using SPSS 20 software for pre-test and Smart PLS 2 & 3 for main test using Partial Least Square Path Modeling (PLS-PM) technique to process this research. The results show that annoyance has a positive effect on brand page commitment.*

*Then, brand page commitment has a positive effect on brand awareness, but annoyance has no effect on brand awareness. Brand page commitment and brand awareness have positive effects on word of mouth, and annoyance has no effect on word of mouth. Brand page commitment, annoyance, brand awareness, and word of mouth have positive effects on purchase intention.*

**Keywords:** Brand awareness, purchase intention, social media, word of mouth, annoyance;

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### 1. Introduction

Across time, the marketing world always experiences dynamic changes. One of the examples is marketing through social media. Today's social media is various and developed, for example, Facebook, Twitter, Pinterest, the Path, Instagram, and so on. Social media can be a marketing tool through which companies can directly interact with consumers or prospective customers. The users of social media also keep increasing in number every day. According to the data from Webershandwick, a public relations company specialized in providing services in communication, there are around 65 million active Facebook users in Indonesia, consisting of 33 million users which are active every day, 55 million users actively use mobile device for access every month, and around 28 million users actively use mobile devices every day.

Another social media that is also popular in the world, including Indonesia, is Instagram. Instagram is a platform where users can share photos and videos. At the

end of 2013, according to a survey conducted by Global Web Index, the growth of Instagram is faster than Twitter, Facebook, and Pinterest. Social media has altered the way consumers interact and communicate with a company. According to Peter and Olson (2010), internet as media possesses unique characteristics such as: (1) the capability to keep information from various locations with an affordable cost; (2) the availability, since internet has an ability to seek, organize and disseminate information at cheaper costs; (3) the interactivity and the capability to give information according to users' demand; (4) the ability to become a media transaction platform; (5) Relatively low set up fee and relatively low cost for seller.

The purpose of this study is to investigate how social media activities, specifically of the Instagram account of a cosmetic brand, affects the brand perception, and finally affects the process of consumer purchase decision making while also considering the risk of creating an annoyance.

## **2. Literature review**

The consumer decision-making process covers all steps from the recognition of a need through the pre-purchase search for information about potential ways to satisfy the need, the evaluation of alternative options to the actual purchase and the post-purchase processes including experience and evaluation of the product (Hutter et al., 2013; Halim and Zulkarnaen, 2017). There is also a similar approach to the decision-making process called "hierarchy of effects" (HOE) which is commonly used in communication and advertising (Hutter et al., 2013). Rather than explaining the steps taken by consumers during the purchase decision-making, this approach gives more focus on consumers' mental stage when building a relationship with a certain product or brands, (Halim, 2017; Vakratsas and Ambler, 1999; Ray, 1973; Hutter et al., 2013).

One of the most famous models of hierarchy of effects is AIDA, which has 4 steps of attitude building namely, awareness, interest, desire, and action. Another well-known model is the one from Lavidge dan Steiner (1961) (Hutter et al., 2013). This model consists of seven steps, namely awareness, knowledge, liking, preference, conviction, and purchase. After the purchase phase, it would ideally be followed by consumer loyalty and advocacy. According to Barry and Howard (1990) and Hutter et al (2013), the hierarchy of effects can be described as the fixed state where consumers perceive, process, and the use advertising and other marketing communication information: this whole process will firstly be cognitively processed (thinking), then affectively (feeling), and finally cognitively (do).

## **3. Methodology**

Consumers can feel annoyed when they are being exposed to advertising (Mc Coy et al., 2007; Hutter et al., 2013) or intrusive direct marketing (Lee and McGowan, 1998; Hutter et al., 2013) without their consent or disruptive direct marketing.

Therefore, companies must be diligent in approaching consumers in social media in order to avoid annoyance. A marketing that disturbs and ultimately annoys consumers is not only ineffective but can even have negative effects. As for the brand page commitment, it could be considered as consumers' active and psychological involvement with the brand's social media activities (Hutter et. al, 2013).

*H1: Annoyance with the content of a brand page has a negative effect on Brand Page Commitment (BPC).*

Kotler and Keller (2009) mentioned that the brand also provides value to a company. A brand can offer legal protection to the company in every aspect and assures the uniqueness of its products. According to Keller (2008) and Hunter et al (2013), brand awareness is the strength resulted from consumers' capability in identifying the brand under various conditions. Thus, making consumers aware of a product is very important in a marketing process. Surely, the marketers hope that when consumers know about the existence of their products, the consumer will find out more about these products.

*H2: a) Brand page commitment has a positive effect on brand awareness and b) Annoyance with the content of a brand page has a negative effect on brand awareness.*

Solomon, Marshall & Stuart (2012) asserted that "what is new from a very impressive effect that technology helps to spread the buzz: If fifty years ago people spread information through the word of mouth, only by speaking one-on-one, imagine what if the current "connectors" or "e-fluentials" individual consumers who use Facebook, blogs, and other social media spread the information about a company or its product to improve its reach or scope". Absolutely, there will be many people who would read or know this information through this Internet technology. In this sense, word of mouth is still the choice of marketers to promote their products.

*H3a. Brand page commitment has a positive effect on positive word of mouth activities.*

*H3b. Annoyance with the content of a brand page has a negative effect on word of mouth activities.*

*H3c. Higher levels of brand awareness have a positive effect on word of mouth activities.*

Purchase intentions is the mental stage of decision-making in which consumer has constructed willingness to act or behave towards the brand (Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017; Dodds et al., 1991; Hutter et al., 2013). According to Hutter et al (2013), the main objective of the marketing communication is to make



the consumers build a purchase intention towards the marketed product (Hutter et al., 2013).

*H4a. Brand page commitment has a positive effect on consumers' purchase intention.*

*H4b. Annoyance with the content of a brand page has a negative effect on purchase intentions.*

*H4c. Brand awareness has a positive effect on purchase intentions.*

*H4d. Word of mouth (WOM) has a positive effect on purchase intentions.*

The research used conclusive descriptive single cross-sectional design. It used structural equation modeling – partial least square method. This research was conducted by survey method, in which the questionnaires were distributed through Google Docs. After filtering the incoming data, the researcher obtained 129 cases. All respondents are women who live in cities in Indonesia where NYX Cosmetics store operates. They are also Instagram users and followers of the NYX Cosmetics' Instagram account (@nyxcosmetics).

The questions and items in the questionnaire were set up and refined based on literature and measured on a seven-point Likert-scale. Brand page commitment was measured using four adapted items from Hutter et al. (2013). Word of mouth was captured by four items slightly adapted from Hutter et al. (2013). Brand awareness was measured by three items adopted from Hutter et al. (2013). Purchase intention was measured using three adapted items from Hutter et al. (2013) and Jalilvand and Samiei (2012). Then, annoyance was captured by three items adapted from Hutter et al. (2013).

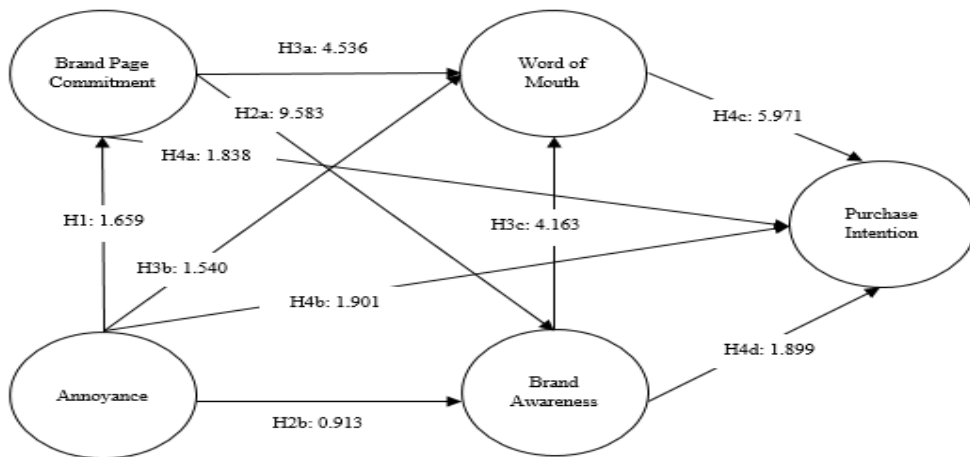
#### **4. Result and Discussion**

To test the hypotheses, the researchers used structural equation modeling – specifically partial least square that processed by software SmartPLS 2 dan 3. Table 1 shows the results of the analysis of the measurement model. The analysis of the measurement model can be acquired from the Average Variance Extracted (AVE). This was also used to measure the validity, where each variable must have a value of at least 0.5 (Vinzi et al., 2010). To test reliability, this study relied on Composite Reliability (CR), where the value has to be at least 0.6 (Vinzi et al., 2010). Another criterion of reliability measurement is the coefficient of Cronbach's alpha which varies from 0 to 1. A coefficient value of 0.6 or more generally indicates the satisfactory internal consistency reliability (Malhotra, 2007). While the factor loadings are used to examine the correlation between the indicators (observed variables) against latent variables. Factor loadings indicate the satisfactory if they are higher than 0.50 (Hair et al., 2013). All measurements are valid and reliable with factor loadings higher than 0.50 and Cronbach alpha higher than 0.60.

For the hypotheses testing, if the value of the t-value/t-statistic is higher than 1.645, then it indicates a positive significance. Meanwhile, if the value of the t-value/t-statistic is lower than -1.645, it indicates a negative significance. The analysis of the structural model in this study can be seen in Figure 1, which shows the following results. The hypothesis testing for H1 (t-value of 1.659) is supported and shows that annoyance with the content of brand page has a positive effect on brand page commitment (BPC). Then, it is also concluded that brand page commitment positively and significantly impacts brand awareness (t-value of 9.583) thereby supporting H2a, whereas H2b (t-value of 0.913) shows that there is no significant influence of annoyance on brand awareness. Brand page commitment positively influences word-of-mouth (WOM) and brand awareness positively influences word of mouth. Hence, H3a (t-value of 4.536) and H3c (4.163) are fully supported.

Meanwhile no support is provided for H3b (1.540). As for H4a (t-value 1.838), it is supported which means that the brand page commitment has a positive effect on consumers' purchase intention, H4b (t-value of 1.901) is also supported thus shows that annoyance has a positive effect on purchase intentions. Finally, purchase intention is found to be positively and significantly influenced by brand awareness, and by word of mouth. Hence, H4c (t-value of 1.899) and H4d (t-value of 5.971) are fully supported.

Figure 1. The Structural Model



## 5. Conclusion

The user's activity or commitment to social media (brand page commitment) who are also followers of @nyxcosmetics account can obviously influence the activities of word of mouth, for example if follower A gives a positive comment or gives likes/loves in one of the photos of NYX products, of course this action will be seen by other followers that follow the account of follower a. When the number of

likes/loves or comments on one photo alone could reach the thousands, we can imagine how many social media users can see this. If this can be actualized, there will be more people discussing about NYX. Of course, the example of the committed follower that is mentioned above influence the awareness of other Instagram users. They can see the uploaded photos of NYX in their favorite page in their Instagram. Therefore, the management of NYX needs to maintain the activities of NYX in their social media, both on Instagram and on other social media. The management has to upload (post) photos and videos that have value for their follower. For example, the NYX management can upload more tutorial videos about how to use the NYX make up for various events.

Higher awareness and higher activities of word of mouth would certainly induce followers' positive intention to buy. To actualize this, one of the steps which can be taken by the management of NYX, is using a brand ambassador. The brand ambassador can be a celebrity or a beauty blogger who is well known among the cosmetic products lovers. Brand ambassador can also tag some NYX product pictures in their social media or upload photos of NYX products that he or she uses in the social media. Moreover, brand ambassador can also upload photos or videos of the tutorials on how to use make-up, such as video tutorials on how to apply eye shadow to formal event at night, and so on.

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## **An Analysis of Consumer's Attitude Effect to Credibility Endorser, Brand, and Purchase Intention Related to Celebrity Endorsement**

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Wijoyo, A.S \*, Halim, E.R. \*)

### **Abstract:**

*To achieve product differentiation, companies spend millions of dollars annually in signing celebrities to endorse their brands' endorsement contracts, as source effects that play an important role in persuasive communication.*

*Based on source credibility theory and product differentiation theory, this study examines the causal relationship between endorser credibility, brand attitude, brand credibility and purchase intention of companies that adopt a celebrity endorsement strategy. The research data is run by PLS-SEM.*

*The results indicate that positive relationships exist between all the hypothesized constructs. Therefore, in addition to having a favorable celebrity to endorse a customer-oriented advertisement, the credibility of the celebrity is as important in enhancing brand attitude, brand credibility and purchase intention.*

**Keywords:** *Celebrity endorsement, Source credibility, Product differentiation, Brand, Purchase Intention.*

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### **1. Introduction**

The advertising literature gives enough indication that celebrities have a positive effect on consumer's attitudes and buying intentions. Much of the literature suggests that celebrity endorsers bring credibility to the advertising messages, thus making the message more effective. However, credibility alone can not explain the positive effects of celebrity endorsers. Researchers have also proposed that a person's acceptance of a message depends on similarity, habits and preferences toward endorsers (McGuire, 1985; Miciak & Shanklin, 1994) and argues that the physical attractiveness of endorsers can also affect the effectiveness of advertising messages (Kamins, 1990; 1991). Past studies have shown that the use of attractive endorser celebrities helps generate higher purchase intentions (Kahle & Homer, 1985; Till & Busler, 2000; Ohanian, 1991) and creates a positive attitude toward advertising (Kahle & Homer, 1985; Kamins, 1990).

Celebrity endorsers, in generally defined as an individual who possessed fame and uses it to introduce a product to the society in an advertisement (McCracken, 1989). The company contracts with celebrity endorsers in the hope that the potential success of celebrities will be transferred to the company's name. According to Agrawal and Kamakura (1995), the company contracts with celebrity endorsers because they make the advertisement more trustworthy, helps people recognize and remember brand names, generate brand influence, and increase the likelihood of individuals choosing the brand. The use of celebrities is due to the attractiveness of personal qualities, likability, fame, reputation and trust in advertised products (Atkin and Block, 1983), which further provides a competitive advantage in differentiating the company's products from competing companies (Doss, 2011). Celebrity endorsers can be used to improve product image and increase sales figures (Sulistya, 2012).

## **2. Literature review**

Product Differentiation is the act of making one product be different to other products that already exist in the market that appeals to consumers (Griffin, 2003). Shaw (1912) describes the product differentiation strategy as a fulfilling human desire which is more accurately than the competition which takes place. The result is a "buildup of demand" for products and the potential price of products is more expensive than products in the market.

Credibility is broadly defined as the trust towards the entity at any given time and puts credibility into two main components namely, trust and expertise (Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017). Therefore, brand credibility is defined as a sense of confidence in the information of a product in a brand, which requires consumers to feel if the brand has the ability (expertise) and desire (trust) to continue to give something promised (brand can serve as a signal, when they do not deliver what is promised, then the brand equity will erode). The expertise and beliefs of the brand reflect the cumulative impacts associated with the past and the marketing strategies and activities undertaken today. Brand credibility has been shown to be higher for brands with higher consistency of marketing mix over time and higher brand investments, *ceteris paribus* (Erdem and Swait 1998). Consistency refers to the level of harmony and convergence between the elements of the marketing mix and the stability of the marketing mix strategy and the level of attributes over time. Consistency level attributes over time, such as examples of consistency in the quality level, which implies a low "inherent product variability" (Roberts and Urban, 1988), which can be achieved with dedication to quality standardization.

The source of credibility is a general term used to express the positive value characteristics of a messenger that can positively affect the message which a person will receive (Ohanian, 1991; Halim, 2017). Although trustworthiness and expertise are constantly embedded in the concept of the source of credibility, other researchers

evaluate the attractiveness of endorsers for product advertisements (Baker and Churchill, 1977). New research, incorporating the credibility scale of the endorser is not just a two-dimensional expertise and trustworthiness, but it also adds attractiveness. Attractiveness comes in as a source dimension of credibility in accordance with Joseph's (1982) study which states that messengers or communicators with an attractive physical appearance will be more popular and have a positive effect on consumer's opinion ratings and product evaluations. The three dimensions are expertise, trustworthiness, and attractiveness theoretically and empirically into the source of credibility. But according to Lafferty and Goldsmith (1999) if the source of information is a company, the dimension of attractiveness is a dimension that can not be applied.

The Credibility Source Model argues that the effectiveness of a message depends on the level of expertise, trust and appeal that exist in an endorser (Hovland and Weiss, 1951; Ohanian, 1991; McGuire, 1969). Information from credible sources (such as celebrities) may affect beliefs, opinions, attitudes or behaviors through a process called internalization, which occurs when the recipient receives influence from the source in terms of attitudes and values of their personal structure. McGuire (1969) argues that the source of attractiveness directly affects the effectiveness of communication messages. Attractive endorsers can influence consumers when they receive information provided from an interesting source. Furthermore, fascinating celebrities are expected to have a positive impact on brand attitudes and purchase intentions (Petty et al., 1983; Erdogan and Drollinger 2008; Halim and Zulkarnaen, 2017). Based on the above explanation, the following hypotheses were built:

- H1. The credibility of the endorser has a positive influence on Brand Attitude;*
- H2. Brand attitude has a positive influence on the purchase intention;*
- H3. The credibility of the endorser has a positive effect on brand-credibility;*
- H4. Brand credibility has a positive effect on the purchase intention.*

### **3. Methodology**

Furthermore, the validity test is to evaluate whether the used tests and the instruments can measure what we really want to measure or are accurately related to a particular variable (Cooper & Schindler, 2014). Validity testing is used to find out if there are questions in the questionnaire that should be removed or replaced because they are considered to be irrelevant (Umar, 2013). Statements and questions on the questionnaire are considered valid if the value of the component matrix and Kaiser-Meyer-Olkin (KMO) is  $\geq 0.5$ . Discriminant analysis aims in principle to group the values of independent variables into one dependent variable of type or category (Umar, 2013). In this analysis is also known the average of the grand (grand mean) of each variable. The attractiveness, trustworthiness, expertise, brand attitude, brand credibility and purchase intention variables are grouped according to the respective respondent's profile and the overall average value.

This research uses Structural Equation Modeling analysis with Maximum Likelihood estimation on a significance level of 0,05. Thus, the test of three existing hypotheses, whether accepted or not, determined by the value of t-values above 1.97. The value of t-values is calculated by referring to the degrees of freedom value of the output of the Lisrel program, or in general according to Wijanto (2008) if it has a value above 2 then it is sufficient. The hypothesis is accepted if t-values are above 1.97 or 2, and if below 1.97 or 2 the hypothesis is rejected.

#### **4. Result and Discussion**

Referring to t-values parameter result from data processing using SmartPLS, hence can be concluded that H1 is accepted. There is a positive effect of endorser credibility on brand attitude (T-values, 16.9). This suggests that students viewing an ad with a credible endorser will affect their attitude toward the product being advertised. Ads with endorsers that have credibility, affect the attitude and buying intention of the students. Students tend to buy products advertised by endorsers who have credibility. We also found that the brand attitude positively influences purchase intention (T-values, 4.64).

This suggests that students viewing an ad with a credible endorser will affect their attitude toward the advertised product. Ads with credible endorsers affect students' buying intentions. And students tend to buy products advertised by endorsers who have credibility in the future. The result has also shown that endorser's credibility has a positive effect on the brand's credibility (T-values, 14.89). This indicates the fact that if the student sees an ad with a credible endorser, it affects the credibility of the advertised product. Ads with credible endorsers affect students in assessing product credibility. The higher the credibility, the higher the credibility of the product in the sight of the students. There is a positive effect of brand credibility on the purchase intention (T-values 2.54), then H4 is accepted.

*Table 1. Hypotheses Testing Results*

<b>Hypothesis</b>	<b>T-Value</b>	<b>Conclusions</b>
H1: Endorser Credibility → Brand Attitude	16.954	Accepted
H2: Brand Attitude → Purchase Intention	4.641	Accepted
H3: Endorser Credibility → Brand Credibility	14.845	Accepted
H4: Brand Credibility → Purchase Intention	2.540	Accepted

#### **5. Conclusion**

The results showed that all the hypotheses in this study were accepted. The credibility of the endorser positively and significantly affects the brand attitude and brand credibility, it supports the first hypothesis and the third hypothesis.



Meanwhile, brand attitude positively and significantly affects the purchase intention, which supports the second hypothesis. And the last brand credibility has a positive influence on purchase intention where it is in accordance with the fourth hypothesis and previous research. Of the three sources of endorser credibility, attractiveness is a variable that has the highest mean value, followed by expertise, and trustworthiness. Therefore, it can be interpreted that an endorser with an attractive physical appearance has a greater influence towards the attitude of the respondent to the advertising.

The credibility of the endorser has a positive influence on the attitude of the respondent, where this attitude will have a positive effect on the purchasing interest. This is because respondents see an endorser who has credibility (interesting, experience) as someone who can be trusted. So, this will have a positive effect on brand credibility, and therefore will affect the process of purchasing products.

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## Analysis of Mobile Payment Acceptance in Indonesia

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Sayogya, P.A \*, Halim, E.R. \*)

**Abstract:**

*The focus on this study is to analyze the acceptance factor of mobile payment services in Indonesia. Mobile payment is a relatively new digital money service when compared to other digital financial services.*

*In this study, there are three predictor factors that influence the behavioral intention to adopt the mobile payment service, which are: Performance Expectancy (PE), Effort Expectancy (EE) and Social Influence (SI). Further we examined the influence of Behavioral Intention to Adopt (IA) towards Behavioral Intention to Recommend (IR).*

*The result from this study show that Effort Expectation (EE) is not significant towards Behavioral Intention to Adopt (IA), meanwhile Performance Expectancy (PE) has the strongest influence towards Behavioral Intention to Adopt (IA), so it can be the key factor for the company to focus on.*

**Keywords:** *Electronic money; Mobile payment; Technology acceptance.*

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### 1. Introduction

Technology's rapid development impacts on the finance industry can be seen in the banking services that are beginning to shift towards digital banking. Various digital banking services ranging from Internet Banking, SMS Banking, Mobile Banking, Automated Teller Machine (ATM), Electronic Data Capture (EDC), Electronic Money, Phone Banking and Video Banking are already provided by various banking institutions in Indonesia. The implementation of digital banking itself provide 3 benefits for banks; the mobilization of low-cost funds, the efficiency for the bank instead of investing in branch offices, and fee-based income from transactions made by customer.

The electronic money is one of the services that has a significant growth among the various digital banking services. The server-based electronic money (mobile payment) is relatively newer when compared to chip-based electronic money (prepaid card). Mobile payment service becomes more and more important based on the facts issued by the Association of Indonesian Internet Service Providers (APJII,

2016), which shows the number of internet users in Indonesia in 2016 amounted to 132.7 million people, or about 51% of the total population of Indonesia (250 million people). Most of them were accessing the internet via their smartphone. Meanwhile the number of smartphone users in Indonesia in 2016 also increased to 33.3%, meaning 69.6 million, from 52.2 million users in 2015.

Therefore, this research aimed to look at the various important factors that become the basis for consumers in their intention to adopt mobile payment services based on some research that has been previously done by Venkatesh et al (2003), Abrahão et al (2016), and Oliveira et al (2016) resulted in factors which are Performance Expectancy (PE), Effort Expectancy (EE), and Social Influences (SI), as well the intention to recommend mobile payment after using the mobile payment services.

## **2. Literature review**

The acceptance concept of the new technology is one of the most mature research areas in the field of information systems. Acceptation research on technology is a critical and relevant issue in the field of information systems. It also has produced several models of theory rooted in information systems, psychology, and sociology (Scornavacca, 2010). The theory that has been developed and can be used to examine the acceptance of new technologies is the one of Unified Theory of Acceptance and Use of Technology (UTAUT) developed by Venkatesh et al (2003). The UTAUT model states that there are 3 direct factors affecting the Behavioral Intention: Performance Expectancy, Effort Expectancy, and Social Influence, and 2 direct factors that affect Use Behavior; Behavioral Intention and Facilitating Conditions.

Venkatesh et al (2003) describes the Performance Expectancy, shows the degrees to which a technology will benefit the user when performing an activity. Perceived Expectancy is also to measure the extent to which a person believes that the use of technology will improve the own performance. Effort Expectancy is the level of ease of use of the technology. Effort Expectancy is the level of convenience associated with consumers when using a new technology. Social Influence shows how perceptions of others that are considered important (family, friends, or relatives) to the use of new technology. Social Influences describe the influence of environmental factors such as the opinions of friends, relatives, or others that influence the behavior (Halim, 2017).

Behavioral intention can be described in Theory of reasoned Action (TRA) developed by Fishbein & Ajzen (1975). This theory explains that acting, inaction or taking a decision are result of the assessment of the specific results associated with the subjective value placed on the outcome (Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017). Miltgen et al (2013) explains that the behavioral consumer intention to adopt is a reliable predictor for the consumer's acceptance of technology and provide an effective way to see the results of such a behavior.

### 3. Methodology

This research seeks to prove the hypothesis that has been compiled before, which is categorized as a conclusive research design, specifically in descriptive research. This study used only one data retrieval by involving one sample group of respondents from the target population and it is also included in a single cross-sectional design.

Arvidsson (2014) states that if a product or service has a relatively better advantage than the existing products or services, as this can be one of the main factors supporting the acceptance of the customers. Oliveira et al (2014) also concluded that Performance Expectancy has a direct impact on the behavioral intention of mobile banking use. Madan & Yadav (2016) found that Performance Expectancy has a significant influence on Behavioral Intention. Abrahão et al (2016) also said that Effort Expectancy does have a significant impact on behavior intention. The ease of use also affects the consumer's attitude towards adoption to mobile technology, thus blocking the adoption process. In this research, Effort Expectancy represent consumer perception on the ease of use of the mobile payment service.

*H1: "Performance Expectation has a significant influence on Behavioral Intention to Adopt".*

*H2: "Effort Expectancy has a significant influence on Behavioral Intention to Adopt".*

Escobar-Rodríguez & Carvajal-Trujillo (2014) found that Social Influences had a significant impact on purchasing LCC air tickets payment directly from company sites because consumers imagine their references (friends, family, or colleagues) think they should behave that way. In the context of mobile services, Shin (2009) states according to his observations, that the use of mobile services in the social context should be adapted to the interaction with other people. From the research results, conducted by Oliveira et al (2016) was found that that the Social Influence has a positive influence on the intention to adopt the mobile payment technology. From this can be formulated hypothesis-3

*H3: "Social Influence has a significant influence on Behavioral Intention to Adopt".*

Loureiro et al (2014), Halim and Zulkarnaen (2017) conclude that consumers who are satisfied with the services will continue to use and make recommendations of such services to others. Oliveira et al (2016) also stated that consumers with a high intention to adopt technology would be very likely to become adopters and recommend the technology to others. Hence the hypothesis-4 follows:

*H4: "Behavioral Intention to Adopt has a significant effect on Behavioral Intention to Recommend"*

Using the non-probability sampling method with convenience sampling technique to facilitate the process of data collection, there were collected sample respondents for this research. PLS estimation requires ten times the largest number of structural paths directed at a construct in the model. The sample in this research met the necessary conditions for using PLS with 201 respondent that were collected during the period from April to May 2017. All of the respondents are students and alumnus of major Magister Management, Universitas Indonesia. The samples group has been chosen because university students and alumnus have high potential to adopt new technology such as mobile payment (Oliveira et al., 2016).

#### 4. Result and Discussion

##### *Measurement model:*

In measuring internal consistency reliability, Hair et al. (2017) recommends the usage of composite reliability (CR) with the minimal point required of 0.7. While to measure the convergent validity, the researcher must consider values from outer loading with minimal point required of 0.7 and average variance extracted (AVE) with minimal point required of 0.5. Meanwhile, to measure the discriminant validity, the researchers use a cross loading method. Specifically, the value of outer loading from a construct should be bigger than the outer loading value from others construct. The result shows that all indicators of the measurement test results have significant values (t-value > 1.96 and alpha at 0.05 level) and all outer loading on the indicator have met the minimum requirements.

##### *Structural Model:*

Hair et al (2017) states that path coefficients (or structural model relations) represent the hypothesized relationship among the constructs. Estimated path coefficients close to +1 represent strong positive relationships (and vice versa for negative values), while the closer the estimated coefficients are to 0, the weaker the relationships. The value of the path coefficient is relative by comparison with the other path coefficient. Table 2 shows the path coefficient of construct in this research which has 5% probability of error.

**Table 2.** Path Coefficients

Relation	Coefficients ( $\beta$ )	t-Values
Performance Expectancy (PE) → Behavior Intention to Adopt (IA)	0.590	7.266*
Effort Expectancy (EE) → Behavior Intention to Adopt (IA)	0.106	1.614
Social Influences (SI) → Behavior Intention to Adopt (IA)	0.224	2.646*
Behavior Intention to Adopt (IA) → Behavior Intention to Recommend (IR)	0.846	25.992*

**Note:** \* significant at 0.05 level.

As shown in Table 2, the effect of Performance Expectancy (PE) on Behavior Intention to Adopt (IA) was 0.590 and significant at t-values 7.266 ( $p < 0.05$ ). The results of this test indicate that hypothesis-1 (H1) of this research is proven and accepted. The effect of Effort Expectancy (EE) on Behavior Intention to Adopt (IA) was 0.106 and not significant at t-values 1.614 ( $p > 0.05$ ). The results of this test indicate that the hypothesis-3 (H2) of this study is not proven and the hypothesis is rejected. The effect of Social Influences (SI) on Behavior Intention to Adopt (IA) was 0.224 and significant at t-values 2.646 ( $p < 0.05$ ) t-values. The results of this test indicate that the hypothesis-3 (H3) of this study is proven and accepted. The influence of Behavior Intention to Adopt (IA) on Behavior Intention to Recommend (IR) was 0.846 and significant at t-values 25.992 ( $p < 0.05$ ). The test results show that the hypothesis-4 (H4) of this study is proven and accepted

## 5. Conclusion

Among the construct which is the significance in explaining the behavioral intention to adapt the intention of using mobile payment, Performance Expectancy (PE) is the most important construct. Therefore, the discussion on this research will focus on this construct. Moreover, Social Influence (SI) is also significant and this can explain the significance of the behavioral intention of the user to recommend mobile payment to others.

The finding of the research shows that Performance Expectancy (PE) has the strongest coefficient compared to other factors. The result is consistent with Venkatesh et al (2012) who declares that Performance Expectancy consistently emerges as the strongest predictor of intentions for technology adaption. Mobile payment makes financial transactions easier to implement by eliminating the need for physical money or a more complicated banking transactional process. This is what makes the consumer perception of mobile payment service as an easier and faster alternative payment method than traditional payment methods (Madan & Yadav, 2016). By this fact, the developer and provider of mobile payment services should focus on factors that give benefits to consumers when using the mobile payment. The focus must be offered form the product development phase to marketing strategies. With Performance Expectancy as the highest coefficient value, the mobile wallet provider should focus on this factor to create optimal and efficient value.

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## Analysis of Co-Branding Strategy Between Commercial Entities with Non-Profit Entities

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Fikri, Z \*, Halim, E.R. \*)

**Abstract:**

*This study examines the factors that influence the strategy of co-branding between commercial entities and non-profit entities. The commercial entities want to obtain a positive brand image of non-profit entities, vice versa the non-profit entities are in-need of funding.*

*The cooperation between the two entities can be profitable, but not all strategies can be implemented as planned. As the co-branding strategy is not always effective, it may even pose a risk to the image of a brand.*

*This study found that the consumers' brand familiarity does not mean that will lead to a positive assessment of the brand alliance evaluation.*

**Keywords:** Brand Alliance, Brand Management, Co-Branding;

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### 1. Introduction

Increasingly fierce global competition on the market with massive information growth has created an intelligent and competitive market. Brand owners in various industries face the challenge of diversity in brand building. It creates a lot of opportunities for business owners to expand both nationally and internationally (Ceglowski 1998). Co-branding is one of the strategies that can be used as a solution to face an increasingly competitive market, because through co-branding strategy, managers will be able to increase brand equity for a given product. With a further increase in the brand equity, the value will also increase the brand preference which will affect the brand recognition by consumers (Kapferer, 2008). Co-branding strategy is usually performed between commercial entities, such as co-branding strategy undertaken between Blackberry-Porsche; Walls-Buavita; Shell-Lego. Co-branding strategy between commercial entities with non-profit entities is an interesting phenomenon. Non-profit entities do not have profit as the main purpose, whereas commercial entities make profit as their main objective.

The collaborative relationship will increasingly move from the traditional philanthropic market with donors and recipients towards a deeper strategy, namely

the alliance strategy. These changes are already underway with a brand that cooperative alliance between commercial entities and non-profit entities, that would be the evidence of the phenomenon (Austin, 2000). Cooperation is carried out with both these brands generating a positive or negative effect or known as spill-over effect. The effects that influence the brand image and consumer attitudes toward the brand and generate a brand's equity (Halim and Zulkarnaen, 2017; Javalgi, Traylor, Gross, Lampman 1994). The cooperation between these brands does not work according to the plan, the compatibility between the brand cooperation is a major factor in creating a positive effect in a brand partnership (spillover effect), with a record brand concept of brand alliances consistent with the alliance conducted (Jap, 1993).

## **2. Literature review**

Brand familiarity is the result of the accumulated learning of a brand consumer, either through experience or through the consumption of marketing communications, brand familiarity can minimize the brand search alternative, accelerate the process of new information and give the relevant information. So, it can be defined that the greater the experience of consumers towards the products consumption, the greater the degree of familiarity of consumers to the product's brand (Alba and Hutchinson, 1987). Familiar or not, a brand is associated in terms of consumer knowledge with consumer memory (Halim and Zulkarnaen, 2017).

Attitude is a mental and neurological connection with the readiness to respond, is organized through experience and has a direct influence on behavior and/or dynamic (Allport, 2003; Halim, 2017). According to Tom Aaker and Kevin Lane Keller, brand attitude (attitude towards a brand) can basically be divided into three: positive, negative, and neutral. Brand attitude is a learned tendency of the consumers to evaluate brands in ways that promote (positive) or does not support the (negative) consistently.

In a broad sense, the brand alliance can be defined as a concept that brings together two or more brands with other brands in the context of marketing such as advertising, product, product placement and distribution outlets (Grossman, 1997). Co-Branding can be interpreted as any installation of two brands in the context of product marketing such as advertising, product placement and distribution outlets (Leuthesser, Kohli and Suri, 2003; Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017).

## **3. Methodology**

Brand Attitude or someone's attitude toward a brand is associated with the evaluation, feelings and tendencies of the person (Kotler, 2003). Someone's attitude toward an object is of 3 types, namely: (a) Negative; (b) Positive; (c) Neutral. The

attitude is very related to the 3 components of a brand, namely: (a) Cognitive; (b) Affective; (c) Conative (Aaker & Keller, 1990).

*H1: Pre-Brand Attitude impacts the Perceived Co-Brand Fit.*

*H2: Pre-Brand Attitude impacts the Evaluation of Brand Alliance.*

Familiar or not, a brand in terms of consumer knowledge about the brand is associated with consumer memory. Consumers tend to have different variations in associating a brand. Consumers may consider the brand be very familiar, or it can be recommended through family or relatives, or as a result of seeing an ad about the brand, or because the package is well known to the consumers, and so on. Consumers are not familiar to a brand because they have not got one of those experiences (Campbell & Keller, 2003). The spill-over effect can affect not only the brand attitude and brand image, but can also affect the purchase intention (Madrigal, 2001).

*H3: Brand Familiarity impacts the Perceived Co-Brand Fit.*

*H4: Perceived Co-Brand Fit, moderates the Pre-Brand Attitude impacts on brand alliance evaluations.*

*H5: Positive Brand Alliance Evaluations result in higher Post-Brand Attitudes.*

In this study, researchers used questionnaires as the instrument to collect the primary data. In the questionnaire is being used the Likert scale (6 categories). The methods of data collection through questionnaires is done directly from researchers to respondents. The same questionnaire used by Dickinson and Barker in 2007 was given to respondents, with modification in brand familiarity variable and perceived co-brand fit variable. The questionnaire will be solely filled by the respondent or by self-administered questionnaire accompanied and supervised by researchers for filling out the questionnaire to obtain valid data. Researchers used the Scaled Response Questions form. Offline were speeded 150 questionnaires. To improve the reliability of each statement in the questionnaire, the researchers conducted a pretest to 30 people by distributing questionnaires. The research sample is not a restricted category. The total samples are 120 respondents, which are processed to be converted into the value of the variables of the study.

#### **4. Result and Discussion**

##### ***Impact of Perceived Brand Attitude towards Co-Brand Fit:***

According to Phillip Kotler (2008), attitude is the evaluation, feeling, and the tendency of a person towards an object or an idea that is relatively consistent. Attitude perceived by consumers to the acceptance of a brand will form a preference for a brand fit. To provide further empirical support from studies, there was found a significant effect (0.324 and p-value = 0.000) between the Pre-Attitude brand to Co-Brand Perceived Fit, with this result the first hypothesis is accepted. These results are supported by research that has been done before by Dickinson and Barker (2007)

who also found the influence of the brand Attitude towards co Perceived brand fit. This is explained in the following Table 1.

***Impact of Brand Attitude towards Brand Alliance Evaluation:***

Consumer's positive attitude towards each brand will drive a good judgment on the conducted alliance. By having a trusted image of quality from brands that participate in co-branding, is expected to be created a positive attitude, which will lead to the consumer's intention to buy a product of the brand and make the purchase again. The quality of one brand also has a significant impact on the evaluation of the parent participating brands (Helmig, Huber, and Leeflang, 2008). The following table proves that the positive (0.309) and significant ( $p = 0.000$ ) influence between the Pre-Brand Attitude brand, evaluates the alliance a co-brand alliance, thus the second hypothesis is accepted.

***Impact of Brand Familiarity towards Perceived Co-Brand Fit:***

Familiar or not, a brand in terms of consumer knowledge about the brand is associated with the consumer memory. Consumers tend to have different variations in associate brand. Consumers may have to try or use the mark which is very familiar, or it can be recommended through family or relatives, or as a result of seeing an ad about the brand, or because consumers know the packaging, and so on. Consumers are not familiar to a brand because they have not got one of those experiences (Campbell & Keller, 2003). This study found no effect of brand familiarity to co-brand fit (0.077 and  $p$ -value = 0404) Thus the hypothesis 3 is rejected.

***Perceived Co-Brand Fit, moderates Pre-Brand Attitude impacts on Brand Alliance Evaluations:***

From Table 1 below, the study tested three models consisting of the three models (Z), (Z + X), and (Z + X + ZX). Model 1 (which contains the Pre-Brand Attitude alone), donations predictors of 9.6% (Cumulative  $R^2$ ) with F value of 12 476 ( $p = 0.001$ ), which means that the Pre-Brand Attitude can predict Brand Alliance Evaluations. Further, model 2, in addition to Pre-Brand Attitude also adds other predictors as Perceived Co-Brand Fit (Z + X), it is able to predict the contribution of Brand Alliance Evaluation quite effectively from 9.6% to 43.4%. These additions are also significant predictors visible from the F value increased to 70 021 ( $p = 0.000$ ). However, the Interaction of Pre-Brand Attitude and Perceived Co-Brand Fit (ZX) as a moderating variable to model 3, has not been able to provide significant improvement to changes in the value of  $R^2$  (Increment  $R^2$ ). The results can be seen in the following table.

***Table 1. The Moderation Effect of Perceived Co-Brand Fit***

Independent Variable	Cumulative $R^2$	F	Independent Variable Added	$R^2$ Increment	P value
Z	0.096	12.476	Z	0.096	0.001
Z + X	0.434	70.021	X	0.339	0.000

Z + X + ZX	0.435	0.151	ZX	0.001	0.698
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Y = Brand Alliance Evaluations;

Z = Pre-Attitude;

X = Perceived Co-Brand Fit;

ZX = Interaction [Pre-Attitude \* Perceived Co-Brand Fit]

***Positive Brand Alliance Evaluations result in higher Post-Brand Attitudes:***

This study uses a paired sample t-test to see how different attitudes toward the brand after a co-branding with the ones prior co-branding. The attitude of the co-branding will generally affect the establishment of the post of co-branding attitudes (post-attitude) or often referred to the spillover effect. According to Simonin and Ruth (1998) the consumer evaluations of each brand will be more positive after co-branding than prior to that. We found that the mean of pre-attitude is 3.56 and the mean of post-attitude is 4.29 (P-value = 0.000). This indicates that, significant co-branding determines consumers have a more positive attitude towards the overall brand. This is the benefit obtained by brands that have low equity in the presence of co-branding.

**5. Conclusion**

This study found that pre-brand attitude impacts the perceived co-brand fit, (p = 0.000). In the second hypothesis test, it was found that the pre-brand attitude positively influences the evaluation of the co-branding alliance (p = 0.001). In this study, the findings obtained by not finding a positive effect on perceived brand familiarity co-brand fit (p = 0.404). These findings are inconsistent with previous research conducted by Dickinson and Barker (2007). It is possible at this time, that more consumers look to the purpose of the alliance in building entities which are not based on the familiarity of a brand. This finding was also discovered by Irina Galitskaya (2010).

Galitskaya (2010) says that a "Consumer's familiarity with the partner brand is not related to attitude toward the focal brand, or attitude toward the co-branding." Means familiarity of consumers towards a brand (brand familiarity) does not relate to what consumers perceived about the cooperation between brands (Co-Brand Perceived Fit). Through the fourth hypothesis test results, it was found that the co-brand perceived variables do not pre-moderate fit the brand attitude in influencing the evaluation of co-branding alliance. This study proves the effect of the brand alliance cooperation (spill-over effects).

This can be seen with the increase in the average value for the entire brand attitude after they do co-branding. In measuring the effect of the brand alliance strategy (spill-over effects), this hypothesis was tested using two different test means (Paired Sample t-test). The results of two different tests (Paired Sample t-test) p was significant (p = 0.000). This study found an increase in the average value of the

brand attitude before (pre-attitude) and after (post-attitude) co-branding, meaning that 3.56 becomes 4.29.

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## **The Effect of Retailer Awareness, Retailer Association, Retailer Perceived Quality, and Retailer Loyalty Towards Purchase Intention**

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Btari, B.B. \*, Halim, E.R. \*)

### **Abstract:**

*Retail developments in Indonesia continue to increase, especially modern retail which has the greatest growth in comparison to the traditional retail, especially retail trade of food and beverage categories.*

*One of them developed at this time is 7-Eleven, attended by positioning itself as a convenience store, but it also provides some seating and tables inside and outdoors for 24 hours (hybrid convenience stores). With increasing competition in the retail, it is no less important whether the retail brand or the brand can affect consumer's purchase intention to come to a retail shop.*

*This study aims to analyze the influence of awareness retailers, retailer's association, perceived quality retailer, and retailer loyalty towards consumer's purchase intention possessed. The hypothesis testing is done by using Structural Equation Modeling (SEM).*

*According to the results of testing the hypothesis it is known that the retailer awareness is not being proven to have positive influence on the purchase intention. Retailer awareness and retailer association also not proved a positive influence on retailer loyalty. While retailer association, retailer perceived quality and retailer loyalty proven positive effect on the purchase intention.*

**Keywords:** *Association, awareness, loyalty, perceived quality, purchase intention, retailer.*

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### **1. Introduction**

The continuous developments of technology and business management are diversifying food in a variety of scales and encourage the presence of a strong and broad market to absorb the output results. This opportunity is captured by the emergence of modern retail networks which continue to grow in Indonesia. The application of the concept, the use of technology as well as trying to accommodate the development of the lifestyle of today's society must provide added value for modern retailing compared to the traditional markets.

The main objective of this study was to determine whether a retail brand or brand can affect the consumer's purchase intention to come to a retail shop. In this study, the retail brand refers to the "retailer as a brand or retail store as a brand" (Das, 2013a; Das, Datta, and Guin, 2012b; Moller and Herm, 2013). Likewise, in this study is being referred to brand awareness, brand association, perceived quality and brand loyalty, as the retailer's awareness, retailer's association, perceived quality retailer, and retailer's loyalty. The emergence of "retailer as a brand" is one of the most important trends in the retail brand research (Grewal, Levy, and Lehmann, (2004)). This has been proven in several recent studies regarding retail brand (for example, Moller and Herm, 2013; Das, 2013a; 2013b; Das et al., 2013).

## **2. Literature review**

**Brand.** According to the American Marketing Association (AMA) the brand is a name, a term, a sign, a symbol, a design, or any combination thereof which is intended to identify the goods or services of a person or group of sellers and a differentiator of the goods or services from competitors. Besides that, the brand is the 'promise' of companies with consistently to provide the features, benefits and services to its customers. Then the 'promise' is what makes the public more aware of the brand, compared with another brand (Halim and Zulkarnaen, 2017; Futrell and Stanton 1989; Keagan et al, 1995; David A. Aaker, 1997).

**Brand Equity.** Aaker (1991) gives the first definition of brand equity as a concept that combines tangible and intangible elements. The dimension of brand equity is defined as a set of brand assets (including brand loyalty, brand awareness, perceived quality, brand associations, and others) associated with a brand name that adds or subtracts value to the consumer. This definition indicates that the brand equity adds value to the product or service and increases the customer satisfaction, which provides in turn a number of benefits to the company. In most of the research related to the concept and measurement of brand equity are being used the dimensions of brand awareness, perceived quality, brand association and brand loyalty; (Eg, Cobb-Walgren et al, 1995; Yoo et al., 2000; Yoo and Donthu, 2001; Washburn and Plank, 2002; Ashill and Sinha, 2004; Pappu et al, 2005; 2006; Konecnik and Gartner, 2007; Tong and Hawley, 2009; Lee and Back, 2010).

**Retailer awareness.** Retailer awareness is conceptualized as a "consumer's ability to recognize or recall that the retailer is a member of certain retailer category" (Pappu and Quester, 2006, p.320). Retailer awareness is the extent to which retailers' names are familiar to shoppers (Aaker, 1991). Retailer's awareness increases the chances of a retail brand to be included in the considerations of consumers, to simplify the selection and make consumers accustomed to choosing retail brands (Hauser and Wernerfeldt, 1990; in Jinfeng and Zhilong, 2009).

**Retailer association.** Retailer associations is defined as "anything linked to the memory of the retailer" (Pappu and Quester, 2006; p.320). Three desirable

characteristics of brand associations are strength, favorability and uniqueness (Keller, 1993). Brand associations are linked to product performance and are related to the brands or to the image of the brands (Keller, 1993) or to the product performance, such as attributes, features or benefits that buyers link to a brand and that differentiate it from the competition (Dillon et al., 2001).

**Retailer perceived quality.** Retailer perceived quality is conceptualized as the “perception of the quality of the retailer as well as the (perception of) quality of products (goods or services) offered by retailers” (Pappu and Quester, 2006, p.320). Retailer with higher perceived quality can be a driving force for consumers in choosing a retailer as compared to other competitors as the main option (Jinfeng and Zhilong, 2009). Sometime, retailer perceived quality and retailer associations are seemed as a combined dimension (Yoo and Donthu, 2001). However, retailer association and retailer perceived qualities are two distinct constructs (Pappu and Quester, 2006).

**Retailer loyalty.** Store loyalty is conceptualized as “the tendency to be loyal to a focal retailer as demonstrated by the intention to buy from the retailer as a primary choice” (Pappu and Quester, 2006, p.320). Meanwhile, according to Mowen (1995), brand loyalty is the degree to which customers have a positive attitude towards a brand (retailers), have committed and are likely to continue to purchase products with a brand (retailers) in the future. Loyal customers spread positive word of mouth about the brands/companies, participate in repeat purchase, and are willing to pay higher price (Zeithaml et al., 1996; Sutarso, Halim, Balqiah and Tjptoherijanto, 2017). A small change in customer retention rate may have significant impacts on retail earnings.

**Purchase intention.** Purchase intention can be conceptualized as the individual’s intention to buy products/services. Purchase intention can ultimately result in actual purchase behavior (Luo et al., 2011). The intention to purchase a brand, product or service requires the assessment of all brands, products or services offered by competitors (Teng et al., 2007). The intention to purchase products/services arise when they provide the features that meet the consumers’ need (Fournier, 1998). Some studies argued that the purchase intention is affected by both recognized value and excellent offers of a product/service (Halim, 2017; Monroe and Krishnan, 1985; Zeithaml, 1988).

**Research hypotheses:**

- H1. Retailer awareness has positive impact on purchase intention
- H2. Retailer awareness has positive impact on retailer loyalty.
- H3. Retailer association has positive impact on retailer loyalty.
- H4. Retailer association has positive impact on purchase intention.
- H5. Retailer perceived quality has positive impact on retailer loyalty.
- H6. Retailer perceived quality has positive impact on purchase intention.
- H7. Retailer loyalty has positive impact on purchase intention.

### **3. Methodology**

#### ***Measures:***

For measuring retailer awareness, retailer association, retailer perceived quality and retailer loyalty, we have adopted the items developed by Pappu and Quester (2006). Retailer awareness, retailer association, retailer perceived quality and retailer loyalty comprise of three, five, four and three items, respectively. Pappu and Quester (2006) developed and tested these items in retail branding context (Pappu and Quester, 2008). The items were measured with 7-point Likert type scale (1 = strongly disagree, 7 = strongly agree). The purchase intention was measured with four items, adopted from Summers et al. (2006) study, using 7-point Likert-type scale (1 = strongly disagree, 7 = strongly agree). As well as composed of dichotomous questions, multiple-choice and open questions.

#### ***Sample and data collection:***

Data was collected by cross sectional survey in five urban areas Jakarta, Bogor, Depok, Tangerang, and Bekasi using self-administered questionnaires from 147 respondents that were chosen by convenience sampling. The eligibility criteria of the responding candidate are as follows: purchase any food item from the selected retail stores least 4–6 times in the past six months. This criterion was set with the objectives of capturing shopping behavior in precise way and to facilitating the data collection process.

### **4. Result and Discussion**

#### ***Measurement model:***

The analysis conducted on the validity of the measurement model study was conducted by examining the t-value and standardized loading factor ( $\lambda$ ) in each observed variable or indicator, this is done by checking whether the validity criteria has been met through the t-value value  $\geq 1.96$  (Rigdon and Ferguson, 1991) and the Standardized value loadings  $\geq 0.50$  (Igbaria, 1997).

The goodness-of-fit measures were used to assess the overall model fit. As indicated by the results of the study, the overall fit indices that the proposed/base model is acceptable, with chi square/df equal to 2.11, RMSEA of 0.079, SRMR of 0.071, NFI of 0.83, CFI of 0.90, GFI of 0.84, RFI of 0.80, PNFI of 0.68, and IFI of 0.91 All the above fit indices for the measurement model indicated an acceptable fit.

A confirmatory factor analysis (CFA) was performed to assess reliability and validity for the measured constructs using Lisrel 8.51. Table 2 shows that the reliabilities of all constructs; Construct Reliability (CR) were above a 0.7 and Average Variance Extracted (AVE) were above a 0.5 threshold as suggested.

#### ***Structural model:***

The structural model, representing path analysis, depicts the links among the latent variables (Byrne, 2010). The proposed structural model in this study depicts the

linkages between retailer awareness, retailer association, perceived quality, retailer loyalty and purchase intention. Table 2 shows the result of hypotheses testing all hypotheses. The goodness-of-fit measures were used to assess the overall structural model fit. As indicated by the results of the study, the overall fit indices that the proposed model is acceptable, with Chi-square/df equal to 1.86, RMSEA of 0.069, SRMR of 0.077, NFI of 0.85, CFI of 0.92, GFI of 0.85, RFI of 0.82, PNFI of 0.70, and IFI of 0.93. All the above fit indices for the final model indicated an acceptable structural model fit.

**Table 3. Structural Model Estimates**

Causal relationship	Standardized coefficients	path	t value
H1 (RA → PI)	-0,03		-0,57
H2 (RA → RL)	0,07		0,88
H3 (RAS → RL)	0,02		0,23
H4 (RAS → PI)	0,10		1,78*
H5 (RPQ → RL)	0,21		2,49
H6 (RPQ → PI)	0,12		2,14
H7 (RL → PI)	0,70		8,83

*Note:* \**t* value  $\geq 1.645$ .

## 5. Conclusion

Based on the analysis, the importance of the brand or trademark of a retail purchase intention can influence consumers to come to a retail shop. Hence, a well-known retail brands can attract and influence the consumer to show purchase intentions. However, some hypotheses related to the implementation retailer as a brand and its influence on consumer purchase intention in this study was not significant. In previous research conducted by Das (2014), has been mentioned that the relationship between retailer awareness, retailer's association, retailer perceived quality and retailer loyalty towards purchase intention have a positive and significant influence. The results of this study compared with previous studies conducted by Das (2014) have shown some differences. Out seven hypotheses, there are three hypotheses that are not in accordance with the results of previous studies, while as many as four hypotheses consistent with studies done before. There are variables that significantly affective, but several other variables which did not have a significant influence.

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## The Effects of Motivation, Authenticity, and Engagement Towards the Visitors Loyalty of Heritage Tourism

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Rachma, H. \*, Halim, E.R. \*)

**Abstract:**

*Intense competition in the tourism market requires managers to have a competitive advantage. On heritage tourism, understanding and maintaining the authenticity attributes is important, as it they related to motivation and engagement in the tourist destinations.*

*The purpose of this study is to determine the effect of motivation, the perception of authenticity and engagement, towards the consequences of the future behavior which is loyalty. This study uses the Partial Least Square method, using the formative and reflective model variables.*

*The variables used in this study are cultural motivation, leisure serious, self-connection, object-based authenticity, existential authenticity, engagement, and loyalty. The results of this study showed that there is a significant effect, both from cultural motivation and self-connection, to the sense of authenticity.*

*Another finding is, that there is a significant effects sense of authenticity to the sense of authentic loyalty. But there is no significant effect between engagement and loyalty.*

**Keywords:** Motivation; authenticity; engagement; loyalty.

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### 1. Introduction

The tourism industry has known one of the biggest and fastest growth in the world industries (Ninemeier & Perdue, 2007; Cooper & Hall 2008). Tourism can increase stimulation in other production sectors, can offer broad employment opportunities, and increase the government's income. When the government income increases it will increase the state contribution toward infrastructure development (Pendit, 1990).

Based on UNWTO research in 2010 (Baker et al., 2013), the number of foreign tourists who visited the Asian Pacific area rose by 13%. Commonly, their travel motivation was to visit the historical and heritage buildings and the lifestyle. This fact is strengthened through the Euromonitor research from 2013 which shows that



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culture ranks the third, above the natural panorama in Indonesia. Heritage tourism is the most favorite line for local and international tourists.

One of the heritage tourism destinations in Indonesia is Kota Tua in Jakarta. Kota tua was chosen as a research object because it is the Heritage Conservation Center in Jakarta. It has already been picked on cultural heritage tentative list of United Nations Educational, Scientific, and Cultural Organization (UNESCO). This area, believed as an inheritance, contains artifacts, historical values, and cultures that need to be preserved. Mr Lin Che Wei CEO from Jeforah, Kota Tua told that it is relevant to choose Kota Tua as a cultural heritage because it is one of the oldest historical places in the world (since 1619), so extensive with many historical buildings (Marketeters, 2015).

Authenticity is not a concept that can stand alone, but it has an effect on visitor's motivation and engagement. Engagement is the prediction variable which plays a role in influencing customer loyalty. The level of involvement and enjoyment which refer to all cultural activities, have an impact on the visitor's intention. Loyalty is the expected goal and consequence of future consumer behavior (Halim and Zulkarnaen, 2017; Taheri, Javari, O'Gorman 2014).

## **2. Literature review**

Cultural Motivation - this concept is defined by the intention to follow cultural activities and gain new experience through knowledge and entertainment (Kolar and Zabkar, 2010). When people have cultural motivation, they have expectation toward the objectives they see (Ivanonic, 2011). This motivation is influenced by history or the third-party story they know. People have the tendency to believe what they listened from others and follow their childhood experience (Halim, 2017).

Based on the research conducted by Kolar and Zabkar (2010), there is a positive relation between cultural motivation and visitor's loyalty. The motivation and the intention toward culture, rises expectation toward the visited destination. Wishing to fulfill the motivation, their positive visitor's loyalty will be affected. People having cultural motivation will do more activities on heritage site, compared to people who accidentally visit the heritage site without cultural motivation (Leiper, 1990; Ivonic, 2011).

Serious Leisure is defined by the intention to fulfill the self needs, self-expression, and personal identity (Stebbins ,1992). One of the tourist's intentions is the desire for new learning experiences, to satisfy their needs through learning and achieving something from consuming historical artifacts. (Bryce, Curran, dan Taheri, 2015). The expected knowledge and result affect the tourist choices and the activities they do. Meanwhile, Self-Connection is the encouragement coming from tourist attraction representatives, Escales (2004). People who are connected to the

attractions will assume to be part of the place. People will see the place as a part of themselves while having a special emotion.

“Authenticity” is one aspect of tourist interest, this means that visitors see genuine objectives when they are travelling. (Kolar& Zabkar, 2010). We call this understanding as Object-Based Authenticity. When people feel they have a connection toward the environment, they will easily say that the place is their own. A feeling of personal affection is showed when visiting historical places and one in reconnecting to himself. (Bryce, Curran, dan Taheri, 2015). In the consumer experience is included a positive object-based relation that creates an emotional reaction that is the determinant of post-consumption behaviors such as the intention to recommend (Zhou et al., 2013).

Engagement can be used to predict the future of consumer behavior (i.e. loyalty). When they participate actively in one activity on the heritage site, they will feel satisfied from their visit and will improve their intention to recommend the place to others (Trinh & Ryan, 2013). When people successfully actualize and release themselves, there is a possibility for them to visit typical places with the intention to fulfill their psychologic need (Sutarso, Halim, Balqiah and Tjptoherijanto, 2017; Zhou et al., 2013). Meanwhile, Existential Authenticity defined by the place contains emotion, sensation, relationship, and feeling. (Rickly-Boyd, 2008).

- H1: Cultural motivation has positive effect toward object-based authenticity;*
- H2: Cultural motivation has positive effect toward visitor loyalty;*
- H3: Cultural motivation has positive effect toward engagement;*
- H4: Cultural motivation has positive effect toward existential authenticity;*
- H5: Serious leisure has positive effect toward object-based authenticity;*
- H6: Serious leisure has positive effect toward engagement;*
- H7: Self-connection has positive effect toward object-based authenticity;*
- H8: Self-connection has positive effect toward engagement;*
- H9: Self-connection has positive effect toward existential authenticity;*
- H10: Object-based authenticity has positive effect toward loyalties pengunjung;*
- H11: Object-based authenticity has positive effect toward engagement;*
- H12: Object-based authenticity has positive effect toward existential authenticity;*
- H13: Engagement has positive effect toward visitor's loyalty;*
- H14: Existential authenticity has positive effect toward visitor's loyalty.*

### **3. Methodology**

This research used a conclusive research design with non-probability sampling convenience sampling. The number of samples obtained is 126 respondents, but after further processes there are only 113 that can be used. Questionnaires distributed directly to the visitors who have been there at the time when the research conducted (survey on site). The variance-based Structural Equation Modeling (VB-

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SEM) was used to test all the hypotheses. Then the study used Partial Least Square (PLS)-SEM to analyze the structural model.

#### 4. Result and Discussion

All variables are valid and reliable with the Cronbach alpha value more than 0.60 and factor loadings more than 0.70. We then tested the 14 hypotheses described above. The result shown there is an influence of cultural motivation toward object-based authenticity, which has the T-value 3.953. It can be concluded that when someone has a cultural motivation, he will have expectation from the objectives he will see. Thus, H1 is accepted. We also found that there is a positive influence between cultural motivation toward loyalty (T-value 2.154). Loyalty consists of two components, are behavioral intention and emotional attachment. Then H2 is accepted. There is no significant influence between cultural motivation towards engagement (0.554). Thus, H3 is rejected. We also found that Cultural motivation has positive effects toward existential authenticity (T-value 3.039). Then, H4 is accepted.

There is no influence between Serious leisure toward object-based authenticity (T-value 1.632). A person with a serious leisure motivation is someone who has a personality motivation because of personal fulfillment, personal expression, and personal identity. They usually pursue intrinsic rewards such as learning new experiences. In order to meet these needs, they will consume historical artefacts (Taheri et al, 2012). The pleasure of the serious leisure is reflected in the pursuit of seeking (Cox & Blake, 2011). Thus, H5 is rejected.

We also found that there is no influence between serious leisure engagement (T-value 1.126) and the rejected H6. Yoon & Uysal (2005) reveal that individuals will attempt to take part in fun activities that enable them to fulfill their needs. Self-connection has a positive effect on object-based authenticity (T-value 5.044). Thus, H7 is accepted. Self-connection has positive effect on both engagement and existential authenticity (T value 4.735 and 3.121, consecutively), thus H8 and H9 are accepted.

Meanwhile object-based authenticity is positively associated with loyalty (T value 1.965). Then H10 is accepted. Object-based is an attribute of heritage tourism that can differentiate between heritage sites and other forms of tourism site and can enhance experience quality. There is a positive relationship between object-based authenticity and experience quality. A positive quality experience will enhance intent to recommendation and return visit.

Object-based authenticity has positive effects toward engagement. (T value 3.121). Then H11 is accepted. The study also found that Object-based authenticity has positive effects toward existential authenticity (T value 4.782). Then H12 is accepted. There is no positive influence of engagement on loyalty (T value 0.986).

Then H13 is rejected. Loyalty is measured not only because of repetitive behavior but also because of bonding (Ivanovic, 2011). Finally, the study also found that existential authenticity has positive effects toward loyalty (T value 2.718). Then H14 is accepted. The concept of existential authenticity relates to self-actualization and self being (Kolar and Zabkar, 2010). As Maslow expressed the concept of self-actualization is a person's desire to better understand himself and find the likes beyond material possessions (Zhou et al., 2013).

**Table 1.** Inner Model (structural model)

Variable	T-value	Result
CM→OA	3.953	Significant
CM→LO	2.154	Significant
CM→ENG	0.554	Not significant
CM → EA	2.874	Significant
SL → OA	1.632	Not significant
SL → ENG	1.126	Not significant
SC → OA	5.044	Significant
SC →ENG	4.735	Significant
SC→ EA	3.121	Significant
OA→ LO	1.965	Significant
OA→ ENG	3.121	Significant
OA →EA	4.782	Significant
ENG→ LO	0.986	Not significant
EA →LO	2.718	Significant

## 5. Conclusion

The results of this study indicate that there is a significant influence toward motivation. Motivation in this study consists of cultural motivation and self-connection toward the sense of authenticity. Another finding is that there is a significant influence of sense of authenticity on loyalty, but there is no significant influence between engagement and loyalty. Authenticity is an attribute which can be maintained to encounter competitive market conditions, so that the heritage attraction can have a competitive value. The attraction of Kota Tua should be able to deliver their value and information to visitors through tour guides and written explanations on objectives.

In addition, to introduce authenticity attributes for visitors who never visited Kota Tua before, can be done through the website publications, press releases on the media, and blogs. Revitalization can still be done by maintaining the authenticity of the object and its function. Maintaining architectural buildings in the Kota Tua area because it has an authenticity value and repair damaged building objects. The Kota Tua management should conduct management practice and control museum objects. To increase the engagement level on travel experience, the manager must understand the motivation (cultural motivation, serious leisure and self-connection). They have to know what kind of activity the visitor wants and needs. This is in order to increase

the competitive level of the destination. Different wants from the visitors should be well accommodated by the Kota Tua organizer.

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## The Role of the Vehicle Brand Loyalty and Repurchase Intention in the Indonesian Automotive Industry

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Rizki, H.\* , Halim, E.R. \*)

**Abstract:**

*This study aims to analyze the antecedents of loyalty and repurchase intention in Indonesian automotive industry, especially for passenger vehicles. The data for this research was collected from automotive consumer in Indonesia, specifically those who have already had the vehicle for 36 months.*

*Data was analyzed using Structural Equation Modeling (SEM) method and the correlation method. These results indicate that the perceived value, perceived equity, perceived value has a positive relationship to the brand satisfaction and brand trust. Then, brand satisfaction and brand trust are correlated.*

*Brand satisfaction has a positive influence on affective commitment but does not have a positive influence on continuance commitment. Meanwhile, brand trust has a positive influence on affective commitment and continuance commitment.*

*Then affective commitment has a positive influence on brand loyalty and repurchase intention, as well as continuance commitment has a positive influence on brand loyalty and repurchase intention.*

**Keywords:** *Brand loyalty, repurchase intention, brand satisfaction, brand trust, brand commitment;*

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### 1. Introduction

Indonesia became the first country in ASEAN to show the growing sales of four-wheeled motorcycles, reaching 1 million units by 2015 in the automotive sector in Southeast Asia followed by Thailand, Malaysia and the Philippines. This is also supported by data conducted by the ASEAN Automotive Federation in 2015 through "ASEAN Automotive Federation 2015 Statistics" which analyzes the sales and market shares in the automotive sector in Southeast Asia. Based on this data, it can be concluded that the automotive market in Indonesia is the largest in Southeast Asia. With the increasing number of motor vehicle sales from year to year and with the increasing production capacity, domestic consumption and export volume in

automotive field can make Indonesia a car production center in ASEAN and replace Thailand according to Ipson Business Consulting. According to Toyota Motor Manufacturing Indonesia (TMMIN) Director of Corporate and External Affairs (TMMIN), the increasing product capacity and sales in Indonesia will make Indonesia have the potential to become a Mecca for ASEAN Countries in the automotive field in the future due to the very large existing market potential in Indonesia.

Cronin et al. (2000) said that there is a positive influence of perceived value on brand satisfaction. Chaudhuri & Holbrook (2001) say against the positive influence between Perceived value given by the company to the consumer who will form the Brand Trust. Thus, the value which is got by the company will create a sense of satisfaction with the products and services provided and will also make the consumer be loyal to the products and services brand provided by the company (Sutarso, Halim, Balqiah and Tjiptoherijanto, 2017).

The objective of this research is to analyze the variables that allegedly influence loyalty and repurchase of Perceived Value, Perceived Equity, Perceived Quality, Brand Satisfaction, Brand Trust, Affective Commitment & Continuity Commitment.

## **2. Literature review**

According to Hellier (2003), Perceived Value can be interpreted as the judgment given by the consumer over the provided services, based on the value assigned by the consumer on what has been enjoyed by the consumer (cost or thing to be sacrificed for the service). Aaker (1991) provides an understanding of the brand equity that adds value or provides a reduction in the value of a company or perception provided by the consumer to the product. According to Olsen (2002) Quality is a general consumer's assessment about the product or brand and shows whether the product or brand has fulfilled its function or not, and the quality is a relative concept that changes continuously depending on the experience and the consumers expectations.

By providing quality products and services which exceed the expectations, consumers will be encouraged to feel satisfaction and trust in using the brand (Halim, 2017). Darsono & Junaedi (2006) said there is a positive influence between the good quality of the product and the customer's satisfaction. Corritore et al., (2003) said in his research that the quality of the provided products and services by consumers also have a positive influence on trust or consumer confidence in a brand.

Trust and consumer confidence are established based on reliability and honesty from one party to the other (Halim, 2017; Moorman et al., 1992). Consumers who are not satisfied only difficult build confidence with a brand. According to (Chaudhuri & Holbrook, 2001) the Trust dimension is to establish loyalty and if consumers already believe in their satisfaction. Berry (2000) says that Trust is an important

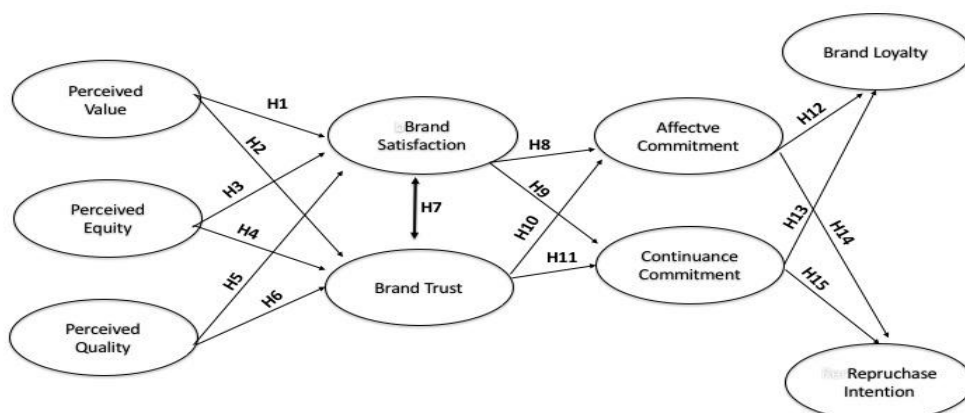


aspect in order to make consumers feel satisfied with a brand, therefore they will be more committed to the brand. Based on research from Ercis et al. (2012) there is a correlation between satisfaction with the trust of consumers to a brand.

Commitment is the desire of the consumer to continue to use the product and keep contact with a brand (Suh & Han, 2003). Commitment is divided into two types, namely Affective Commitment & Continuance Commitment. Affective Commitment is an emotional connection between the consumer with the brand and represents a strong bond. Meanwhile, Continuance Commitment is a weak bond between the consumer and the brand so that the consumer's tendency to switch from one brand to the other one is very high. This problem is raised by Ercis et al. (2012) to see whether there is a positive influence between satisfaction and commitment. In addition, Consumers with a high degree of loyalty are defined as consumers who always make repeated purchases and have a strong level of commitment to a brand (Halim and Zulkarnaen, 2017; Baldinger and Rubinson, 1996). Consumers who make repeated purchases are identified with a strong commitment level.

Ganesan et al. (1994) says that Brand Satisfaction is a positive affective reaction a consumer has after using a good. Consumer Trust is formed through both sides' honesty, according to Noorman et al. (1992). Brand Loyalty can be expressed with a tendency to consistently select one brand among multiple brands in the same product line and make sustainable purchases with that brand (Aaker, 2004). Commitment refers to the consumer's desire to continue a relationship with a brand (Suh and Han, 2003). According to Fullerton (2003) the intention of repeated purchase is a perception owned by consumers, related to the repurchase of a product or the same brand because the consumer has had a positive experience of the product or brand.

*Figure 1. Research Model and Hypotheses*



### 3. Methodology

We conducted a pretest by distributing questionnaires to 30 prospective respondents. The results were then tested for reliability and validity by using SPSS, which results show a good reliability with Cronbach's Alpha value above 0.6. For validity it is also good to have all factor loadings values above the 0.5 limit, with all requirements of factor analysis (Kaiser Mayer Oliver Measure of Sampling Adequacy / KMO above 0.5 and Bartlett's Test of Sphericity score below alpha 0.05 (Malhotra et al., 2006).

Further, researchers have distributed questionnaires using google forms facility. The questionnaire which were directly filled by the respondents in total of 487. Researchers then look at the results of the respondents' answers and obtained some results from the questionnaires which are not used in this study because they don't meet the criteria which has been determined. The results of unused questionnaires are caused by several things such as; users did not use their motor vehicle for more than 36 months. After screening the above, the researcher used 478 qualified respondent questionnaires to proceed to data processing using Structural Equation Modeling (SEM) method through PLS-SEM application.

Structural Equation Modeling (SEM) method is used to perform analysis of overall model measurement and structural model analysis. The model's overall measurement analysis aims to confirm whether the observed variables are the exact benchmarks or reflections of a latent variable, while the structural model describes the relationships between latent variables.

#### **4. Result and Discussion**

Perceived value has a significant positive effect on Brand Satisfaction & Brand Trust. The t-values show the numbers 1.790 & 2.216, which indicates that hypotheses 1 & 2 are accepted. Perceived Equity has a significant positive effect on Brand Satisfaction & Brand Trust where the t-value shows the numbers 2,810, & 5.712 which indicate that the hypotheses 3 & 4 are accepted. Perceived Quality has a significant positive effect on Brand Satisfaction with the t-value showing the numbers 10,715 & 8,473, therefore, hypotheses 5 & 6 are accepted.

Brand Satisfaction is correlated to Brand Trust with a significance value below 0,005 that is value 0.000 and hypothesis 7 is accepted. Brand Satisfaction has a significant positive influence on Affective Commitment with the t-value of 2.165, which shows that hypothesis 8 is accepted. Brand Satisfaction does not have a significant positive effect on the Continuance Commitment with the t-value of 0.392, which shows that hypothesis 9 is rejected. Brand Trust has a significant positive effect on the Affective Commitment & Continuance Commitment with a t-value of 7.364 & 8.493, which shows that hypotheses 10 & 11 are accepted.

Affective Commitment has a significant positive effect on Brand Loyalty with the t-value of 7.364, which shows that hypothesis 12 is accepted. Continuance Commitment has a significant positive effect on Brand Loyalty & Repurchase

Intention with the t-value equal to 8,787 & 25,704. Indicates that hypotheses 13 & 15 are accepted. Affective Commitment has a significant positive effect on Repurchase Intention with the t-value of 1.657. which shows that hypothesis 14 is accepted.

## **5. Conclusion**

In terms of perceived value, the automotive industry should pay more attention to the way the brand values are embedded in the vehicle, so that the value can be delivered to the consumer. In terms of perceived equity, the products of the automotive industry are sanctioned to provide a positive image of the automotive industry's brand in the minds of the consumers. In terms of perceived quality, the products of the automotive industry must maintain the quality of its products because consumers are very sensitive to the quality offered by automotive industry companies, when consumers already feel that the quality is high and exceeds the expectations, consumers tend to feel satisfaction and they will believe in the brand that has been used. In terms of brand trust. The highest confidence is derived from the convenience gained by the user. Convenience can be the ease of use, good service, and the quality of the brand from the automotive industry.

In terms of Affective & Continuance Commitment companies in the automotive field must provide a great sense of emotion. Once having a product of a certain automotive brand, a strong bond is being created and the first step in building loyalty is achieved, therefore a re-use is more likely, and consumers will feel comfortable and be committed to using the same brand again. In terms of brand loyalty and Repurchase intention company in the field of automotive is expected to provide good qualities to its products so consumers will feel the weight of heart to change from one brand ever used to other vehicle brands, in terms of good brand loyalty done by the company the automotive industry is to provide extra services both in terms of service, after sales, customer service and others that make the consumer feel the attention of the company to every consumer.

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## Export Import Performance Related to Economic Openness of Surabaya

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**Abstract:**

*Trade (export and import) is one of the keys to a country's economic growth. History proves that the openness of the economy can be a stimulator to further drive the wheels of the economy.*

*However, in the period 2009-2014, Surabaya displayed a contradictory pattern based on the ratio of economic openness measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP) showing that the city of Surabaya has a very high economic openness.*

*While it has a very high level of economic openness, its economic growth is still positive recorded. This fact indicates that Surabaya still faces some challenges and barriers of export performance linked to economic openness.*

**Keywords:** *Import export, economic openness, Surabaya city.*

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### 1. Introduction

Based on economic theory, trade (exports and imports) represent one of the keys to a country's economic growth, in addition to consumption, investment, and government spending. Historically, economic growth in developing countries is strongly supported by the export growth that these countries control, and the share of world exports. In 2013, China was the largest exporter with a market share of 11.7% in the world, followed by the United States at 8.4% in the world and Germany at 7.7% in the world (WTO.2015). The results of a research conducted by Tambunan (2001), Febryani, Anita and Zulfadin, Rahadian (2003) also indicates the important role of exports in economic growth and job creation.

**Table 1:** *Countries with World's Highest Export Rank*

(Billion dollars and percentage)				
Rank	Exporters	Value	Share	Rank

1	China	2209	11,7	1
2	United States	1580	8,4	2
3	Germany	1453	7,7	3
4	Japan	715	3,8	4
5	Netherlands	672	3,6	5
6	France	580	3,1	6
7	Korea, Republic of	560	3,0	7
8	United Kingdom	542	2,9	
9	Hong Kong, China	536	2,8	8
	domestic exports	20	0,1	9
	re-exports	516	2,7	
10	Russian Federation	523	2,8	10
a Imports are valued F.O.B.				
b Secretariat estimates.				
c Includes significant re-exports or imports for re-export.				
Note: For annual data 2003-2013, see Appendix A6 and A7				

Source: WTO.2015.

In line with this, the Indonesian government also considers exports as one of the locomotives of Indonesia's economic growth. Data taken from Indonesian Statistics shows that exports of goods and services contribute as the second largest for economic growth after private consumption with donations between 23% -24% in the period of 2010-2014 as shown in table 1. Each year the government sets export growth targets in support of economic growth and employment creation. Following the pattern of world and national trade, the pattern of trade in Surabaya also shows a similar trend, with as quite large contribution of the export sector because it is a city of commerce.

In 2013 the export value of Surabaya City was 17,545,307,329 (\$ US) which decreased to 15,448,541,332 (\$ US) in 2012 and then decreased again to 14,898,848,075 (\$ US). This development is inversely proportional to the increasing value of imports. In 2011, the import value of Surabaya was recorded at 15,972,249,647 (\$ US), rising in 2012 to US \$ 16,852,596,453 and increasing again in 2013 to 17,303,578,574 (\$ US).

**Table 2.** Export and Import of Non-Oil and Gas Surabaya City Year 2010 - 2014

YEAR	EXPORT		IMPORT		NET EXPORT
	VALUE (\$US)	VOLUME (Kg)	VALUE (\$US)	VOLUME (Kg)	
2010	13.836.717.677	8.211.419.466	11.752.804.631	16.609.465.882	2.083.913.046
2011	17.545.307.329	8.887.677.109	15.972.249.647	20.104.905.597	1.573.057.682
2012	15.448.541.322	8.152.459.649	16.852.596.453	21.081.663.995	(1.404.055.131)
2013	14.898.848.075	9.189.492.175	17.303.578.574	20.401.896.881	(2.404.730.499)
2014*	18.022.413.011	10.069.522.465	17.056.615.375	21.870.011.067	965.797.636

Source: Indonesia Bank, 2015.

Based on the above conditions, a thorough evaluation of export and import performance in Surabaya City is required. It is expected that after the export performance, the pattern of intervention will be formulated by the Government especially related to the increase of the trade rate through import-export. Therefore, in the future, it can encourage the economic growth of the region, which is considered high enough in order to increase the people's prosperity.

## 2. Literature review

Several researchers have conducted the analysis of export-import performance evaluation related to economic openness. A study conducted by Mohamed Fenira (2015) entitled "*Trade Openness and Growth in Developing Countries: An Analysis of the Relationship After Comparing Trade Indicators*" asserts that liberalization of trade policies has weakly contributed to boosting economic growth in 82 developing countries. The assertion made by the comparative analysis of trade index order to prove that the ratio of trade ( $X + M / GDP$ ), which is used as the main variable in the model, have a weak correlation to the three indices of trade openness either applied by Sachs and Warner (1995), Dollar and Kraay (2002) and Wacziarg and Welch (2003). Ultimately, this study found the fact that economic growth in developing countries could be driven from a positive relationship between government aid and economic openness itself.

In the regional framework, Surabaya City is the second largest city in Indonesia with an impressive economic development. The economic growth of Surabaya City has a higher value compared to East Java Province and in national scale for the last five years (2010-2015 \*). In 2014 the economic growth of Surabaya City is of 7.02%, higher than East Java with 5.86% economic growth and 5.02% in Indonesia. In general, good economic development in Surabaya City is more supported by Household consumption. Thus, the focus of government policy should also consider the factor of public consumption. In addition, Gross Fixed Capital Formation as well as Export of Goods and Services also support the formation of GRDP. In 2013 the amount of household expenditure based on constant price in 2010 is Rp. 73,406.24 billion rupiah, while for Formation of Gross Fixed Capital is Rp. 22,151.69 billion.

Based on the ratio of economic openness as measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP), Surabaya has a very high economic openness. An economy is very open when the openness ratio is 30% or more, since it shows that the exports and imports of goods/services account for 30% or more of the aggregate production (Martha, 2012). Based on Table 6 below, the ratio of Surabaya's economic openness is even above 100% in the period of 2009 to 2014. In 2014 the city openness ratio is 138.797 percent indicating that the share of exports and imports is 138.797% of total aggregate production.

## 3. Methodology

The analytical technique used to measure the Index of degrees of openness (economic openness) is the ratio of total trade (export and import) to Gross Domestic Product (GDP) (Sjamsul Arifin, Winantyo, R., Yati Kurniati, 2007). In theory, from economic openness benefit all countries involved. The advantages of trade openness include the opening of wider market access, achieving higher levels of efficiency and economic competitiveness, and greater employment opportunities (Purwanto, 2011). Here is the measurement formula index for the degree of economic openness. Embracing an open economic system, import-export activities in Surabaya become one of the important factors to support growth. The current performance of Surabaya's trade balance continues to show improvement despite the negative performance 2 years ago in trade balance. This is in line with declining demand of export destination countries as the impact of slowing economic growth.

**Table 3.** Degree of Surabaya Openness

YEARS	EKSPORT	IMPORT	GRDP	Degree of Openness
	VALUE (\$US)	VALUE (\$US)	At Current Market Prices (billion)	(Export and Import)/GRDP*
2009	10.595.003.087	8.791.237.324	178.558,97	144,453
2010	13.836.717.677	11.752.804.631	205.161,47	165,952
2011	17.545.307.329	15.972.249.647	235.034,30	189,739
2012	15.448.541.322	16.852.596.453	264.335,62	162,584
2013	14.898.848.075	17.303.578.574	302.756,07	141,518
2014	18.022.413.011	17.056.615.375	336.266,12	138,797

**Source:** \* Exchange Rate Assumption 1 USD = Rp. 13305.00 (June 2015). Bank Indonesia and Central of Statistical Board are processed 2015.

Furthermore, the ratio of economic openness based on inter-provincial import export shows that Surabaya also shows an open economy with ratio above 30 percent. The openness of Surabaya city from 2010 to 2012 shows the steady trend in 2010 by 35.76585972 percent, then it has increased to 36.73022433 percent in 2011 and to 42.03850398 percent.

**Table 4.** Degree of Openness Among Provinces of Surabaya

Year	EKSPORT	IMPORT	GRDP	Degree of Openness
	Value (Million Rp)	Value (Million Rp)	At Current Market Prices (Million Rp)	(Export and Import)/GRDP*
2010	37.114.707	36.263.056	205.161.469,71	35,76585972
2011	47.332.249	38.996.376	235.034.299,43	36,73022433
2012	66.245.040	44.877.700	264.335.620,00	42,03850398

**Source:** Central of Statistical Board of Surabaya City, 2014.



However, the openness ratio of Surabaya City compare to other districts/cities is below 30 percent. The openness ratio of Surabaya is 8.644458204 percent in 2010, 9.236527946 percent in 2011 and 10.63792263 percent in 2012. This shows that the portion of exports and imports of Surabaya City with other regencies/cities has small value to total aggregate production.

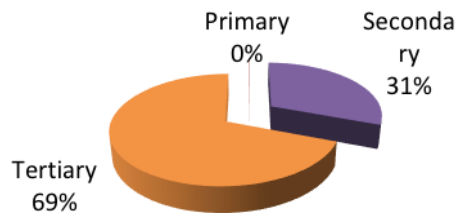
**Table 5.** Degree of Openness Among Cities of Surabaya

YEAR	EKSPORT	IMPORT	GRDP	Degree of Openness
	Value (Million Rp)	Value (Million Rp)	At Current Market Prices (Million Rp)	(Export+ Import)/GRDP*
2010	6.477.286	11.257.812	205.161.469,71	8,644458204
2011	8.736.213	12.972.796	235.034.299,43	9,236527946
2012	12.973.571	15.146.248	264.335.620,00	10,63792263

*Source:* Central of Statistical Board of Surabaya City, 2014.

In general, economic openness of Surabaya City both with foreign and inter-provincial is very open. This level of economic openness of Surabaya City is supposed to be a factor that stimulates economic growth consistently. The positive impact of this economic openness is evident from the rapidly growing role of tertiary sector (services) especially large trade, transportation of communication and social services. Even in 2014, the role of tertiary sector (trade, hotel and restaurant, transportation and communications, finance, leasing & financial services and services) reached 69.32% of total Surabaya PDRB.

**Figure 1.** Contribution to sectoral Surabaya GRDP at current market prices 2014.



*Source:* Central of Statistical Board, 2015.

Thus, the government's policy to implement various international trade policies aimed at increasing the value of trade openness by opening the widest space for inter-state trade traffic is the right step to be carried out by Surabaya. This is important because the trade openness has a huge impact on the efforts to increase better and faster economic growth. Export and import policies with a productive system is considered possible to spur economic growth and catch up from developing countries. Socialization of government regulations in the field of inter-state trade is necessary, in which the community/international trade actors to fully

understand the government issued regulations. These conditions allow business actors to determine the appropriate business field to be done that long-term trade openness can continue to drive economic growth.

#### **4. Result and Discussion**

Surabaya has a strategic geographical position in which the economic structure is dominated by industry, trade and services activities. Surabaya city has an international airport that can be reached in approximately 45 minutes from the city center and seaport that connects inter-island in Indonesia, including foreign countries. The condition of infrastructure of existing road network in Surabaya city is sufficient, especially in supporting the movement of goods and people, hence, it is able to support economic activities of society and region either in framework of Gerbangkertosusila Plus, Surabaya Metropolitan Area and EJIIZ (East Java Integrated Industrial Zone).

Fluctuating Export and Import growth in Surabaya. The data in Table xx below indicates that export and import growth are much more volatile than economic growth. During the period of 2001- 2011, the range between the highest and lowest growth rates was very big. The highest growth rate of exports was reached in 2010 at 30.60% per year, while the lowest growth rate was in 2012, i.e., -11.95%. Thus, the range (average) between export growth rates is 12.57% per year.

The same pattern is also visible on the import side. The highest growth rate of imports was achieved in 2011 which was 35.90% per year, while the lowest growth rate was in 2014, i.e. -1.43%. Thus, the range between import growth rate (Average) is 15.27% per year. The fluctuations in export and import growth are feared to have an impact on the stability of economic growth. In contrast, economic growth in Surabaya City was relatively stable at 7 percent in the same year period (2010-2014).

##### ***The Low Value of Net Exports***

During the period 2011-2014 the average value of Surabaya net exports was very small compared to the total GDP inflation. This shows that the average quantity of exports was almost as big as the quantity of imports. The highest net exports reached in 2011 were 6.01% of real GDP, while the lowest was in 2014 with 1.88% of the real GDP. This low portion of exports is feared to have reduced the ability of trade as a stimulating factor for Surabaya's economic growth.

Negative impact may arise if Surabaya not being able to increase its net exports. This is the weakening of the industry in Surabaya, along with the era of free trade that has been widely applied now, which will have impact on changing potential into consumption. The reason is that people's need for goods will always be present, and the levels will always increase-and must be improved-over time. Therefore, if these

needs cannot be met by the nation itself, it leads the country becomes a country is the that buys from other nations.

**Table 6.** Net Surabaya export (Billion Rp)

	2011	2012	2013	2014
Export of Goods and Services (Billion Rp)	60.810,83	63.230,12	66.765,69	71.323,56
Import of Goods and Services (Billion Rp)	56.133,74	58.305,49	63.944,93	69.124,50
Net Export (Billion Rp)	5.677,09	4.924,63	2.820,76	2.199,06
% Net Export/ GRDP				

*Source:* Central of Statistical Board and Development Panning Board of Surabaya City, 2015.

#### **Increased Dependence on Exporting Countries for Manufacturing Goods:**

Being a consumptive country, which is also an importing country, will bring to another more dangerous impact, it is the dependence on other nations. Logically, the weakening of the manufacturing industry will align parallel with the increase in imports of production goods, if indeed the needs of society will not be sacrificed. This is evident in Surabaya's trade balance (Figure xx) where import values consistently continue to increase during the period of 2011-2014.

#### **Decreased Employment Absorption Rate:**

The last impact, and the most populist in the society is related to the absorption of labor. Logically, the decline in the number of industries, both small and large, has an impact on the decrease in employment opportunities for the community. The manufacturing industry is the largest formal absorber of labor, and the declining role of the manufacturing sector has resulted in more formal sector workers.

In recent years, the percentage of workers in the manufacturing industry has decreased, from 26.69 percent in 2010 to -14.90 percent in 2014. This is the cause of the decline in the absorption of formal sector employment. In fact, the decline in the labor force also occurs in almost all sectors. The total absorption of manpower in 2010 was 1,245,542, increased to 12.5% in the following year by 1,401,193, and subsequently decreased to 1,347,680 in 2012. Furthermore, the number of working-class workers in 2013 was 1,395,604 or increased by 3, 56% while in 2014 was 1,380,156

## **5. Conclusion**

Based on the previous description, four major challenges related to economic openness and analysis of the challenge that have been analyzed are presented. Basically, there are some factors that become the main barriers related to

export performance, they are: (1). Decrease of production level in manufacturing industry; (2). Declining competitiveness that causes the drop of strategic industries; (3). Low Diversified Export Products; (4). High adequacy on imported input materials; (5). Infrastructure Problems; (6). Limitations of Tanjung Perak port capacity; (7). Difficulties faced by Micro Small Medium Enterprises (MSMEs) in obtaining credit.

It has been described that processing industry's trend in the city of Surabaya continues to decline. This of course will have an impact on the decline in the production levels. There are many factors that cause the decline. In addition to its declining competitiveness due to the rising wages, it is also due to the growing tertiary sector in this city. Growth of trade, hotel and restaurant sector; transport and Communications; finance; leasing & financial services and services continue to soar that the more dominant role in the formation of PDRB Surabaya.

Based on the ratio of economic openness as measured by the ratio of total trade (export and import) to Gross Domestic Product (GDP), Surabaya has a very high economic openness. This economic imbalance benefits all countries involved. The advantages of trade openness include the opening of wider market access, achieving higher levels of efficiency and economic competitiveness, as well as greater employment opportunities.

However, what happened in Surabaya during the period of 2009-2014 shows contradictory pattern where the degree of economic openness of Surabaya City tends to decrease every year, but its economic growth although depressed still recorded growth condition. This indicates that Surabaya still faces challenges and barriers to export performance that must deal with its economic openness. Specifically, the policies that can be taken by the Surabaya City Government to increase the value of trade openness are as follows:

1. Promote trading sector as a stimulant for other economic activities;
2. Develop creative industries;
3. Recover investment in manufacturing sector;
4. Give protection on intellectual rights on local products;
5. Perform infrastructure development to encourage smoothness of goods distribution;
6. Perform Cooperation with stakeholders in field of Export – Import;
7. Perform studies and coordination to central policy which inhibit development of export import by giving formulation of policy solution to be applied, both in local and national level.

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## Logistic Hub Mapping at PD Pasar Surya

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### **Abstract:**

*Population growth and the increase of economic development lead to degradation of expert function and fragmentation of agricultural land that can ultimately threaten national food security, even on a city/country level.*

*Not to mention the distribution of goods from and out of Surabaya, meant to ensure the availability of enough strategic commodity supply as the fulfillment of the needs of the community. This needs a model that is in line with the target of the regional development planning in Surabaya.*

*From the business process (origin destination (OD) of strategic commodity delivery, mapping, loading and unloading, strategic commodities location mapping in Surabaya City) we can identify the supply chains of strategic commodities in accordance with the demand and the establishment of Logistics Hub for strategic commodities in Surabaya.*

**Keywords:** *Origin destination, supply chain, logistic hub, PD Pasar.*

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### **1. Introduction**

Integrated, effective and efficient logistics systems improve competitiveness, and ensure the existence of strategic commodities for the basic needs of the community evenly and affordably. The main pillar of the logistics system is to ensure the smooth flow of goods, effectively and efficiently as reflected in satisfactory responsive costs. Efficient and effective logistics management will enhance national economic growth and improve the welfare of the people.

Surabaya as the center of inter-island and international trade and service as an interconnection that becomes a network for trading activities and facilitating access while establish a good relationship between stakeholders who support investment activities, trade and industry, is expected to take strategic steps in providing adequate food price stability at a certain level that can be accessible to the

community. One of the policies that fits the conditions of Surabaya, as a service and trading city, is Supply Chain Management (SCM). The concept of supply chain management is a new concept that sees all corporate activities as an integrated part. In this case, the upstream enterprise integration in providing raw materials and downstream integration in the process of product distribution and marketing. SCM is a set of approaches applied to efficiently integrate suppliers, entrepreneurs, warehouses and other storage areas until products are produced and distributed with the right quality, location and timing to minimize costs and satisfy customer needs (Simchi Levi, et al., 2003).

The Surabaya City Government provides support in ensuring the availability and stabilization of prices, as well as supporting distribution and logistics. On the other hand, the cost of accommodation is increasing. That desperately needs a coordination forum between the Surabaya City Government and the Local Government on producing and distributors of foodstuffs. Further, the Role PD. Pasar Surya is as a Regional Owned Enterprise of Surabaya City. This traditional market can be utilized as a distribution center within SCM. In line with Regulation of the Minister of Trade No. 48 / M-DAG / PER / 8/2013 on Guidelines for Development and Management of Trade Distribution Facilities under the shape of traditional markets and regional distribution centers, the city scale is more appropriate to optimize existing traditional markets. Based on the above description, then, that Logistics Hub is expected to maintain the supply chain partnership between each market while providing existing commodities PD Pasar Surya Surabaya. Research purposes:

- Streamlining the flow of goods distribution from outside the city into the city of Surabaya;
- Reducing the burden of the road due to the entry of large vehicles in the city of Surabaya. Thus, with the depot, it is expected large vehicles can enter into Logistics Hub and then the distribution within the city can be done with smaller vehicles;
- Reducing the cost of distribution of goods in the presence of an efficient logistic hub system.

## **2. Literature review**

### ***Logistics:***

Logistics in the blueprint of the Arrangement and Development of the Logistics Sector of Indonesia (2008) can simply be defined as the provision of a required item whose procurement can be made directly by a party in need or performed by another party. In its development, perceptions about logistics change, logistics perceived is no longer a required item but the process of holding the necessities is perceived as logistics.

The logistics process is basically directed to optimize the production factor, which is to optimize the cost, time and quality. Safe delivery of goods and people are

essential to the economy and the pressure to deliver faster, further and always be available in there when needed. Therefore, location determination greatly affects the economics of the logistics system. Depot location is affected by: Production costs, especially in relation to the availability of labor, labor costs, fuel, and production areas. Quality factors of production and transportation. Opportunities to use various modes of transportation including the cost and time required.

***Logistic Activity:***

In general, logistics activities consist of two activities: dynamic movement and static storage. The two main activities are broken down into several activities: Order processing, transportation, inventory, goods handling, facility structure, and information and communication system. These activities are also referred to as a mix of logistics activities in which all activities cannot be avoided in a supply chain.

***Logistic Management:***

Strategic management process in terms of purchasing, moving & placing of materials, finished goods inventory through organizations and marketing channels to gain profit in the present & future through an effective cost maximization on order fulfillment (Christopher, 1998).

***Supply Chain Theory:***

Various previous studies have suggested that SCM is more effective when applied to large-scale business units (Rahmasari, 2011). While Ariani & Dwiyanto (2013) Effectiveness of SCM implementation on large-scale business units can be achieved due to technological support, human resources and capital. However, in terms of concept, the implementation of SCM in business organizations, is a form of business partnership. The business partnership is meant to be a condition of mutual need between business units, a thing that is needed by small and medium industries, so that the application of SCM is expected to meet the supply of raw materials and delivery of products to consumers, even for small and medium industries. SCM is also an integrated process for the industry to be assured of receiving raw materials and auxiliary supplies so that it can produce continuously. In addition, SCM guarantees that the goods produced by an industry can be delivered to consumers in exact quantity, quality, on target, on time, at minimal cost and meet customer expectations.

***Supply Chain Identification:***

The implementation of SCM includes the introduction of Supply Chain members with whom they relate, what processes need to be associated with each core member and what type of incorporation is applied to each process of the relationship. The goal is to maximize competition and profit for the company and all its members, including end customers. Supply Chain members including all corporations and organizations that deal with core companies either directly or indirectly through suppliers and customers from point of origin to the point of consumption. Primary members (primary members) are all companies or business unit strategies that carry



out operational and managerial activities in business processes designed to produce a particular outcome for the customer or the market. Secondary members are companies that provide resources, knowledge, utility or assets to the primary members. Through the definition of primary members and secondary members is obtained the sense of the point of origin of the supply chain is the point where there is no primary supplier. All suppliers are secondary members, while the point consumption is the point where there are no major customers (Miranda and Tunggal, 2003). In this study in the core members of the supply chain are:

1. Importer is an entrepreneur who purchases overseas goods to be distributed to consumers to meet domestic demand.
2. Importer's agent (Function) Persons / entrepreneurs as representatives of importers located in a market location in charge of providing goods supply information.
3. Individual Farmers who undertake the cultivation of cultivated land to produce more products.

***Collectors (Functions):***

Collectors are traders who market farmers' harvests or look for merchandise for market distributors and market traders. Collector traders usually look for farmers who are harvesting, then bargain in price.

***Distributor:***

The distributor is a trader who receives goods from farmers or importers, with large capital capability. Large capital owned by this Distributor can bring goods from various regions, according to market demand.

Retailers are merchants who make purchases from farmers and distributors for resale to end consumers. Business consumers are individuals or legal entities that use them in the production process into final products.

***Price Policy:***

Levy et al. (2004) mentioned that pricing strategy is caused by several things such as cost structure, competition, communication strategy with consumer and marketing strategy in general. The oligopoly market can encourage the disparity of profit sharing between intermediary institutions and producers. Prices at the consumer level may be higher due to the information disparity. Ferreira and Ferreira (2010) point out in their study that the oligopoly market structure can benefit those with information to take more advantage in a distribution channel.

**3. Methodology**

The research designs used in this research are quantitative survey and qualitative research design with interview.

**4. Result and Discussion**

***(Logistic Hub) Commodities Goods:***

Preparation of the development plan based on the loading and unloading needs works on the approach of capacity assessment of trade and ports by taking into-account the development scheme for each place. Government policies that are the main basis in the alternative use of logistic hub are:

1. Production costs, especially in relation to the availability of labor, labor costs, fuel, and production areas.
2. Quality factors of production and transportation.

Opportunities to use various modes of transportation including the cost and the required time. Based on the results of the analysis, the location of the loading and unloading development plan is recommended in the outskirts of Surabaya and becomes the center of the entrance and exit of goods flow from outside the city. For the food commodities studied, the origin cities are Bojonegoro, Blitar, Lamongan, Mojokerto, Banyuwangi, Tulungagung (Rice); Pare, Kediri, Blitar, Malang (Egg); Probolinggo and Brebes (Onions), and Lumajang and Kediri (Chili) as shown in table 1. below:

**Table 1:** *Origin of Food Goods*

<b>Nama Komoditas</b>	<b>Asal Barang</b>
Rice	Bojonegoro
	Blitar
	Lamongan
	Mojokerto
	Banyuwangi
	Tulungagung
Egg	Pare, Kediri
	Blitar
	Malang
Onion	Probolinggo
	Brebes
Chili	Lumajang
	Kediri

When it is viewed from the spatial aspect, the flow of goods comes from the west, south, north and east of Surabaya as shown in figure 1. Thus, the knots of entrance and exit from inside and outside of Surabaya City are very suitable for places to build or logistic hub.

**Figure 1.** *Flow of Food Supply Distribution in Surabaya City*



In order to maintain the stability of food and supply prices, PD. Pasar Surya should contribute to the depot's operations. Thus, the activities of PD. Pasar Surya are not just limited to:

1. Establish, build, and / or manage the market;
2. Conduct business in the property field;
3. Cooperate with third parties;
4. To engage in capital participation in other business entities;
5. Undertake other ventures that are not inconsistent with the purposes and objectives of PDPS. But it also includes price and supply stability efforts.

## 5. Conclusion

1. Considering that food prices are relatively unstable and tend to rise sharply, it is recommended that the Surabaya City Government should undertake strategic measures to handle supply and price stability issues such as: In order to maintain the price and supply stability, PD. Pasar can sell food commodities below market prices when the price increases significantly.
2. The logistic hub is used to smooth the flow of goods distribution at once to reduce distribution costs. Given the issue of loading and unloading activity is one of the strategic aspects that must be considered by the Government of Surabaya, especially PD. Pasar, where the survey results show that the loading and unloading areas are limited enough so that the expedition that will unload their cargo must take turns (each trader has a loading and unloading duration of 30-60 minutes) and when it is done, they must immediately leave the area. This is what the traders complain about since it also affects the high cost of porters because they have limited amount of time. Thus, it is suggested that PD. Pasar can revitalize the loading and unloading area in each traditional market, and if it is not possible, then it

should be taken into-account to create a logistic hub to reduce the cost of distribution of food goods.

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## **The Effect of Brand Credibility Towards Consumer's Purchase Intention on Low-Cost Carrier Airline Industry**

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### **Abstract:**

*The aviation world has experienced an increase in the number of consumers since the presence of low-cost airlines. Many companies provide services with low-cost carrier concept. Competition is so fierce that companies need to struggle harder to get customers.*

*Besides, there still occur problems in the national aviation industry. Flight delays, flight safety and unprofessional attitudes of airlines operating in Indonesia are a matter to be solved. As a result, brand credibility has a positive influence on affective commitment, decision convenience, and purchase intention on Air Asia and Citilink brand.*

*In the Lion Air brand, brand credibility has a positive influence on affective commitment and decision convenience. In addition, affective commitment and decision convenience have a positive influence on the purchase intention on Lion Air brand. In Air Asia and Citilink brand, decision convenience has a positive influence on purchase intention.*

**Keywords:** *Brand credibility, affective commitment, decision convenience, purchase intention.*

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### **1. Introduction**

Transportation has become one of the society's needs since it makes it easier to access a region. There are several transportation options. This condition is certainly an opportunity for the transportation businesses. They will provide transportation services with several facilities. Trust from the society in a brand of transportation will be an advantage for the company. To gain trust, companies need to build credibility on their brands in consumer perspectives.

Low cost airline services received a positive response in Indonesia. The number of low-cost carrier airline users is very large. According to the data, researchers got from the PPID Ministry of Transportation, it is said that Lion Air is an airline with low cost carrier service who successfully reached 26,488,654 passengers in 2015. Lion Air's achievement decreased compared to the achievement in 2014 that reached

31,128. 737 passengers. On the other hand, Citilink airline in 2015 carried 9,376,397 passengers in 2015. That number is increased compared to 7,549,502 passengers in 2014. Other airline with low-cost carrier services in Indonesia is Air Asia. In 2015, Air Asia can carry 2,064,859 passengers. Meanwhile in 2014, Air Asia gets more passengers than in 2015, having 3,106,509 passengers.

Brand credibility is a belief embedded on a brand that depends on the consumer perception whether the brand continues to deliver what it has promised (Erdem and Swait, 1998). The problem of flight delays for example, will affect the credibility of the brand in the consumers perspective because the company cannot provide the promised timeline. Managers need to focus on building the credibility of their corporate brand. According to Balmer, Greyser, and Urde in 2006, managers should be able to concentrate on their brands because brand is one of the important things in building a company profile. So that the company should be able to increase the credibility of their company brand because the brand is a very important asset for the company. This is in line with the opinions of Kaynak, Gultekin and Tatoglu in 2008 which said that brand is an important asset for the company.

## **2. Literature review**

**Brand credibility:** The definition of brand has grown from a trademark or a trade name of a product, service, or company, in relation to the visible matters of a brand such as a trade name, logo, or visual feature to the image, credibility, character, impressions, perceptions, and perceptions in the minds of consumers (Landa, 2006). One of the important things in consumer purchasing decisions is the credibility of a brand (Brand Credibility). Brand Credibility means beliefs in information about a product contained in a brand, where the company has the ability and desire to deliver what they have promised (Erdem et al., 2006). The credibility of a brand can increase consumer confidence in a product they do not know. The statement was reinforced by Delgado-Ballester and Munuera-Aleman (2001) who said that Brand Credibility or credibility of a brand can minimize risk and increase the trustworthiness of consumers.

**Decision Convenience:** Decision Convenience becomes an important thing when consumers face multiple choices from different service providers and the service which has been available before. This decision-making process is important because consumers must invest their time and effort in making purchasing decisions because when they evaluate the services provided before they consumed it is a difficult thing (Halim and Zulkarnaen, 2017; Nyer and Gopinath, 2005; Wirtz and Chew, 2002). For example, an airline provides information about a review of their services. It can help consumers be more comfortable in making purchasing decisions.

**Affective Commitment:** Commitment is generally referred to a lasting desire to maintain relationships (Morgan and Hunt, 1994; Halim, 2017)). This is an ongoing commitment among partners (Gundlach et al., 1995; Sutarso, Halim, Balqiah and

Tjiptoherijanto, 2017). There are two types of commitment in the relationship which is Continuance and Affective (Fullerton, 2003). Continuance Commitment is a more rational than Affective Commitment. This happens because the dependence of the consumer is only based on the economic benefits of the product or service due to the lack of alternative options (Anderson and Weitz, 1992; Dwyer et al., 1987). While Affective Commitment is more emotional and related to the personal involvement that customers have with a company (Garbarino and Johnson, 1999; Morgan and Hunt, 1994). Affective Commitment will occur when a consumer identifies itself with a brand.

***Purchase Intention:*** Purchase Intention is closely related to the purchasing activity. Yoo et al. (2000) says that Purchase Intention is the consumer's tendency to make a purchase. This tendency can be utilized by producers to gain profit. Purchase Intention should be highlighted by the company when the company wants to make a profit. This is supported by the statement of Park and Kim (2016) who are recognizing the Purchase Intention to be crucial. Companies can increase the Purchase Intention of their products. This is consistent with Fishbein et al. (1975) which states that Purchase Intention is an objective of a consumer. The intention to make purchases by consumers can come from the satisfaction they had before. It was supported by Chen, Hsu, and Lin (2010) statement that the intention of buying or Purchase Intention is the result of pre-purchase satisfaction.

***Research hypotheses:*** The hypotheses to be proved in this study refers to the variables which are:

*H1: Brand Credibility has a positive influence on Decision Convenience;*

*H2: Decision Convenience has a positive influence on Consumers' Purchase Intention;*

*H3: Brand Credibility has a positive influence on Consumers' Affective Commitment;*

*H4: Affective Commitment has a positive influence on Consumer Purchase Intention;*

*H5: Brand Credibility has a positive influence on Consumers' Purchase Intention.*

### **3. Methodology**

The hypothesis of this research is tested on respondents who have used airline with low-cost carrier service in Indonesia in the last 6 months. The survey was conducted by distributing questionnaires through online media. The research design used in this research is conclusive-descriptive that aims to test the hypothesis between the relationship of existing variables and describe the information of the issues raised. The sample size is 240 samples. The sampling technique used in this research is non-probability-purposive-judgment sampling. In this technique, the respondents were chosen because they met the study criteria. The researcher specifies some requirement to the research respondents such as have an experience with flight

service with low-cost carrier service in Indonesia. The questionnaire consisted of multiple-choice questions for the respondent and Likert's 1st to 6th for the core question. The result of the questionnaire was processed by using PLS-SEM analysis method with SMART PLS 3.6 software.

#### **4. Result and Discussion**

From the convergence validity analysis, it is found that all variables on AirAsia, Citilink, and Lion Air have met the criteria so that it can be said to be valid. All variables have an Average Variance Extracted value greater than or equal to 0.5. Furthermore, the results of Hypothesis testing show that the value of T-Value on the brand of Air Asia is equal to 5.323. Citilink brand has the value of T-Value 8.508 and the brand Lion Air T-Value is 7,806. Based on the results, it can be concluded that H1 is accepted.

H2 test resulted that the value of T-Value on Air Asia brand is 1,546. Testing on Citilink brand results the value of T-Value 1180. Based on the results, it can be concluded also that H2 is rejected. This is different from previous findings in Shih-Ping Jeng research in 2016. It can be concluded that in Air Asia and Citilink airlines, when consumers' comfort in making purchasing decisions is increased, it does not positively affect the purchase intention of the consumers. Result of the testing on Lion Air brand found that the value of T-Value of 2,356. Based on that result, it can be also concluded that H2 is accepted. In line with the result, the convenience of a consumer when deciding will positively affect the consumer intentions in making purchases.

Testing of H3 results that Air Asia brand has a value of T-Value of 6,476. Citilink brand has the T-Value of 6,585 and Lion Air brand has T-Value of 7,682. The three brands of Air Asia, Citilink, and Lion Air have the T-Value above 1.645 so that H3 is accepted. Erkman and Hancer in 2015 said that when consumers have confidence in producers to deliver what they have promised, they have the potential to have a higher Affective Commitment.

Furthermore, the test of H4 result that the value of T-Value on the brand of Air Asia amounted to 5.847. Citilink brand has the T-Value amounted to 5.195. Next, Lion Air has the value of T-Value of 4,926. The three brands of Air Asia, Citilink, and Lion have T-Value which is above 1.645 so that H4 is accepted. This is in line with the research conducted by Shih-Ping Jeng in 2016 that Affective Commitment has a positive influence on Purchase Intention.

Test of the H5 result that the value of T-Value on the brand of Air Asia amounted to 1.719. Citilink brand has the value of T-Value amounted to 2.026. From that result, it can be concluded that H5 is accepted. Which means Brand Credibility has an influence on the Purchase Intention. For the Lion Air brand, based on the results of testing using SmartPLS software, the value of T-Value is 0.918. It can be concluded



that Brand Credibility has no effect on Purchase Intention. From that figure it can be concluded that H5 is rejected.

**Table 1.** Hypothesis Testing

	Air Asia	Citilink	Lion Air
Hypothesis	T-Value	T-Value	T-Value
H1: Brand Credibility → Decision Convenience	5.323	8.508	7.806
H2: Decision Convenience → Purchase Intention	1.546	1.180	2.356
H3: Brand Credibility → Affective Commitment	6.476	6.585	7.682
H4: Affective Commitment → Purchase Intention	5.872	5.195	4.926
H5: Brand Credibility → Purchase Intention	1.719	2.026	0.918

**Source:** Researchers Processed Results.

## 5. Conclusion

For the Air Asia and Citilink brands, Brand Credibility or brand credibility variables can positively affect the Affective Commitment, Decision Convenience, and Purchase Intention of a consumer on a brand. It can be concluded that for the Air Asia and Citilink brands, when a brand has credibility in the eyes of a consumer it will increase the customer's commitment to the brand. In addition, when a consumer considers a brand having good credibility, they will be more comfortable making a purchase decision.

Finally, when a consumer perceives a brand has a credibility in their eyes, the consumer will have a greater intention to purchase the brand. For the Lion Air brand, Brand Credibility has a positive influence on Affective Commitment, Decision Convenience variable. It can be concluded that in the aviation industry when a brand has credibility in the eyes of a consumer it will be able to increase the customer's commitment to the brand. In addition, when a consumer sees a brand having good credibility, they will be more comfortable when they want to make a purchase decision.

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## The Estimation of the Distribution Model of Gross Regional Domestic Product (GRDP) of Indonesia

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Srinita\*) Darwati Susilastuti

**Abstract:**

*The purpose of this study is to form an interregional income distribution model in Indonesia. In this study the authors used a macro analysis approach and the data used as an analysis material is secondary data. The object of this research is the distribution of income between regions in Indonesia within the period of 2008-2016.*

*The analysis technique used is Panel Data Regression Model with Seemingly Unrelated Regressions (SUR) method with Panel Corrected Standard Error (PCSE). Based on the result of the study, it can be concluded that the effects of the education growth on the level of discrepancy of interregional income distribution are as follows (a) Junior High School does not have a significant effect; and (b) Uneducated, Elementary School, Senior High School, and University have a significant effect.*

*The originality of this research is in the modeling of income distribution with the object of several regions in Indonesia, where Indonesia is categorized as a developing country which has different characteristics from other developing countries.*

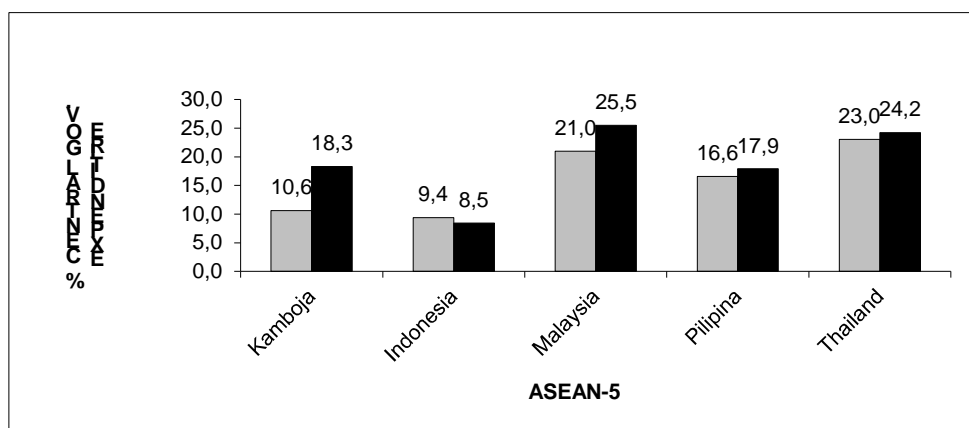
**Keywords:** *Gross domestic product, interregional income, Panel Corrected Standard Error;*

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### 1. Introduction

Among several ASEAN countries, Indonesia is the most lagging country in terms of Government budget expenditure on education. This condition can be seen in Figure 1 which shows that the percentage of Government expenditure allocated for education in 2008 which was only 9,4% and decreased to 8,5% in 2016. It was much lower than the average of Government expenditure on education in several Asian countries which was 16,1% in 2008 and 18,9% in 2016.

**Figure 1.** *Ratio of Spending for Education on Total Spending Central Government of Several Asian Countries, 2008-2016 Period (Source: Indonesia Human Development Report 2016)*



As a consequence, it can be seen in the education of Indonesian people aged 25 years old and above which is relatively lower (compared to Malaysia and Thailand), as the following comparison: Uneducated (Indonesia 44%, Malaysia 17%, and Thailand 20%); Primary Education (Indonesia 33%, Malaysia 34%, Thailand 62%); Secondary Education (Indonesia 10%, Malaysia 24%, Thailand 4%); And Higher Education (Indonesia 4%, Malaysia 7%, and Thailand 9%); this reality will be an obstacle in human resources development which results in unsustainable high economic growth and fragile economy from the crisis. The cause of the problem is allegedly due to the policy makers who generally had more concern on short-term economic policies in the form of trade, fiscal and monetary policies in order to ensure the high growth but less concern on more fundamental discussion, namely sources of long-term economic growth. It does not mean that short-term economic policy is unimportant but the concern that is only to short-term economic stability often ignores the fundamental elements of long-term economic growth.

Based on the background above, the purpose of this study is to form an interregional income distribution model in Indonesia. Several studies conducted on education and income distribution including Gylfason and Zoega (2014), Goncalves (2011), De Gregorio and Lee (2012), Ferreira and De Barros (2013), Zhang (2015) and Dur and Teuling (2015). The originality of this research is in the modeling of income distribution with the object of several regions in Indonesia, where Indonesia is categorized as a developing country which has different characteristics from other developing countries.

## 2. Literature review

The discussion regarding sustainable economic growth on long term means that it focuses on the sources on more fundamental economic growth. The economic growth of Indonesia before the crisis had an average of 6% per year, in which 2% was contributed from the physical capital growth, 2% from the human capital and 1% from the Total Factor Productivity (TFP), the contribution of productivity which

is not derived from the accumulation of physical and human capitals, but from the quality level of human and technological capabilities (Juoro, 2016).

From 1% of TFP contribution, it can be said that 0,5% comes from human capital in the form of skill or quality of labor resulted from education and training, and the other 0,5% from technological capability contribution. From that calculation, if the development strategy does not pay attention to the increase of TFP contribution and only relies on the growth of physical capital (and because the growth of labor is constant), then physical capital investment will be more expensive with the efficiency of its utilization which is not necessarily optimal. In other words, the economic growth will improve temporarily and will then decline again, without the ability to shift to a growth path that guarantees the further long-term growth. In a geometric language, the growth path only shifts in its constant or intersection with the vertical axis, but does not alter its slope (Juoro, 2016).

The high economic growth is also not equally distributed to all regions in Indonesia. The discrepancy in interregional economic development is still ongoing. It can be seen from the discrepancy of the distribution of Gross Domestic Product (GDP) between regions/provinces, the number of industries, economic diversification, the level of education of the people, facilities and infrastructure development and so on (Tambunan, 2009)

### **3. Methodology**

In this study the authors used a macro analysis approach and the data used as an analysis material is secondary data. The object of this research is the distribution of income between regions in Indonesia within the period of 2008-2016. While the analytical unit is in all provinces in Indonesia, except (1) newly expanded provinces in accordance with new laws or provisions (including Bangka-Belitung, Banten, Gorontalo and North Maluku and West Irian Jaya Provinces); (2) the province which in the study period does not have publicity data that can be analyzed; And (3) provinces that are no longer part of the Unitary State of the Republic of Indonesia, NKRI (East Timor province). The analysis technique used is Panel Data Regression Model with Seemingly Unrelated Regressions (SUR) method with Panel Corrected Standard Error (PCSE). This study uses secondary data in the form of panel data (pooled-data) which is a combination of time series data and cross-section data of 26 provinces in Indonesia during the period of 2008-2016.

### **4. Result and Discussion**

In the relationship between the education level and income distribution, (1) the higher the education and the more even the distribution of education, the more even the income distribution (De Gregorio & Lee, 2012; Dur & Teuling, 2015); (2) education is the main determinant of income distribution and reduction of income inequality (De Gregorio & Lee, 2012; Ferreira & De Barros, 2013); and (3)

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education has a long-term effect on income distribution (Gylfason & Zoega, 2014; Zhang, 2015; Breton, 2016).

The result of the test on the estimation result of the income distribution model with the data panel regression method using SUR and PCSE combination shows that the growth of human capital which is proportional to the growth of the education level of the workers (consist of Uneducated, elementary school graduates, Junior High School graduates, High School graduates, University graduates) has a reverse (negative) and significant effect on the level of discrepancy of income distribution. It proves that the correlation between the research premises and empirically-tested hypotheses will generate a new model, which is the income distribution model that incorporates human capital as a determinant of income distribution.

Based on the estimation of income distribution model, the intercept coefficient value of 26 provinces in Indonesia can be seen in Table 3, which shows that the intercept coefficient values between provinces are statistically different, but overall, all regions have positive value coefficients, with the national average of 0,400686. The regions which have a high intercept coefficient value including South Sumatra, West Java, Central Java, East Java, West Kalimantan, East Kalimantan, and Papua. The regions which have a small intercept coefficient value including Aceh (NAD), Riau, Bengkulu, NTB, Central Kalimantan, South Kalimantan, Central Sulawesi, South Sulawesi and South-East Sulawesi. Most provinces have an intercept coefficient value below the national average, including Aceh (NAD), North Sumatera, Riau, Jambi, Bengkulu, Bali, NTB, NTT, Central Kalimantan, South Kalimantan, North Sulawesi, South Sulawesi and South-East Sulawesi.

Thus, based on the estimation result on the income distribution model used in this study; the regions with a positive intercept coefficient will have the increase in the discrepancy of income distribution in the region as the increase of its intercept coefficient value at the time of investment growth and education growth are zero percent.

In addition, in terms of education, the higher the rate of return of higher education, the greater the benefits obtained by the highly educated people in terms of investment in education compared to those with only primary or secondary education background, thus, it is possible for the higher the level of education a person, the higher the socio-economic background.

Experts are still debating the relationship between income distribution and education level. The current debate has also included the influence of technology on the relative demand for the skilled and unskilled labor as well as its consequences in the income distribution. Most economists consider that new technology increases the demand for skills, and that is what causes discrepancy in both the developed and the lagging countries. However, the counter-argument which states that most of the increasing discrepancy in the last twenty years in some countries, such as the US and

the United Kingdom, is more due to the income policies that have stimulated a rapid increase in income in the high-income group while retaining relatively low minimum wages and giving political pressure to the labor unions to limit the increase of wage.

Thus, the discrepancy of income distribution may be affected by the increasing global competition in terms of skills and income policies. The increase in global competition and technological change in the last two decades has influenced the increase in the rate of return of higher education, as well as the income policies which are accompanied by the neo-liberal policies which have influenced the increasing discrepancy of income distribution. In this case, the higher level of educational return does not generate the higher discrepancy of income distribution, but on the greater results of discrepancy. It can be said that the higher rate of return of higher education is accompanied by a discrepancy in income distribution.

## **5. Conclusion**

Based on the result of the study, it can be concluded that the effects of the education growth on the level of discrepancy of interregional income distribution are as follows (a) Junior High School does not have a significant effect; and (b) Uneducated, Elementary School, Senior High School, and University have a significant effect. With the assumption of *ceteris paribus* and the R-Square value, the magnitude of the effect of the growth of education level on the inter-regional economic growth is that every 1% increase in the level of education, the effect on the interregional income distribution is, -0.029234 point for the Uneducated labors, -0.060624 point for the Elementary School Graduates, -0.007643 point for the Junior High School graduates, -0.078890 point for the Senior High School graduates, and -0.031812 point for the University graduates. Thus, up to the level of Senior High School education, the higher the education growth the lower the discrepancy of interregional income distribution in Indonesia, in the period of 2008-2016.

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## Determinant of Food Crop Agribusiness and Horticultural Crop Agribusiness in Indonesia

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Dudung Mulyadi \*, Darwati Susilastuti \*\*, Sunar \*\*)

**Abstract:**

*This study aims to examine and compare the high influence of agricultural land, business capital, technology, product marketing and human resources to agribusiness of food crops with horticultural as well as its determinant factors.*

*Research with the explanatory method that explains the causal relationship between several factors related to agribusiness in the West Java region of Indonesia. Cross-sectional data of farm households from 17 districts. The model was formulated as Cobb-Douglas and is analyzed using linear regression through Ordinary Least Square.*

*The results of the research show that agricultural land, business capital, product marketing technology and human resources have a positive effect on crop agribusiness and horticulture agribusiness. As a finding, this research succeeded to show the determinant factors i.e. the food crop agribusiness is more dominated by business capital and marketing compared with technology, agricultural land, and human resources.*

*While in horticultural crop agribusiness is more dominated by product marketing and business capital. The strengthening of marketing and financial institutions is expected to increase the agribusiness of food crops and horticulture.*

**Keywords:** *Agricultural land, business capital, product marketing, technology, human resources.*

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### 1. Introduction

Indonesia as an agricultural country, the agricultural sector has an important role in the development of the national economy. The contribution of the sector to the GNP of 13.38% and absorb 30% of the workforce (Hermanto and Hardono, 2015). The agricultural sector is expected to contribute considerably in terms of increasing production for the provision of food and industrial raw materials and increased incomes of farmers.

For Indonesia, the food sector is also a wider determinant of the welfare level of most of the on-farm rural inhabitants comprised of small-scale farmers and agricultural workers who are mostly poor. Food determines the welfare of the urban poor consumers whose portion of the income is mostly used for consumption. Food availability maintains food security (Susilastuti, 2017). However, the basic problems faced by farmers in Indonesia are the lack of access to capital resources, limited market access, narrow land, not yet the optimal use of technology, low agricultural productivity, and weak farmer organizations (Anonymous, 2011).

Policies to increase rice production, such as irrigation facilities development, seed subsidy, fertilizer and pesticide, subsidized farming credit, and institutional development of farming have been taken. Similarly, in the marketing of results, the government issued a policy of Basic Price of Rice to protect farmers and the fall of production prices. Meanwhile, imports are carried out to meet the increasing demand, and cannot afford to be met by domestic production. Self-sufficiency of rice (Swa Sembada Program in Indonesia) cannot be fulfilled (Suismono and Hidayat, 2011).

Horticultural agribusiness in Indonesia, especially for fruits commodities, is dominated by fruits that come from small farms and yards. Therefore, uniformity and quality are low, and the continuous supply is not guaranteed. Obstacles in the development of horticulture are: (1) Limited capital ownership and narrow landholding area and require highly skilled labor. (2) Horticultural commodities consist of various clones that make it difficult to graduate and standardize the quality of the results, the supply of products that meet the export scale is often difficult to meet. (3) The attack of plant disturbing organisms is very high. (4) Integrated Pest Management System has not been properly implemented. (5) The handling of post-harvest products is still traditional with the level of damage and yield loss is high enough. (6) Product marketing is not efficient, the price is very volatile (Poerwanto, 2010).

The results showed that horticulture production is influenced by the availability of production facilities and technology, while income is influenced by selling price and marketing cost. Product quality is low due to low access of farmers to production facilities, high pest and disease attacks and low selling prices (Kasimin, 2013). Horticultural agribusiness should effectively manage working capital (Tonui and Kimani, 2016). Land use by land engineering method is the best method to optimize the land effectively and efficiently (Kastono, 2007). Encouraging exports of horticultural crops, aiming to achieve household food security (Chege et al., 2015).

Based on the above description it will require more in-depth study to examine or analyze the problems related to crop agribusiness and horticulture, so it is known which the determinants in an effort are to increase productivity.

## **2. Literature review**

The main farmers live in production areas that do not cause work fluctuation effects. This ensures the supply of food from agricultural products but can lead to instability in farm prices and income (Schultz, 1945). Kuznets in Subrata and Ken (1984) stated that the agricultural sector in developing countries has the potential to bring four types of contribution to the overall national economic growth and development that is: 1). Expansion of the non-agricultural sector; 2). Market contribution; 3). The main source of capital for investment elsewhere; and 4). Giving foreign exchange. Daniel (2004, p.19) states that the main problem in the agricultural economy is the considerable time-span in production processes, production costs, population pressure, and farming systems.

Research by Miftakhuriza (2011) and Puguh (2015) shows that the determinants of agribusinesses are Land Area, Capital, Labor, Technology, the number of working days, and training affect simultaneously to farmers' income. Gender, farming experience, tool farming, land area, credit, wage labor and manure and manure applied are significant determinants (Mwangi et al., 2015).

One of the main issues in agricultural economics is the availability of agricultural land, because of the increasing population pressures and changes in the nature and intensity of economic activity (Firdaus, 2012). The concept of agricultural land is the extent of certain agricultural land although recently found also the mastery of agriculture that is not solely developed on a certain land area but on other resources such as water or other media. The area of agricultural land will affect the scale of the business and will ultimately affect the efficiency of agricultural enterprises. Area and productivity of agricultural land has a very strong relationship with agricultural production (Susilastuti, 2018).

Credit is a tool to help the creation of capital. Therefore, credit is also called capital, derived from outside the farm. Mubyarto (1986) states that the most important source of credit for farmers is the individual one. Theoretically, the capital can be divided into two, namely fixed capital and mobile capital. This difference is used in cost calculations. The cost of movable capital should be taken into-account in the real cost price, while fixed capital costs are calculated through depreciation of value (Daniel, 2004).

Technology has two dimensions, namely science and engineering which are interconnected with one another (Djojohadikusumo, 1994). Agricultural technology is a tool or method used in processing of agricultural inputs to produce efficiently of agricultural products (Roni, 2013).

Marketing is one of the main activities that should be done by entrepreneurs including farmers (agri-business man). Success or failure of the business depends on his expertise in marketing, production, finance, and human resources (Firdaus, 2012). All decisions taken in marketing must be shown to determine production, market, price, promotion, and distribution system (Pasaribu, 2012).

Likewise, in the more micro-affairs such as the management of the economy, to how to manage agricultural land and market agricultural products desperately need superior and experienced human resources in the field. In general, there are four functions of human resources in agribusiness are 1). as owner and entrepreneur; 2). as owners, savers, and entrepreneurs; 3). as a connoisseur and entrepreneur; and 4). as agricultural laborers or employees. Sudarmanto et al. (2004) and Nawawi (2005) explained that human resources who function as owners and entrepreneurs in agriculture, must bear all the actions in the own farm. Research shows that the respondents' education, non-farm income, land area and degree of mechanization are influenced by the participation of youth labor in Abia State, Nigeria (Nnanna, Nwankwo, Anyanwu, 2014).

The resulting balance in agricultural and labor markets can affect poor households buying food differently than food producers. The available evidence supports the theory that when agricultural income and the rate of increase in real wage and nonfarm rural economies grow, real increases in household incomes and percentages the population living below the international poverty line is declining (Schneider and Gugerty, 2011).

In this research, agribusiness is farming, that is an economic activity trying to manage the elements of production such as nature, labor, capital, technology, and skill with the aim of producing to produce something in the agriculture field. The hypothesis of this research is agricultural land, business capital, technology, marketing and human resources which simultaneously and partially affect the agribusiness of food crops and horticulture. Several factors will be determinant in the agribusiness of food crops and horticulture

### 3. Methodology

The research was conducted in West Java Province of Indonesia. Cluster purposive random sampling at 34 districts in 17 regency. Primary cross-section data from respondents through the survey with the questionnaire, and secondary data from Central Bureau of Statistic. The number of samples is of 400 respondents from 233 farmers of food crops and 167 horticulture farmers. The independent variables include Agricultural Land (ha); Business Capital (IDR); Agricultural Technology (IDR); Product Marketing (IDR); and Human Resources (scale). The dependent variable includes the productivity of Crop Agribusiness (IDR) and the productivity of Horticultural Crop Agribusiness (IDR). Data analysis using parameter estimation of multiple linear regression model with least squares method (OLS) and hypothesis test.

The structure of model I (food crop)

$$Y = \alpha + b_1X_1p + b_2X_2p + b_3X_3p + b_4X_4p + b_5X_5p + \text{et} \quad (1)$$

Structure of model II (horticultural crop)

$$Y = \alpha + b_1X_1h + b_2X_2h + b_3X_3h + b_4X_4h + b_5X_5h + et \quad (2)$$

Description:

$\alpha$  = Constant a

X1 = Agricultural Land

X2 = Business Capital

X3 = Agricultural Technology

X4 = Product Marketing

X<sub>5</sub> = Human Resources

Y = Agribusiness of Food Crop or Agribusiness of horticulture Crop

et = Error Term

b1, ..., b5 = regression coefficient = elasticity.

#### 4. Result and Discussion

Descriptive analysis of food crop agribusiness is presented in Table 1, and horticultural crop agribusiness is presented in Table 2. Horticultural agribusiness with the average land area is lower than food crops, requires business capital, technology cost, and higher marketing costs than food crops agribusiness, but can generate a much higher farming income than food crops in agribusiness.

**Table 1.** *Descriptive Analysis of Food Crops*

Descriptive	Field (ha)	Business capital (000 IDR)	Technology (000 IDR)	Marketing (000 IDR)	Agribusiness (000 IDR)
Min	0.07	650.00	125.00	100.00	1420.00
Max	1.50	9850.00	1200.00	5000.00	18720.00
Mean	0.39	2820.03	415.94	1163.03	7303.17
Std Dev	0.22	1615.47	230.65	749.68	3755.12

**Table 2.** *Descriptive Analysis of Horticultural Crops*

Descriptive	Field (ha)	Business capital (000 IDR)	Technology (000 IDR)	Marketing (000 IDR)	Agribusiness (000 IDR)
Min	0.07	650.00	550.00	200.00	4900.00
Max	1.30	18600.00	16740.00	10300.00	97000.00
Mean	0.36	5893.71	4282.41	3277.34	29520.10
Std Dev	0.28	3958.90	3094.28	2529.84	18203.04

The results of the correlation coefficient (R), the coefficient of determination (R<sup>2</sup>), and F test on food crop agribusiness are presented in Table 3, while in horticulture agribusiness in Table 4.

**Table 3.** Test Results R, R<sup>2</sup> F-Test of Food Crop Agribusiness

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	F	Sig.
1	.847a	.717	.711		2019.344	115.053	.000a

a. Predictors: human resources (X5), marketing (X4), Technology (X3), Business capital (X2), Land (X1)

b. Dependent Variable: food crops agribusiness (Yp)

**Table 4.** Test Results R, R<sup>2</sup> and F-Test of Horticulture Agribusiness

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	F	Sig.
1	.881a	.777	.770		8728.165	112.204	.000a

a. Predictors: human resources (X5), marketing (X4), Technology (X3), Business capital (X2), Land (X1)

b. Dependent Variable: Horticulture agribusiness (Yh)

The correlation of agricultural land, business capital, technology, product marketing and human resources simultaneously with agribusiness income is very high ( $R \geq 0.8$ ) with adjusted  $R^2 \geq 70\%$  on both the agribusiness of food crops and Horticulture crops (Table 3 and 4). This shows that the agricultural land, Business capital, technology, marketing and human resources will be able to increase the food crops agribusiness or horticulture agribusiness.

Simultaneously agricultural land, business capital, technology, product marketing and human resources have significant effect on food crop agribusiness and horticulture agribusiness ( $p\text{-value} \leq 0.05$ ). The partial effect of each independent variable (X) on the dependent variable (Y) is positively significant both in crop agribusiness and horticultural crops (Tables 5 and 6).

**Table 5.** t-Test Results on Food Crop Agribusiness

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	328.199	350.905		.935	.351
Land farming (X1)	2033.169	681.618	.119	2.983	.003
Business capital (X2)	.888	.100	.382	8.911	.000
Technology (X3)	3.061	.737	.188	4.153	.000
Marketing (X4)	1.802	.247	.360	7.288	.000
Human resource (X5)	707.327	267.521	.094	2.644	.009

Results of multiple linear regression equations in food crops agribusiness are:

$$\hat{Y} = 328.199 + 2033.169X_1 + 0.888X_2 + 3.061X_3 + 1.802X_4 + 707.327X_5 \quad (3)$$

Results of multiple linear regression equations on horticulture agribusiness are:

$$\hat{Y} = 2152,858 + 8184,484X_1 + 1,577X_2 + 1,120X_3 + 2,624 X_4 + 2955,323X_5 \quad (4)$$

**Table 6.** t-Test Results on Horticulture Agribusiness

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2152.858	1477.797		1.457	.147
Land farming (X1)	8184.484	3185.442	.128	2.569	.011
Business capital (X2)	1.577	.271	.343	5.826	.000
Technology (X3)	1.120	.288	.190	3.884	.000
Marketing (X4)	2.624	.387	.365	6.781	.000
Human resource (X5)	2955.323	1373.219	.081	2.152	.033

Based on Tables 5 and 6 above, the value of the beta coefficient as the amount of contribution of the influence of the independent variable to the dependent variable of business capital influence greater than the marketing cost of the agribusiness of the food crop. While in horticulture agribusiness, the effect of marketing cost is higher compared to business capital.

The model feasibility analysis shows that the feasibility of the research model has been supported by theoretical plausibility aspect since the post-estimation hypotheses correspond to the expectations of the pre-estimation hypothesis and are supported by relevant postulates/theories. The results also show that for all food crops and horticultural commodities; the dependent variable of agribusiness has p-value value  $\leq 0.05$ ; this means that the feasibility of the research model has been supported by the Accuracy of the estimates of the parameters. Meanwhile, the results showed that  $R^2 > 50\%$ ; this means the feasibility of the research model is supported by the aspect of Forecasting ability is very high.

The research showed that agricultural land, business capital, technology, product marketing and human resources had the significant effect both simultaneously and partially to the agribusiness of food crops and horticulture. Based on the value of beta standardized coefficients, in food crops, the major contribution from high to small in turn is business capital, marketing, technology, agricultural land and human resources. While in horticultural crops the high contribution of influence from high to small namely; marketing, business capital, technology, agricultural land and human resources. So, in the food crops business capital is a determinant and in horticultural agribusiness, product marketing is the determinant.

## 5. Conclusion



Based on the results of the study, the conclusions in this study are as follows:

- a. The influence of agricultural land, business capital, technology, product marketing and human resources simultaneously or partially to food crop agribusiness as well as to significant horticultural crops.
- b. The determinant factor of food crop agribusiness is a variable of the business capital, while horticultural crop agribusiness is a variable of product marketing.

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## The Effect of Marketing Mix and the Perceived Quality of Service, Image and Implications on Customer Trust to Choose a Four- and Five-Star Hotel in DKI Jakarta

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Muliyati\*)

### **Abstract:**

*This study was conducted at four- and five-star hotels in Jakarta. The purpose of this study was to determine the effect of the Marketing Mix and Service Quality, individually (partial) or jointly (simultaneously) image and its implications on customer trust in respect to four- and five-star hotels in Jakarta.*

*The research problem is formulated in 7 hypotheses which were tested using SEM analysis tools 8:30 LISREL program with 350 respondents, it is concluded as follows: Marketing Mix proved a small but not significant effect  $t < 2$  ( $0.68 < 2$ ) on the hotel image. The perceived quality of service proved positive and significant effect on the image of the hotel.*

*Marketing mix and service quality together proved to be a positive and significant effect on the image hotel. Customer Relationship Management proved positive and significant effect on customer confidence. Service quality proved positive and significant effect on customer confidence. Hotel image proved significant influence but not  $t < 2$  ( $1.06 < 2$ ) of the customer trust. Marketing mix and service quality perceived and hotel image together proved to be a positive and significant effect on customer confidence.*

**Keywords:** *Marketing mix, service quality perceived, hotel image and customer trust;*

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### **1. Introduction**

The rapidly changing global environment marked by the era of free trade, where the boundaries between countries represent no barriers on transactions of goods/services and the level of interdependence among nations cannot be avoided. That requires business actors, both governmental and private, to always anticipate the change. The development of science, technology, information and value systems as well as general environmental change has had an enormous impact on all sectors of the community life (Moi, 2009). So, every business person should strive to further

improve their ability and toughness by mobilizing all the potential that exists to win the competition (Rizan, 2008).

The hotel is a company run by its owners who provide food, beverage and sleeping room service to people traveling and who can afford a reasonable amount according to the services received without any special agreement (BPS, 2015). The room type by facility is standard room, superior, moderate, suite room, executive suite room and penthouse.

The decrease in room occupancy rates was caused by many consumers switching to other accumulated activities resulting from poor marketing handling, service quality, hotel image and customer confidence in five-star hotels in DKI Jakarta.

***Formulation of the problem:***

Based on the background of the problem, the identification and formulation of problems that have been raised previously as well as in accordance with the title of the study to be conducted, can be identified the following research problems:

How is the implementation of marketing mix, service quality, hotel image and customer confidence in five-star hotel in DKI Jakarta?

Is there any influence of marketing mix to the five-star hotel image in DKI Jakarta?

Is there any effect of service quality on the image on five-star hotels in DKI Jakarta?

Is there any influence of the marketing mix and quality of service together to the image of five-star hotels in DKI Jakarta?

Is there any influence of marketing mix to the confidence of the customers in five-star hotels in DKI Jakarta?

Is there any influence of service quality to the trust of the customer in five-star hotels in DKI Jakarta?

Is there any influence of the hotel's image on the confidence of the customers in five-star hotels in DKI Jakarta?

Is there any influence of the marketing mix, quality of service and image together to the belief of customers in five-star hotels in DKI Jakarta?

***Research Purposes:***

The objectives to be achieved in this research are as follows:

- To know the implementation of marketing mix, service quality, hotel image and five-star hotels customer confidence in DKI Jakarta.
- To know the effect of marketing mix to five-star hotels image in DKI Jakarta.
- To know the influence of quality service on Citra Hotel - a five-star hotel in DKI Jakarta.
- To know the effect of marketing mix and quality of service together on Citra Hotel - a five-star hotel in DKI Jakarta.

- To know the effect of marketing mix to hotel customer confidence in five-star hotels in DKI Jakarta.
- To know the influence of service quality to the belief of five-star hotels customers in DKI Jakarta.
- To know the effect of hotel image on hotel customer confidence in five-star hotels in DKI Jakarta.
- To know the effect of marketing mix and quality of service together to hotel customer trust - at Citra hotel - a five-star hotel in DKI Jakarta.

## 2. Literature review

### *Marketing Mix:*

Kotler and Keller (2013), argue that the marketing mix is a set of tools that companies use to continuously achieve their goals in the target market. Marketing mix is a tool for marketers that consists of various elements of a marketing program that needs to be considered for implementation of strategy and positioning that can run successfully if applied. Marketing mix is a series of variables that can be mastered by the company and used to achieve goals within the target market. Kotler and Keller (2013), classifies marketing tools into four groups called also the four P (4P): Product, Price, Place and Promotion.

Marketing Mix in this research is a set of tools used by companies to continuously reach its target market goal. While the dimensions of the Marketing Mix are Continuity Marketing, One to One Marketing, Partnering Program (Harvindo, 2008).

### *Perceived Quality of Service:*

Abedniya, Zaeim, Hakimi (2011) stated that perceive service quality is a scale for the firm to measure the degree of success to cover their customer purpose. Customer assigned their perception of services that the firm serves for its customers according to their experience of the process in delivering a service. On the other hands, marketers believe that perceive service quality consists of two main concepts including customer expectation and customer perception.

The perceived quality of service is a scale or measuring method for the company to asses, how many companies successfully provide solutions to customer problems. Customers have perceptions about the company, about their experience in receiving service from the company, whether it is in accordance with the customer expectations or not. Therefore, customer expectations will be influenced by the customer's own experience, word of mouth communication and customer's personal needs. Similarly, Ahuja, Mahlawat and Masood (2011) also explained the same definition of perceived service quality, which is a difference between customer expectations and customer perceived service.

Tjiptno (2012) formulates a service quality model that is a prerequisite for delivering good service quality. From this model, five Gaps were identified that caused the

unsuccessful delivery of services, namely the Gap between consumer expectation and management perception; the Gap between management perception and service-quality specifications; the Gap between service-quality specifications and service delivery; the Gap between service delivery and external communications and the Gap between perceived service and expected service. Further, it is suggested that the quality of service properly managed if it positively contributes to the realization of customer's satisfaction and loyalties. Quality provides a plus point of special motivation for customers to forge long-term mutual bonding relationships with companies, this kind of emotional bond allows companies to understand carefully the customer's specific expectations and needs. In turn, the company can increase customer satisfaction, where the company maximizes a pleasant customer experience and minimizes or eliminates an unpleasant customer experience. Selanjutnya, customer satisfaction impact on the creation of barriers to switch, switching costs and customer loyalty.

Based on the above statement, by the quality of perceived service in this study, is meant a measure for the company that shows whether it has been able to meet customer's expectations with the service performance they provide. While the dimensions of perceived quality service in this study refers to the five dimensions, namely tangibles, empathy, reliability, responsiveness and assurance (Zeithaml, Valarie, Bitner and Mary, 2000). Tangible dimension consists of indicators as parking facility, exterior of building, interior of building, room facility, room cleanliness and toilet cleanliness. The empathy dimension consists of an indicator of attention to the visitor's problem, attention to visitor needs, officer friendliness, and courtesy officer. The dimension of reliability consists of an indicator of the skill of the officer, other officers' ability, officer's knowledge and skills. The responsiveness dimension consists of the officer's speed indicator and the officer's responsiveness. Assurance dimension consists of health insurance indicator, safety assurance and comfort guarantee.

### ***Corporate Image:***

The desire of an organization to have a good image on the target public, begins with a precise understanding of the image as a stimulus to the management of efforts that need to be implemented. Accurate understanding of the image, so that the organization can set efforts in in making it happen to the object and encourage the implementation priority. Philip Kotler at al. (2003) suggests that the image is a set of beliefs, ideas and impressions that a person has on an object. Image is the total perception of an object formed by processing information from various sources every time (Richard, 2000). Further suggests that the image is the impression gained in accordance with one's knowledge and experience about something.

Hawkins (2000) suggests that the impression arising from an understanding of a reality. Based on that opinion, the image of the hotel shows the impression of an object against another object formed by processing information every time from various reliable sources. There are important things in the image of the impression,

the object, the process of formation of images and reliable sources. Objects include individuals and companies consisting of a group of people. Images can be formed by processing information that does not close the possibility of ever changing in the image of the object or the receipt of information. The magnitude of the object's confidence in the source of information provides the basis for acceptance or rejection of information. Sources of information may come directly from the company and / or other parties indirectly. Corporate image shows the impression of the object to the company formed by processing information every time from various reliable information sources.

The important thing to note is that brand equity is entirely in the minds of customers, so brand equity is not something created by marketers, but is something created by the consumer's perceptions. Then, what is a brand image? Many people may be more familiar with the term "brand image" than "brand equity" and "brand identity". Aaker (2000) defines brand image as "a set of associations, usually organized in some meaning way".

Kotler and Keller (2009), brand equity will be higher along with the increasing dimensions of the company's own image. These dimensions are the awareness of corporate image, loyalty / recognition of company image, the impression of quality (affinity), brand associations and other assets such as patents, trading stamps, distribution channels and others (domains).

Brand equity can increase or decrease the value of the product or service in the eyes of the consumer (meaning the value here is the image), because the brand equity can help consumers interpret, process and store large amounts of information about products or services that the brand promises. In addition, brand equity can also affect consumer confidence in making purchasing decisions and satisfaction in using the product. Similarly, for a company (manufacturer), strong brand equity enables companies to more efficiently and effectively execute their marketing programs, foster brand loyalty, pricing and / or profits, enable brand extension, increase sales and ultimately provide a competitive advantage for the company. Therefore, it is very important for the management of the company to always pay attention, understand and well maintain all dimensions of brand equity, so that all obtained benefits by consumers and companies can be maintained (Kandampully and Dwi, 2000).

Based on the above description, that image is formed based on the consumer's experience of a product or service company which can later be taken into consideration to make decisions. Image dimensions are recognition, reputation, affinity and brand loyalty.

#### ***Customer Trust:***

According to Akbar and Parvez (2011), it is explained that *"the relationship between the customer and the company, which shows the specific action, directly or*

*indirectly, as well as the level of corporate honesty in fulfilling its promises".* The relationship between the customer and the company that shows the real actions both directly and indirectly and the level of honesty of the company in realizing its promises. Trust arises because of a belief in others who do have qualities that can bind him, such as consistent, competent, honest, fair, responsible, helpful and humble actions.

Mokhtar at al. (2011) says that the company's customers credibility and awareness, address the experience of creating performant relationships with customers. Consumer confidence in the company is implemented from the credibility of the company and the company's concern to consumers aimed at the company's performance on the experience of connecting with customers.

Akbar and Parvez (2011) affirms that trust emphasizes on the relationship between the customer and the company, where companies demonstrate concrete actions as the level of the company in the realization of its promises of honesty. Trust emphasizes the relationship between customers and the company in which the company represents the real actions, either directly or indirectly, and the level of company's honesty in realizing its promises. It further argues that establishing customer trust is emphasized through the competence of the company in realization of its relationship with the customer, so that the actions of the company can provide benefits to the customers. The formation of customer trust is emphasized through the competence of the company in realizing its relationship with the customer, so that the actions of the company can provide benefits to them.

From the four opinions it can be concluded that customer confidence in the company is formed through the company's concrete actions through the services provided to customers and the company's honesty in keeping promises.

The study of customer confidence proposed by Li (2010) says that the view of the long-term strategy that emphasizes the interaction of side and a humanitarian. This focuses on the importance of relationships, relational trust building with customers. A long-term strategy view and an interaction of the human side. It focuses on the importance of relationships by building trust with customers.

Companies should always try to offer new opportunities to create more individual relationships between sellers and customers (Akbar and Parvez, 2011). The job of the marketing force is no longer just to bring the product out / to the market, but to drive customers into the company, to obtain input, as well as knowing their needs. If the company has no attachment to the customer then it will never have customers (Li, 2010).

The trust has been measured by using 3 dimensions adapted from Morgan and Hunt, include probity (focus on trust and integrity and reputation), equity (fair-mindedness, benevolence), and reliability (associated with the reliability and accuracy and



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consistency of products or services that are expected in some ways related to the warranty issued by the company).

Trust is considered important in maintaining relationships, improving relationships and effectively reducing risk perceptions. Trust is also regarded as the foundation of inter-personal relations as a prerequisite for cooperation and as a basis for the stability of relationships in social institutions and markets. The importance of trust becomes the latest talk of selling over the internet, where sellers and buyers rarely or not all directly meet. Akbar and Parvez (2011) quotes from Morgan and Hunt, that: The trust has been measured by using dimensions adapted from Morgan and Hunt, including probity, fair-mindedness, benevolence, and reliability (associated with the reliability and accuracy of the products or services that are expected in some ways related to the warranty issued by the company).

If a company be trust-worthy, the consumer will trust the company and its relationship pattern (Aborumman et al., 2011). Aborumman et al. (2011) says that when to establish a relationship, company needs to be trusted.

Henderson et al. (2011) explains that to gain consumer's confidence, companies should show customers that building a partnership brings value. To gain consumer confidence the company must act in such a way, as to show the consumer that the company brings value if it becomes a partner. We must prove by action that the relational with the customer is meaningful. Based on the above statement, what is meant by consumer trust, is the main key consumers not to leave the company. Trust is the most important factor for corporate survival. While indicators of consumer confidence are probity, equity and reliability (Mitchell in Egan, 2001)

### **3. Methodology**

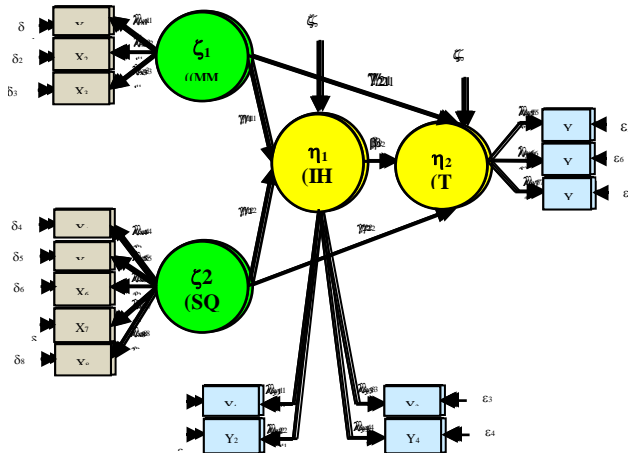
The descriptive research method is the survey and the explanatory survey. The type of investigation in this research is the causality of the type of investigation, which states the existence of interrelations between the independent variables of the marketing mix, and the quality of service to the image and beliefs of the Hotel Customers based on causality. The unit of analysis of this research is a five-star hotel in DKI Jakarta. The observation unit of this study is the customer who has repeatedly stayed at the hotel.

This research is on cross section time horizon, so that the information from the population (sample of respondent) is directly collected with the purpose to know the opinion to the object that being studied, as proposed by Uma Sekaran (2000) and Malhotra (2002). The period of this research is from March to July 2017.

Complete data collection related to this research was conducted by survey. The data required is primary and secondary data. The respondent population of 10 five-star hotels and the selection of hotels is done by cluster sampling with four variables

studied with the number 350 respondents. In this study the sample size is determined in the form of statistical test that will be used, namely is the model of structural equation or Structural Equation Modeling (SEM).

**Figure 1.** Structural Equation Model



where:

$\xi_1$  (MM) = Marketing Mix;  $\xi_2$  (SQ) = Service Quality;  $\eta_1$  (IH) = The image of the hotel and  $\eta_2$  (TC) = Customer trust

The test results of question item validity on the questionnaire for each variable with  $r > 0.6$  (Sugiyono, 2005), indicate that all items have a larger correlation value. This means that all question items are valid.

#### 4. Result and Discussion

The hypothetical test of the research will be conducted on each hypothesis in sequence starting from the first hypothesis about Marketing Mix affecting Hotel Image, second hypothesis the influence of Quality of Service on Hotel Image, third hypothesis Marketing Mix and Service Quality jointly influencing the Hotel image. The fourth hypothesis of the Marketing Mix affects Customer Confidence. The fifth hypothesis, Quality of Service perceived to affect Customer Trust. The sixth hypothesis - Citra hotel affects customer confidence. The seventh hypothesis influences the Marketing Mix and the perceived Quality of Service and the Hotel Citra together towards Customer Confidence.

A full model of the SEM equation using LISREL 8.30 program derives two path model diagrams, namely the standardized model and the t-values model, each model as shown in the following figure:

Figure 2. SEM Calculation Result (Standardized Model)

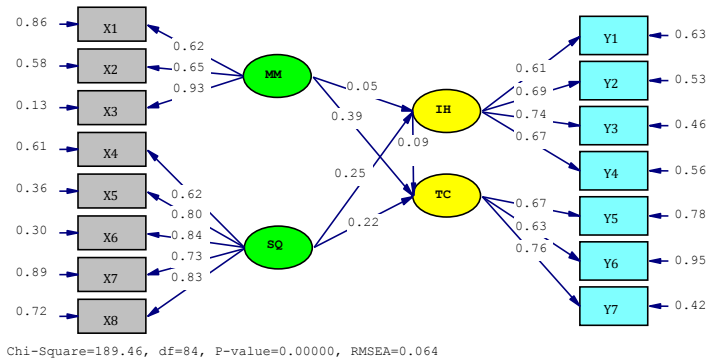
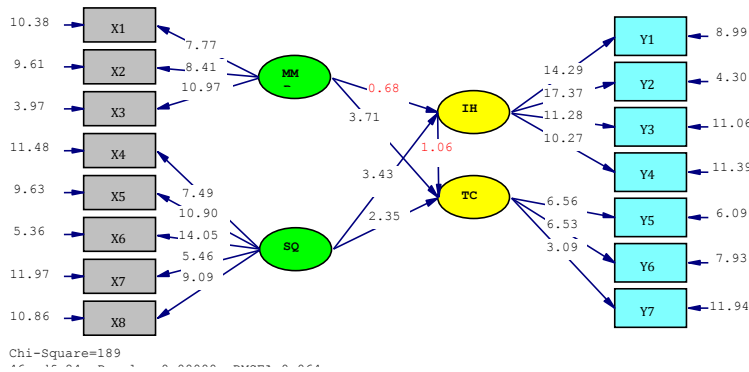


Figure 3. SEM Calculation Result (t-Model)



Based on Figure 2 and Figure 3 above, the results obtained from the significance test of the relationship between latent variables or paths between latent variables, can be seen in the following table. In the table is shown the value of the resulting coefficient along with the value of t. If the structural path has a value of  $t \geq 2$  ( $t \geq 1.98$ ), then the coefficient of the path is significant and if  $t < 2$  ( $t < 1.98$ ), it is concluded that the coefficient of the path is not significant.

Table 2. Test of Conformity Relationship between Latent Variables

Latent Variables (Structural Trajectory)	Standardize	t-value	Keterangan
Marketing Mix → The image of the hotel	0.05	0.66	Tidak Signifikan
Service quality → The image of the hotel	0.25	3.45	Signifikan
Marketing Mix and Service Quality → The image of the hotel	0.27	7.18	Signifikan

Marketing Mix → Customer trust	0.39	3.73	Signifikan Significant
Service quality → Customer trust	0.22	2.37	Signifikan
The image of the hotel → Customer trust	0.089	1.03	Tidak Signifikan
Marketing Mix, Quality of Service and the image of the hotel → Customer trust	0.51	17.54	Signifikan

Based on table 2 almost all trajectories proved to be significant and there are two paths, namely the relationship between Marketing Mix factor (MM) with Hotel Image (IH) and the relationship between Citra Hotel (IH) and Customer Trust (TC) which is not proven significant  $t < 2$ , does not qualify for significance.

## 5. Conclusion

Marketing Mix mainly on the element of Partnering Program (X3) proved to have little and not significant effect to the image of hotels. Quality of service especially on the element “Reliability” (X6) proved to have a positive and significant effect on hotels image.

Especially on the elements of “Partnering Program” (X3) and “Quality of Service” that is felt especially in the element of “Reliability” (X6), Marketing Mix proved to positively and significantly affect the image of Hotel especially on the element of “Reputation” (Y2) when viewed partially, it turns out quality of service that dominant influence image of hotels.

Marketing Mix mainly on the element of Partnering Program (X3) proved to have a positive and significant effect on customer trust. Quality of service, especially on the element “Reliability” (X6) is perceived to have a positive and significant impact on customer confidence. Image of hotel especially on the element of “Reputation” (Y2) proved to have a non-significant effect on the customer trust.

Marketing Mix is mainly on the elements of “Partnering Program” (X3), Quality of Service especially on the element of “Reliability” (X6) perceived and the image of Hotel especially on the element of “Reputation” (Y2) together proved to positively and significantly affect the customer confidence, especially on the element “Probity” (Y5), but when viewed partially, it turns out that the dominant service quality affects the hotel image.

### *Managerial Implications:*

Based on the results of the above research, the findings are obtained:

- Customer Trust especially Trust Reliability (Y7) in Five Star Hotel in DKI Jakarta will increase if Five-star hotel in DKI Jakarta have High Marketing

Mix especially on element of Partnering Program (X3) and also have high Quality of Service also element Reliability (X6).

- Based on the results of descriptive analysis of customer trust, the Five Star Hotel in Jakarta is required to be more able to pay attention and increase customer trust, so that the confidence of the customers of Hotel in DKI Jakarta will be higher especially in elements such as trustworthiness of hotel reputation, and the consistency of hotel services

#### *Suggestions for Further Researchers:*

For further research, Marketing Mix and Service Quality variables can be reused as research variables by changing the intervening variables of corporate image with customer satisfaction, so it is likely to obtain different research results.

- For other factors, there are still many factors that influence customer confidence in five-star hotels in DKI Jakarta, besides the variables in this research, such as customer satisfaction, perceived value, services cape and other factors to be investigated further, because there may be other factors besides which exists in this study has a dominant influence to increase customer confidence in Five Star Hotel in Jakarta.
- For the development of science, we can expand the study of marketing management science, especially related to the marketing mix and quality of service in the hospitality industry, so the results of this study can provide input for researchers in developing the science of hotel marketing management. Information donations are useful for adding insight into the education and teaching of hotel marketing management.

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## Tax Compliance in Small and Medium Enterprises (SMEs) in Indonesia

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Waluyo, W. \*)

**Abstract:**

*Through tax authority revenue targets, the tax authority strengthens its organizational capacity development, information technology application, and utilization of taxation data from the third party.*

*This study aims to examine tax compliance, especially for SMEs, using perceived tax fairness, tax knowledge, and tax administration variables. This research uses a quantitative approach. The data used is primary data collected using surveys. Respondents were chosen using nonprobability sampling, and the sampling technique is purposive sampling. Data is analyzed using multiple linear regression.*

*The population of this study consists of small businesses and entrepreneurs. The results of this study indicate that perceived tax fairness, taxpayer knowledge, and tax administration influence SME tax compliance. The sample used in this study consisted of 86 respondents.*

**Keywords:** Tax knowledge, tax administration, tax compliance.

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### 1. Introduction

The Governor of the Central Bank of the Republic of Indonesia stated that the Indonesian economy has tended to improve over the last three years. Domestic economic growth in 2015 was 4.88%, while in 2016 it was 5.02%, and in 2017 it reached 5.05%. Economic growth is closely related to government revenue from the tax sector. State income from taxes has become an essential element in supporting economic activities, thus moving the wheels of government and aiding the provision of public facilities. The target of increasing tax revenues occasionally requires the tax authority to optimize tax revenue. However, the percentage of tax revenue realization in the period from 2012 to 2014 tended to decrease. The following data show the declining level of tax revenue realization.

**Table 1.** Targets and realization of taxes in the ABPN (Indonesian government budget) from 2014 to 2016 (in trillions of IDR)

	Target	Realization	Percentage
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2014	1246.1	1146.9	92%
2015	1489.3	1240.4	83.3%
2016	1539.2	1285.0	83.5%

*Source:* [www.kemenkeu.go.id](http://www.kemenkeu.go.id)

The tax authority undertakes organizational capacity building, strengthening information technology, strengthening organization, strengthening budgets and business processes, and utilizing taxation data from third parties. For the attainment of the tax revenue target, one potential area for development is the SME sector. This is because SMEs play an essential role in the Indonesian economy (Rekarti & Doktoralina, 2017). SMEs represent 99.99% of the total number of entrepreneurs in Indonesia, or 56.54 million units. The number of SMEs in Indonesia continued to grow from 2015 until 2017 (Ministry of Cooperatives and SMEs of The Republic of Indonesia, 2012).

The number of SMEs in Indonesia includes 59 million businesses ([www.bappenas.go.id](http://www.bappenas.go.id)). Considering the number of SMEs in Indonesia, tax revenues from the SME sector should have grown. However, the tax extraction potential of the tax authorities is still low due to constraints in tax administration and the tax rate (Walsh, 2012; Waluyo, 2017). The taxation policy of 2013 states that the taxpayer tariff for SMEs is 1%, provided that the taxpayer has a maximum gross circulation of IDR 4.8 billion. From the survey, the tax authorities concluded that the level of public compliance in carrying out its tax obligations is still low, including compliance in submitting tax returns. The following data show the compliance rates in filing tax returns.

**Table 2.** *Taxpayer compliance*

Description and year	2013	2014	2015	2016
Registered taxpayer	24,347,763	27,379,256	30,044,103	32,769,215
Mandatory listed taxpayer tax return	17,731,736	18,357,833	18,159,840	20,165,718
Percentage	73.83%	67.05%	60.44%	61.54%

*Source:* [www.pajak.go.id](http://www.pajak.go.id)

Table 2 shows that the taxpayer compliance level in filing tax returns in 2016 was only 61.54%, which is low. Therefore, the ease of tax administration becomes the determinant factor in the successful implementation of SME tax policy as regulated (PP) in Tax Regulation Number 46/2013. Tax administration plays a crucial role in the tax system because an effective tax system will be able to increase tax revenue (Abiola & Asiweh, 2012; Waluyo, 2018).

The issuance of PP No. 46 of 2013 is to facilitate SME taxpayers in fulfilling their tax obligation. The 1% tax is on gross revenue, which should be no more than IDR 4.8 billion per year. Some factors are considered critical for the successful implementation of PP No. 46 of 2013. These include the level of comprehension of

the rule among SMEs and efforts by the tax authority to increase the awareness of the new state i.e. the tax system is operating under new conditions (hereafter referred to as "tax socialization"). Also included are the sanctions imposed for violations of the rule and an understanding of the benefits of regulation.

Based on the background of this study, the following questions will be answered. Is tax justice (protection of his soul and possessions) felt? Are there perceived benefits for taxpayer knowledge and tax administration? Do tax sanctions and tax socialization also affect tax compliance?

## **2. Literature review**

### ***Attribution theory:***

Attribution theory studies the process of how one interprets the occurrence of an event and the reason or cause of the consequent behavior (Kelley, 1973). Attribution theory explains how we assess individuals; to put it differently, we seek to determine whether the response is internal or external (Robbins, 2008). Internally induced behavior is behavior that is influenced by an individual's control, whereas externally induced behavior is behavior caused by external sources. Apart from internal and external factors, the determination of an individual's behavior largely depends on three factors: distinctiveness, consensus, and consistency.

### ***Taxpayer compliance:***

Taxation requires the active participation of taxpayers in carrying out taxation. This involves a high level of taxpayer compliance, namely compliance in fulfilling tax obligations (Koessler, Torgler, Feld, & Frey, 2016). This voluntary agreement is the backbone of the self-assessment system, whereby the taxpayer is responsible for the self-determination of tax obligations and then accurately paying and reporting taxes in a timely manner. According to Saad (2014), tax compliance is a condition in which taxpayers fulfil all tax obligations and exercise taxation rights. According to Minister of Finance of the Republic of Indonesia Regulation Number 74/PMK 03/2012, taxpayers that meet specific criteria are never punished. These criteria include being timely in filing tax returns, having no tax arrears, and having a public accountant check financial statements.

Evaluation of the corporate taxpayer compliance level is carried out to assess the degree of compliance of a group of persons or entities which, under the provisions of taxation legislation (Jimenez & Iyer, 2016), file taxes jointly. It is performed to determine taxation obligations, including certain tax withholders or collectors, which constitute a unity of businesses or non-businesses.

### ***Perceived tax fairness:***

The theory of fairness suggests that people will feel satisfied or dissatisfied depending on the presence or absence of equality in a system, in particular the work system (Spiegel et al., 2017). According to this theory, the main components of the

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method of fairness are output, results, justice, and injustice. Production is a valuable factor for taxpayers who are considered essential and have complied with government regulations, such as a system of taxation that is not one-sided or arbitrary. Tax justice can be either vertical or horizontal. Vertical tax fairness is when different tariffs are provided based on the diversity of business activities (Saad, 2012). Public perceptions of the truth of the prevailing tax system could significantly affect the implementation of proper taxation in the country. One such risk is that the public could change its tax compliance behavior and tax evasion behavior (Raaij, 2016) because they feel the tax system is unfair. Fairness therefore becomes a critical component in the tax system because it can generate taxpayer trust.

Perception is a direct response or the process through which one gains recognition through the five senses (Kotnal, 2017). Public perceptions concerning the fairness of the prevailing tax system significantly affect the implementation of proper taxation in the country. This public perception has the potential to change tax compliance behavior and tax evasion behavior. Communities will tend to disobey and avoid tax obligations if they feel the tax system is unfair.

According to Saad (2012), fairness is a reciprocal relationship between the contributions paid by the taxpayers and the perceived benefits. Taxpayers will have a good perception of the tax system if the benefits received are proportional to the gift given. According to Faizal, Palil, Maelah, & Ramli (2017), perceptions of fairness are challenging to define because of four main problems. One such problem is a dimensional problem determined at the individual level as well as in the broader community, which is related to complexity, and lack of fairness may result in non-compliance.

***Tax knowledge:***

Tax knowledge is the tax information that can be used by taxpayers as a basis to act, make decisions, and take a specific direction or strategy in connection with the implementation of their rights and obligations in the field of taxation (Palil, Akir, & Ahmad, 2013; Waluyo, 2016). Tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Saad, 2014). Tax disclosure is significant for taxpayers to fulfil their tax obligations and plays an essential role in the self-assessment system. Aspects of taxation knowledge for taxpayers significantly affect tax attitudes towards the fairness or unfairness of a tax system (Mukhlis, Utomo, & Soesetio, 2015). A better quality of experience will provide the perspective of fulfilling obligations adequately through the existence of a taxation system that is considered reasonable. Taxpayer awareness will increase within society (Maseko, 2014).

***Tax administration:***

Tax administration can be narrowly defined as the exercise of the obligations and rights of taxpayers, conducted at the tax office. The relevant paperwork includes recording, management (classifying), and storage (filling) (Walsh, 2012). Tax

administration is the way in which taxpayers are assessed and made to pay their taxes to the government. It is subject to the assessment, collection, and monitoring of taxpayer compliance with tax laws and regulations by taxation agencies (Olaoye, Ayeni-Agbaje, & Alaran-Ajewole, 2017).

Tax administration plays an essential role in the taxation system of a government, and a government may successfully achieve the expected objective of generating an optimal tax revenue if its tax administration is capable of effectively implementing taxation systems in a selected state (Makori et al., 2013). Tax administration seeks to realize tax regulations and tax revenues and determine how to effectively resolve tax issues. Based on the above arguments, the hypotheses proposed in this study are as follows:

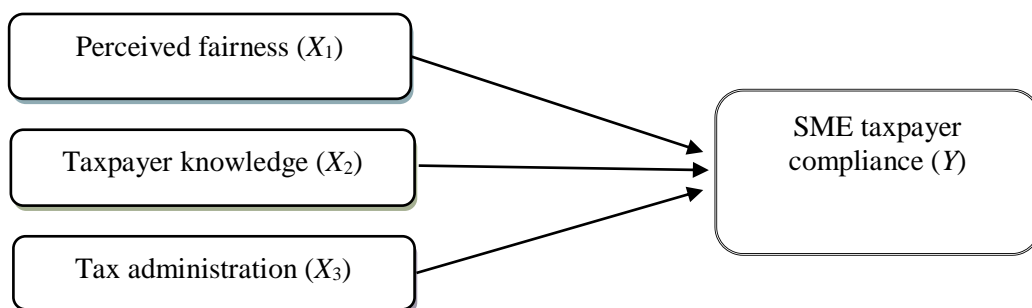
*H1: Perceived fairness influences SME taxpayer compliance.*

*H2: Tax knowledge influences SME taxpayer compliance.*

*H3: Tax administration influences SME taxpayer compliance.*

The theoretical framework which examines perceived tax fairness, taxpayer knowledge and tax administration as connected to SME taxpayer compliance is presented in the following.

**Figure 1.** Research framework



### 3. Methodology

This research uses a quantitative approach with a descriptive and explanative research method (Ghozali, 2016). This study aims to examine the effect of independent variables, namely perceived fairness (X1), tax knowledge (X2), and tax administration (X3), against the dependent variable, which is SME taxpayer compliance (Y). The data used are primary data collected through observation and the distribution of surveys to SMEs. Data processing was carried out using the SPSS 23 programme. Primary data in the research come from a survey with 86 respondents conducted in Jakarta. The data collection method in the research was carried out in two ways, through a survey and observation. The reason for the

distribution of the survey relates to the role of informants. They are considered essential in the research because they can provide information regarding the research subject, and they can develop access to the related sources. The second data collection method was direct observation and non-participant observation, i.e. by observing interactions among the SMEs related to taxation. The observations were carried out through dialogue access to the SMEs by utilizing "tracking" features for each informant.

#### 4. Result and Discussion

##### *Descriptive analysis:*

The following table shows the results of the descriptive statistical output from data processing using SPSS.

**Table 3.** Descriptive statistics

	N	Minimum	Maximum	Mean	Std. deviation
Perceived fairness	86	17	26	21.0116	1.94328
Tax knowledge	86	21	32	27.3256	2.28263
Tax administration	86	18	28	23.9302	1.88362
Taxpayer compliance	86	17	24	20.8488	1.85674
Valid N (listwise)	86				

In Table 3, the descriptive analysis shows that the variable of perceived minimum value generated is 17, while the maximum value is 26, and the average value obtained from 86 respondents is 21.0116. This shows that perceived fairness is already in the maximum range. Variable tax knowledge with an average value of 27.3256 indicates that tax knowledge is also in the maximum range. Variable tax administration, with an average value of 23.9302, shows that tax administration is in the maximum range.

##### *Normality test:*

**Table 4.** Normality test

One-sample Kolmogorov–Smirnov test

N		Unstandardized residual
		86
Normal parameters a, b	Mean	0.000000
	Std. deviation	1.12008031
Most extreme differences	Absolute	0.076
	Positive	0.076
	Negative	-0.054

Kolmogorov–Smirnov Z	0.706
Asymp. sig. (two-tailed)	0.701

The results of the Kolmogorov–Smirnov test in Table 2 show that the asymptomatic significance value is 0.701, which is higher than the significance level of 0.05. It can therefore be concluded that the data are usually distributed, if the regression model used fulfils the assumption of normality.

**Table 5.** Full model regression

coefficients.a

Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	$\beta$	Std. Error	Beta		
1 (Constant)	2.253	2.195		1.026	0.308
Perceived fairness	0.600	0.068	0.628	8.846	0.000
Tax knowledge	0.193	0.090	0.237	2.134	0.003
Tax administration	0.634	0.191	0.069	3.316	0.001

a. Dependent variable: taxpayer compliance.

The equation of regression is as follows.

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

The equation includes the following variables.

- Y: taxpayer compliance  
 X1: perceived fairness  
 X2: tax knowledge  
 X3: tax administration  
 e: error

The following results were obtained from full model regression.

$$Y = 2,253 + 0,600 X_1 + 0,193 X_2 + 0,634 X_3 + e$$

The first hypothesis (H1), perceived fairness (X1), has a t value of 8.846, which indicates a positive relationship at a significance value of 0.000 or less than 0.05 ( $0,000 < 0.05$ ). This means that perceived fairness (X1) has a significant effect on the dependent variable. We can therefore conclude that the hypothesis for perceived fairness cannot be rejected. It has a positive correlation with and a significant impact on taxpayer compliance (Y).

The second hypothesis (H2), tax knowledge (X2), has a t value of 2.134, which indicates a positive relationship at a significance value of 0.003 or less than 0.05 ( $0,003 < 0.05$ ). This means that tax knowledge (X2) has a significant effect on the dependent variable, and the tax knowledge hypothesis (X2) is not accepted. It has a positive correlation with and a significant impact on taxpayer compliance (Y).

The third hypothesis (H3), tax administration (X3), has a t value of 3.316, which indicates a positive relationship at a significance value of 0.001 or less than 0.05 ( $0,001 < 0.05$ ). This means that tax administration (X3) has a significant effect on the dependent variable. The tax administration hypothesis (X3) is accepted because it has a positive correlation with and a significant impact on taxpayer compliance (Y).

## 5. Conclusion

Indonesian SMEs generally have relatively low tax knowledge. Although the number of SMEs in the business category is very significant, they only have 5% value added. For big businesses, however, the value-added reaches 89%.

This low level of tax knowledge, in turn, will cause the level of compliance to also be low. The same case occurs in taxation administration. It can be said that weak tax administration leads to unfulfilled taxation obligations. Because of their tremendous contribution to the country's gross domestic product, SMEs need to be guided more by the government. From the fairness perspective, the 1% gross excise tax levied on SMEs has led those SMEs to perceive unfairness in the tax policy. Concerning this matter, the tax authority has planned to lower tax tariffs by up to 0.25 % and lower the limits for SME criteria.

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## Transfer Pricing as a Tool to Shift Taxable Income by Multinational Enterprises

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**Abstract:**

*In recent years, a major chunk of the cross-border trade is in the hands of multinational enterprises, which undertake most of their transactions within different entities under common control.*

*The prevalence of intra-group transactions has facilitated fixing their internal price at less or more than market value-a practice, known as transfer pricing. One of the repercussions of the transfer pricing manipulation is tax avoidance, which is the most important issue in international taxation today.*

*This paper describes, in brief, transfer pricing, its role in tax avoidance and various counteractive measures, which have been or can be adopted by states.*

**Keywords:** *Multinational enterprises, transfer pricing;*

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### 1. Introduction

The present international trade is marked with a few unprecedented momentous developments. Firstly, the volume and geographical extent of international trade has increased tremendously. Secondly, a major chunk of this international trade is in the hands of big multinational enterprises (MNEs). An MNE is an enterprise, which partly or fully owns controls and manages income-generating assets in more than one state (Mucklinski, 1999). It is incorporated and organized in one country and conducts cross-border transactions beyond the country of origin through branches, partly or wholly owned subsidiaries, affiliates and joint ventures. Thirdly, there is significant rise in intra-group (also called intra-firm) transactions. The majority of the transactions in cross-border international trade take place between affiliated entities within an MNE (subsidiaries and affiliates) and without passing through the neutral and independent market, enabling them to fix internal prices of their goods and services according to their own convenience and motives in respect of transactions between themselves. These prices are called transfer prices. The transfer price is usually contrasted with the market or arm's length price, which is price of

the similar transaction in the open market between unrelated third parties (Stroud & Maters, 1991). The price in such transactions may be enhanced or reduced.

The transfer pricing manipulation is primarily done for enhancement of total after-tax profit of the MNE (business profit and profit repatriated from subsidiaries) and reduction of before-tax declared profit (Arnold & McIntyre, 2002), to avoid tax. An MNE can alter its profit and that attributable to its subsidiaries through transfer pricing. Overpricing by an MNE results in high and low profit for the parent company and its subsidiaries respectively. Underpricing by the parent company has just opposite effect. This enables an MNE to shift the profit to a country where rate of taxation is lower, resulting in reduction in overall tax liability without altering its overall business profit (Chudson, 1981). Other maneuvers for income tax reduction by transfer pricing are:

- The business profit may be transferred to the country which allows more admissible expenses against income like higher depreciation rates and other tax benefits.
- The prices of capital assets may be overpriced to increase their written-down value enabling the subsidiary to claim higher depreciation expenses resulting in decrease in taxable income (Plasscharest, 1979).
- The business profit may be shifted to the country where tax avoidance is easier.

## **2. Literature review**

A study by Arnold and McIntyre (2002), outlined in a book entitled "International Tax Primer" introduces Unitary Taxation and the benefits and demerits of using Unitary Taxation. Firstly: all the entities within a unitary business earning taxable profits from economic activities in different countries will be taxed only one at one place and no further tax liability would arise. Secondly, there will be no race to the bottom or harmful tax competition between states.

Burns (1980) aims to find the extent to which firms' transfer pricing decisions are influenced by various environmental factors. He analyses the responses from financial executives of 62 US-based MNCs. The financial executives were asked to rate the importance of each environmental variable on their firms' transfer pricing decisions and to select five environmental variables which are most important to their firms' transfer pricing decisions. The results show that market conditions in foreign countries, competition in foreign countries, reasonable profit for foreign affiliates, US federal income taxes, and economic conditions in foreign countries are rated as the five most important variables among the others.

Research related to this problem, is the research conducted by Roy Rohatgi (2002), which states the transactions involved in transfer pricing, inter alia include: transfer of tangible goods, capital assets and other such tangible asset, transfer of intangible

property rights, rendering of services, provision of finance and other like property rental, leasing arrangement etc.

McLure, Jr. and Weiner (2002) in their research revealed difficulties to devise a single apportionment formula covering all the industries and sources of income

### **3. Methodology**

The research method used in this paper is primarily qualitative, comprising the analysis of various documentary sources of data. Relevant international case law, tax legislation, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and reports are consulted and analyzed, as well as the views of recognized legal and tax experts that have been published in technical journals and textbooks. All potential problems are analyzed from a Tax Administrations viewpoint, as well as from the taxpayer's viewpoint.

A hypothetical is analyzed to discuss the practical issues that arise and to make recommendations. This attempts to establish whether the recommended approach is realistic and reasonably pragmatic. Because certain of the topics addressed above are still disputable, this paper makes recommendations on how to deal with certain problems in accordance with the OECD Guidelines and the Income Tax Act.

### **4. Result and Discussion**

#### **4.1 The methods to counter transfer pricing**

There are two approaches to compensate tax avoidance caused by transfer pricing manipulations: the arm's length approach and Unitary taxation (global formulary apportionment method).

The Arm's length price is correct monetary value of a transaction settled by market forces and agreed between unrelated parties. An inappropriate transfer price can be managed by tax authorities based on the arm's length method in two steps:

Step one: finding the arm's length price of the transaction under consideration;

Step two: modifying the declared transfer price accordingly (called transfer pricing or corrective adjustment) bringing it at par with the arm's length price, (Ibid, n.d.)

There are currently two approaches for determination of the arm's length price viz. negotiated approach as adopted by UK tax authorities and strict rules and regulation-based determination of the transfer prices, as followed by US (Mucklinski, 1999). However, the transfer pricing (or primary) adjustment based on the arm's length principle can result in a number of further problems like disagreement by the MNE on the arm's length price determined by the tax authorities leading to litigation and

refusal of other country to make correlative or secondary adjustment leading to double taxation.

Unitary taxation has been suggested as an alternative to this separate entity approach and arm's length principle. All the affiliated/related entities carrying out income-generating economic activities within or without the country of origin are treated as one unit. The total world income or global taxable income (or loss) of this unitary business enterprise is computed (global profit assessment). Thereafter, this income is apportioned in a pre-determined mathematical formula, evolved based on pre-determined factors. The share of each state is distributed to each state, which applies its own tax rates in accordance with its domestic tax laws and rules (Ibid, n.d.). If the unitary taxation is adopted worldwide, it would result in the following benefits:

- Firstly, all the entities within a unitary business earning taxable profits from economic activities in different countries will be taxed only once at one place and no further tax liability would arise.
- Secondly, these will no longer need to appease the MNEs for making investment in their jurisdiction by indulging in harmful tax practices like tax havens and harmful preferential tax regimes (Arnold & McIntyre, 2002).
- Thirdly, it will reduce the administrative cost of tax collection and the compliance cost (monetary and time costs) of taxpayers. Fourthly, shifting of profit by the MNE from one country to another for tax consideration will be discouraged (Evans, et al., 1985).
- Finally, neither the transfer prices between related will need to be monitored, nor will determination of the arm's length price be necessary and consequently the problems of transfer pricing related tax avoidance will be solved once for all.

However, unitary taxation consists of several following demerits:

- Firstly, it has not been favored by international organizations so far.
- Secondly, a single apportionment formula covering all the industries and sources of income may be difficult to devise (McLure & Winer, 2002).
- Thirdly, a precise definition of the unitary business and the parameters for inclusion of business entities in it, have not been agreed upon so far. Fourthly, it may create conceptual confusions like abandoning the well-established separate entities and limited liability doctrines (OECT, 2001). etc.
- Finally, it will be difficult to collect the information and books of accounts necessary to compute taxable income from foreign affiliate because of not having competence to enforce compliance and lack of jurisdiction (Stewart, 1981).

## 4.2 Anti-transfer pricing strategies in practice

*Advance Pricing Agreement (APA):*

The unilateral determination of the arm's length price by tax authorities is frequently disputed and litigated by the taxpayers, besides creating uncertainty in taxation. Some countries have tried to resolve these problems by negotiating agreements with the taxpayers on the methodologies to determine transfer prices before any such dispute arises. Such an agreement, called an advance pricing agreement or arrangement is binding on all parties (Rohatgi, 2002). It may be unilateral, bilateral or multilateral (Adam & Graham, 1999). The APA has various advantages like removal of the uncertainty element, reduction of compliance costs, fostering amicable milieu between taxpayers and tax collector, avoidance of time and money consuming litigation and reduction of economic double taxation (bi- or multilateral APAs).

*Exchange of Information:*

Article 26 of OECD MC and UN MC provide for exchange of information in tax matters between tax authorities (Rohatgi, 2002). Most of the bilateral avoidance of double taxation treaties has similar provisions. Such exchange is very helpful in undoing tax effects of inappropriate tax prices.

*Imposition of Anti-Dumping Duty (ADD):*

In all WTO signatory countries, if an entity sells a product in a country other than the country of origin at less than its normal value (less than sale price in the exporting country or less than the cost of production), the importing country can impose anti-dumping duty (ADD) not exceeding the amount of margin of dumping, as per provisions of Article VI of the General Agreement on Tariff and Trade (GATT) (Bossche, 2005).

## **5. Conclusion**

A lot more needs to be done to combat tax avoidance through the transfer pricing at international level. Firstly, the difference in tax rates needs to be minimized. Secondly, what hundreds of bilateral double taxation avoidance treaties could not achieve regarding transfer pricing, the single multilateral treaty can achieve. Such an international treaty between the all or most nations can resolve practical handicaps like issues of secondary adjustment when primary adjustment is made by one country, the double taxation, the disputes on the valuation or method of valuation between countries and exchange of information. Thirdly, so far, the taxation dealing with cross-border transactions is purely a domestic subject. There is neither any codified international tax law (comparable to WTO law or UN laws etc.) nor any international supervisory organization. This results in a lot of problems like jurisdictional conflicts, double taxation, disputes on valuation, harmful tax competition and problems in compliance, enforcement and recovery. Establishment of an international body like International Tax Organization (ITO) has been suggested (XXX, n.d.). Such a proposal was considered by the UN in 2001. The ITO

was to be assigned various functions like offering technical assistance, provision of a forum for development of international tax norms, maintenance of tax surveillance, restraining harmful tax competition and arbitration of tax disputes. However, the idea of ITO is not that unworkable and may materialize in future.

In my opinion, the establishment of such an international organization is indispensable. It can provide forum for dispute resolution, form rules for issues in international taxation, ensure exchange of information, etc. Can unitary taxation be substituted by the arm's length approach?

However, in the present international political and economic situation where accounting standards, methods of computation of taxable income, tax laws etc. are different; the unitary taxation does not seem to be workable. A lot must be done before unitary taxation can replace the arm's length approach:

- Firstly, the accounting standards, methods of computation of taxable income and methods of valuation of goods and services etc. will have to be harmonized.
- Secondly, for implementation, this approach presupposes international cooperation. That is possible only after promulgation of formal international codified law consensually agreed by the nations.
- Thirdly, we need an international implementing organization for supervision, dissemination of information and dispute settlement. Fourthly, the determination of apportionment factors like sales, property etc. and methods of their valuation require consensual agreement by nations. Fifthly, the apportionment formula acceptable to all countries involved needs to be evolved.
- Finally, disputes arising between nations cannot be effectively resolved unless there is an effective International Tax Organization.

Despite having many imperfections and several shortcomings, the arm's length approach is the best system available so far. However, there is a lot of room for improvement as suggested above. Unitary taxation can replace the arm's length approach, after obtaining consensus over various issues and concluding international agreement. Both approaches can also work simultaneously by reserving unitary taxation for the specified big MNEs and keeping the arm's length approach for rest of MNEs. Establishment of an International Tax Organization is a key to many problems associated with both approaches.

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## Threshold Regression for Analysis the Impact of Global Liquidity on the Economies of ASEAN Countries

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Ekananda, M \*)

### **Abstract:**

*This article examines the effects of global liquidity on Indonesia and some countries in ASEAN. The Threshold Panel model is used considering the heterogeneity of ASEAN economic data on global liquidity.*

*The Threshold Panel model is appropriate to identify any changes in global liquidity behavior at a certain level that gives different effects on macroeconomic variables in ASEAN countries.*

*The results of the study found that the effect of global liquidity on macro and financial in ASEAN countries experienced a change in the level of certain global liquidity effects. These differences may be related to differences in economic structure and or policy posture in those countries.*

**Keywords:** *Threshold panel, spillover, finance liquidity, fixed effect;*

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### **1. Introduction**

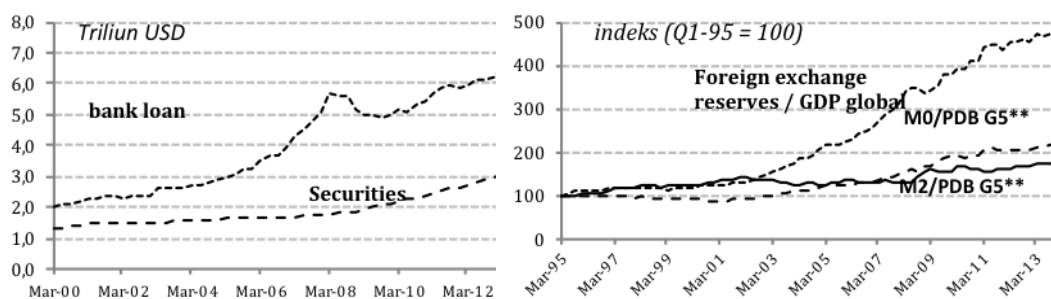
Since the 1990s, the condition of global liquidity has tended to be looser. Monetary indicators such as aggregate monetary base and global broad money aggregate are growing faster than the output (Figure 1a). This change relates to loose monetary policy applied by developed countries to respond to recession. Changes occurred from Japan's post-bubble property (early 1990s) and US post-breakup of the dotcom bubble (2001 - 2005). Another aspect of global liquidity that is often a concern is the accumulation of foreign exchange reserves, especially by emerging and developed countries in Asia, such as China and Japan. The accumulation of foreign exchange reserves is a rational response to anticipate the reverse of capital flows that may occur at any time, and to mitigate the negative effects of financial disclosure on movements in exchange rates (Aizenman, Chinn and Ito 2008).

The accumulation of foreign exchange reserves can lead to a negative externality to global financial stability, as most foreign exchange reserves are invested in financial instruments in developed countries. Investments in financial instruments contribute

to the easing of financial conditions in these countries (Domanski, Fender, and McGuire 2011; Landau 2013).

**Figure 1.** Global liquidity indicator

(a) Monetary aggregate and foreign exchange reserves  
(b) Total loan between countries\*)



**Source:** IFS, BIS \*) Total loan from US, Uni Europe, and Japan, \*\*) US, Uni Europe, Japan, UK, and Canada.

Matsumoto (2011) found significant spillover effects from both segments of global liquidity against domestic macroeconomic variables. The same criticism can also be addressed in several other spillover studies. Chudik and Fratzscher (2011), for example, do not include global macroeconomic variables at all, while Brana, Djigbenou and Prat (2012) only include global commodity price indices. However, Matsumoto's research provides a useful framework for studying the effects of global liquidity, particularly in the Indonesian context. The structural vector autoregression estimation method (SVAR) used in the study also allows authors to uncover the heterogeneity of inter-state responses to global liquidity shocks, in contrast to panel data methods commonly used in studies of global liquidity effects on emerging countries (Psalida and Sun 2011; Brana, Djigbenou, and Prat 2012).

This is important, given several other studies (Sousa and Zaghini 2007; Darius and Radde 2010; Chudik and Fratzscher 2011) found that the effects of global liquidity on macro and financial conditions in different countries - or different groups of countries may differ substantially. These differences may be related to differences in economic structure and / or policy posture in those countries.

## 2. Literature review

This liquidity fluctuation can have a real effect, as expressed in monetary modeling and empirical studies (Christiano and Eichenbaum 1992). Increased liquidity will reduce the nominal short-term interest rate (liquidity effect), thus lowering the cost of credit and boosting asset prices due to decreasing the discount rate. In the basic form (Frenkel and Razin 1987; Scarth 1996), Mundell-Fleming modeled the balance

in the goods market (IS), money market (LM) and foreign exchange market (BOP) in an open economy as follows:

$$Y_t = A_t(r_t) + NX_t(s_t, Y_t, Y_t^*) \tag{1}$$

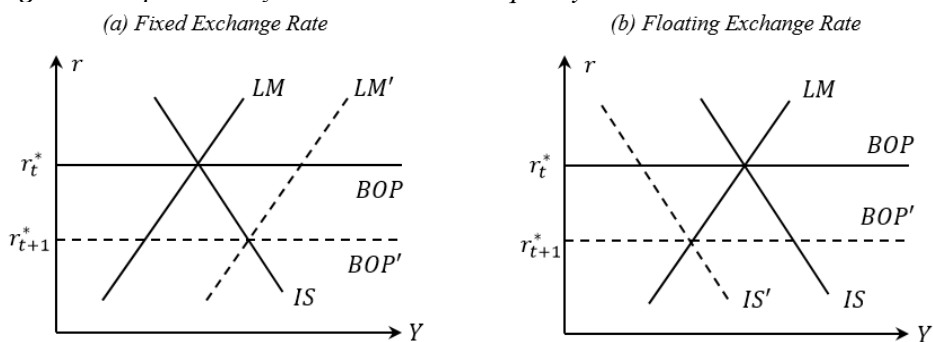
$$L_t(r_t, Y_t) = M_t(R_t)/P \tag{2}$$

$$\Delta R_t = NX_t(s_t, Y_t, Y_t^*) + K_t(r_t - r_t^*) \tag{3}$$

Where  $Y_t$  is the domestic output,  $Y_t^*$  is the external output,  $A_t$  is the domestic absorption,  $NX_t$  is the net export,  $L_t$  is the money demand,  $M_t$  is the money supply,  $P$  is the price level,  $R_t$  is the foreign exchange reserve,  $K_t$  is the capital net inflow,  $r_t$  is the domestic interest rate,  $r_t^*$  is the external interest rate, and  $s_t$  is the nominal exchange rate. This model assumes that prices have not changed in the observed period, while expectations of exchange rate changes do not affect the flow of capital into a country.

The effects of capital flows on the major domestic variables studied in this study (output, inflation, and stock prices), depend on the exchange rate regime applied. In the fixed exchange rate regime, equilibrium in the foreign exchange market in equation (3) is achieved through an increase in foreign exchange reserves, which in turn increases the supply of money in the recipient of the capital flows. At the new equilibrium point in this system, domestic interest rates have adjusted to global interest rates while output has shifted to higher levels (Figure 2a). Conversely, if the exchange rate can float, this capital inflow will cause currency appreciation, which tends to reduce the competitiveness of export products and thus suppress the output (Figure 2b).

**Figure 2. Expansionary Shock at Global Liquidity**



In assessing the overall spillover effect when there is a segmentation between the safe asset market and the risky asset market, the authors follow the neo-Keynesian modeling used by Matsumoto (2011). In this case, liquidity in the global safe asset

market is identified with monetary aggregate  $\bar{m}_t^*$ , while liquidity in the global risk asset market is projected by risk premium  $\bar{p}_t^*$ . The global economy is modeled according to the following system of equations:

$$y_t^* = E_t y_{t-1}^* - \frac{1}{\rho} (i_t^* - E_t \Delta p_{t+1}^*) \quad (4)$$

$$\varepsilon(m_t^* - p_t^*) = -\frac{\beta}{1-\beta} i_t^* + \rho y_t^* \quad (5)$$

$$\Delta p_t^* = \beta E_t \Delta p_{t+1}^* + \rho \kappa y_t^* \quad (6)$$

Where  $y_t^*$  is the global output,  $p_t^*$  is the global price level, and  $i_t^*$  is the global interest rate. Equation (4) in this case describes equilibrium in the goods market (IS), equation (5) equilibrium in the money market (LM), while equation (6) is a reflection of the tradeoff between output and inflation (Phillips curve). The output and the rate of domestic inflation for a small open economy is modeled as a function of past values, current values and expectations of future value of global output ( $y_t^*$ ), global inflation ( $\Delta p_t^*$ ), domestic interest rate ( $i_t$ ), nominal exchange rate ( $S$ ), and real exchange rate ( $Q$ ), as follows:

$$Y = f(Q, Y^*, \Delta P^*, i) \text{ Where } \frac{\partial Y}{\partial Q} > 0; \frac{\partial Y}{\partial Y^*} > 0; \frac{\partial Y}{\partial (\Delta P^*)} > 0; \frac{\partial Y}{\partial i} < 0 \quad (7)$$

$$\Delta P = f(\Delta S, \Delta P^*, \Delta Y) \text{ Where } \frac{\partial (\Delta P)}{\partial (\Delta S)} > 0; \frac{\partial (\Delta P)}{\partial (\Delta P^*)} > 0; \frac{\partial (\Delta P)}{\partial (\Delta Y)} > 0 \quad (8)$$

The nominal exchange rate is assumed to move in accordance with the uncovered interest rate parity, i.e.:

$$E_t \Delta S_{t+1} = i_t - i_t^* + r p_t \quad (9)$$

The solution to this domestic model is determined by the  $i_t^*$  rate function. Matsumoto, in this case, assumes that the central bank has a degree of monetary independence  $\gamma$ , so interest rate movements will partially follow the domestic targets, which are - envisaged here - follow the Taylor rule:

$$i_t = \gamma [\bar{r} + \phi(y_t - \bar{y}) + \varphi(\Delta p_t - \overline{\Delta p})] + (1 - \gamma) i_t^* \quad (10)$$

The above model has implications, that domestic monetary policy plays an important role in determining the spillover effect of global liquidity. The expansion of liquidity in the global risk asset market, represented by a decrease in  $r^*_{t}$ , will have a spillover effect in a similar direction. This triggered the appreciation of the nominal exchange rate more substantially. Several previous studies relevant to this study may be summarized as it follows:

- First, the growth of monetary aggregates decoupling from the growth of global output, resulting in so-called excess liquidity. Brana, Djigbenou, and Prat (2012) found structural breaks on excess liquidity growth in 1995.
- Second, the expansion of global liquidity drives inflation after several quarters, both at the global level (Sousa and Zaghini 2007; Belke, Orth, and Setzer 2010). The expansion of global liquidity encourages inflation for each country / group of countries (Sousa and Zaghini 2007; Ruffer and Stracca 2006; Brana, Djigbenou, and Prat 2012). Price adjustment is measured by consumer price index (Belke, Bordon, and Hendricks 2010).
- Finally, global liquidity is shown to increase asset prices. The effect is not always consistent across countries and inter-class assets. Belke, Bordon, and Hendricks (2010) and Belke, Bordon, and Volz (2013) found positive effects of global liquidity on the prices of various commodities.

### 3. Methodology

The domestic variables chosen in this study include real GDP (output), consumer price index, benchmark stock price index, effective nominal exchange rate (NEER), and nominal interest rate in money market. Output, inflation, and stock prices are the main concerns of the authors in this study. Meanwhile, interest rates and NEER are selected as variables that could modulate the spillover effect of global liquidity shocks, as well as instruments of monetary authority policy. All data used in this study was obtained from International Financial Statistics (IFS), Bloomberg LP, and BPS. We used in logarithms except for global GDP, global GDP deflator, and interest rate. To minimize the seasonal effect of the data, the authors applied the Census X12 procedure to the data at the level and used the year-on-year differential for the first differential.

The original frequency of the data is daily. Quarterly data was obtained by averaging daily data over a one-quarter period. The author uses data with quarterly frequencies between 1991Q1 and 2013Q4. In addition to the data limitation factor, the 1991 election as the starting point of the study was also justified by the observation that global liquidity and output began to experience persistent divergence from the early or mid-1990s. Capital inflow on a large scale also began to be experienced by emerging Asian countries, including Indonesia, at this time (Calvo, Leiderman, and Reinhart 1996).

The authors follow Matsumoto's (2011) strategy of using global US dollar supply-calculated as total global reserves plus US monetary base-as a proxy for liquidity in the global safe asset market. VIX index is a proxy of liquidity in the global risk asset. Output, consumer price index, and global commodity price index are selected as control variables, given their relation to global liquidity and their potential to influence domestic variables. The author also implements exogeneity restrictions of blocks against global variables, commonly applied in open macroeconomic studies (Cushman and Zha 1997), so causal effects only take one direction, i.e. from global variables to domestic variables. The main models of this study are as follows

$$gdp_{it} = \mu_i + (\gamma_0 r_{it} + \gamma_1 inf_{it} + \gamma_2 gdp_{it} + \gamma_3 mus_{it} + \gamma_4 vix_{it} + \gamma_5 idcom_{it}) + \gamma_6 inf_{it} + \gamma_7 r_{it} + \gamma_8 er_{it} + \gamma_9 stock_{it}$$

Where:  $inf_{it}^w$  is global inflation using a global GDP deflator;  $gdp_{it}^w$  is the real global output;  $mus_{it}^w$  is the global US Dollar supply;  $vix_{it}^w$  is the CBOE Volatility Index; and  $idcom_{it}^w$  is the global commodity price index;  $cpit_{it}^i$  is the consumer price index of country  $i$ ;  $gdp_{it}^i$  is the real output of country  $i$ ; and  $ir_{it}^i$  is the nominal money market interest rate  $i$ ;  $er_{it}^i$  is the nominal effective exchange rate of country  $i$ ;  $stock_{it}^i$  is the state stock price index  $i$ .

The first advantage of panel threshold regression is that it can find the best threshold value by minimizing its sum of squared residual (SSR). By doing this, the method can ensure that the threshold value is not biased, not like when we use a dummy variable (Ekananda 2017). The second advantage is that it can show the significance of the causality relationship under different threshold regime which cannot be showed when using an interactive term between variables. The third advantage is that it can test the null hypothesis about the threshold effect better with the utilization of bootstrap procedure. Corresponding to our study, panel threshold regression can utilize the panel data to examine the capital threshold effect of monetary policy on bank risk-taking. For any balanced panel data, the panel threshold regression with individual specific effects is given by the following equation.

$$y_{it} = \mu_i + \beta' x_{it}(\gamma) + \varepsilon_{it}, \tag{12}$$

$$x_{it}(\gamma) = \begin{pmatrix} x_{it} \mathbb{I}(q_{it} \leq \gamma) \\ x_{it} \mathbb{I}(q_{it} > \gamma) \end{pmatrix} \text{ and } \beta = (\beta_1' \beta_2')$$

Where  $\mathbb{I}(\cdot)$  is the indicator function,  $q_{it}$  is the threshold variable and  $\gamma$  is the optimal threshold-value? The subscript  $i$  and  $t$  stand for the cross-section and time

dimensions, respectively. The individual effects  $\mu_i$  are assumed the same in both regimes. The error term  $\varepsilon_{it}$  is assumed independent and identically distributed (iid) with zero mean and a finite variance  $\sigma^2$ .

The observations are separated into two regimes depending on whether the threshold variable  $q_{it}$  is smaller or larger than the threshold  $\gamma$ . The regimes are recognized by comparing regression slopes,  $\beta_1$  and  $\beta_2$ . For the identification of  $\beta_1$  and  $\beta_2$ , it is necessary that the elements of  $x_{it}$  and  $q_{it}$  are not time invariant. Following Hansen (1999), we used a difference between Eq. (12) and its average over time to estimate  $\beta_1$  and  $\beta_2$ . The average equation is given by

$$\bar{y}_i = \mu_i + \beta' \bar{x}_i(\gamma) + \bar{\varepsilon}_i, \quad \bar{x}_i(\gamma) = \begin{pmatrix} \frac{1}{T} \sum_{t=1}^T x_{it} \mathbb{I}(q_{it} \leq \gamma) \\ \frac{1}{T} \sum_{t=1}^T x_{it} \mathbb{I}(q_{it} > \gamma) \end{pmatrix} \quad (13)$$

Hansen (1999) proposed a least squares method to estimate endogenously the threshold value  $\gamma$ . This can be attained by minimizing the sum of squared errors  $SSE_1(\gamma)$  and the least square estimator of  $\gamma$  is given by

$$\hat{\gamma} = \underset{\gamma}{\text{Arg min}} SSE_1(\gamma) \quad (14)$$

The residual variance is given by

$$\hat{\sigma}^2 = \frac{1}{n(T-1)} \hat{\varepsilon}'(\hat{\gamma}) \hat{\varepsilon}(\hat{\gamma}) = \frac{1}{n(T-1)} SSE_1(\hat{\gamma}) \quad (15)$$

Hansen (1999) recommend limiting the set values of  $\gamma$  by eliminating the smallest and largest  $\eta\%$  values of the threshold variable  $q_{it}$  to guarantee that a minimal percentage of the observations is included in each threshold regime.  $\beta_1(\hat{\gamma})$  and  $\beta_2(\hat{\gamma})$  represent the coefficient in each threshold regime for any given estimated values of  $\hat{\gamma}$ . From the theoretical framework that is proposed by Dell' Ariccia et al. (2014), we obtain the reduced form  $q = q(c, r | k)$ . Based on this framework and using panel threshold regression method, the empirical model is given by the following equation.

$$\begin{aligned}
 gdp_{it} = & \mu_i + (\gamma_1 musw_{it} + \gamma_2 vixw_{it} + \gamma_3 gdpw_{it} + \gamma_4 infw_{it} + \gamma_5 idcomw_{it} + \\
 & \gamma_6 inf_{it} + \gamma_7 ir_{it} + \gamma_8 er_{it} + \gamma_9 stock_{it}) \mathbb{I}(k_{it} \leq \bar{k}) + (\alpha_1 musw_{it} + \alpha_2 vixw_{it} + \\
 & \alpha_3 gdpw_{it} + \alpha_4 infw_{it} + \alpha_5 idcom_{it} + \alpha_6 inf_{it} + \alpha_7 ir_{it} + \alpha_8 er_{it} + \\
 & \alpha_9 stock_{it}) \mathbb{I}(k_{it} > \bar{k}) + \varepsilon_{it}
 \end{aligned}
 \tag{16}$$

The empirical model aims to prove the impact of several global economic variables and regional economies on regional economic growth  $gdp_{it}$ . Various thresholds can be applied in the model, but the more thresholds will result in less degree of freedom and less sensitive impact of the independent variables in the various regimes. This research uses 2 regimes to show high and low regime situation. The impact of world-wide supply and supply is expected to increase regional output as a result of high world transactions that impact on the high production of ASEAN countries. The increase in CBOE Volatility Index is expected to decrease regional output as a result of high production costs as trading risks increase.

#### 4. Result and Discussion

The impact evaluation is divided into 2 regimes to make a better difference. The purpose of applying the threshold because of changes in impacts may occur in certain economic situations. In simple regression, the impact of independent variables on independent variables is considered fixed for various economic situations. Some methods to clarify the impact of two different situations, using a dummy variable. Threshold is selected because of the global real output situation  $gdp_t^w$ , CBOE Volatility Index  $vix_t^w$ , and global inflation  $inf_t^w$ .

Root unit test, either Phillips-Perron test with lag = 3 or ADF test with different specifications, indicates that most of the variables in this study are integrated in one order (I (1)). Some of them are covariance-stationary or trend-stationary at the level (Ekananda, 2016, Enders, 2009). Threshold regression produces a more robust and efficient estimated. This can be proved by evaluating the residual sum square value (SSR) in regression without threshold and with threshold. Generally linear regression uses common effect and fixed effect to catch the heterogeneity of ASEAN country output. The value of SSR as the goal of optimization is 0.3013 and 0.2888 for the common effect and fixed effect separately.

**Table 1.** *The impact of independent variable towards regional GDP*

Independent Variable	Dependent variable: $gdp_{it}$				
		Fixed effect		Common effect	
Global money supply, US dollar	$mus_{it}^w$	0.0262	0.8473	0.0302	0.9121
CBOE Volatility Index	$vix_{it}^w$	-	-	-	-
		0.0081	1.5822	0.0079	1.4851



Global real output	$gdp_t^*$	0.7751	4.8735	***	0.7974	4.7058	***
Global inflation	$inf_t^*$	0.1282	4.7089	***	0.1629	5.7708	***
Global commodity price index	$idcompt^*$	0.0181	1.7664	***	0.0209	1.9221	***
Consumer price index, country	$cpit^*$	-	-	***	-	-	***
⋮		0.3092	8.4322		0.2807	8.6138	
Nominal money market rate, country	$irt^*$			***			***
⋮		0.0735	2.3624		0.0746	2.4424	
Nominal effective exchange rate, country	$ert^*$			***			***
⋮		0.0463	2.7597		0.0486	2.8668	
stock price index, country	$stpkit^*$	0.0216	3.1261	***	0.0242	3.3605	***
R-squared		0.5474			0.5463		
SSR		0.2888			0.3013		

*Note:* \*\*\*, \*\*, \* significance level 1%,5% and 10% respectively.

Table 1 shows the fixed effect regression on the left and the common effect on the right. All coefficient marks are in line with expectations. All the variables are significant except in the variables  $inf_t^*$  and  $irt_t^*$  although they have coefficient marks according to the theory. An increase in global output will generally increase regional output, as well as rising global inflation, global commodity price indexes, regional interest rates, regional exchange rates and regional stock prices will boost regional output.

The economic climate with different GDP levels produces different effects. The left and right of Table 2 show the effect of the regime-free variance  $gdp_t^*$  the lower and higher worlds of 0.015 separately. Estimated slope parameters (first column) and t-stats (second column) for lower and upper regime in the left and right table separately.

**Table 2. World GDP as threshold**

Independent Variable		Dependent variable: $gdp_t^*$					
		$gdp_t^* \leq 0.0150$		$gdp_t^* > 0.0150$			
Global money supply, US dollar	$m2st_t^*$	0.0134	0.1870	-	-		
CBOE Volatility Index	$vix_t^*$	-	-	-	-		*
		0.0178	0.5345		0.0071	1.6213	
Global real output	$gdp_t^*$	3.0232	1.7220	*	0.8998	5.9006	***
Global inflation	$inf_t^*$	-	-	**	0.1770	5.4127	
		1.7958	1.9048				
Global commodity price index	$idcompt^*$	-	-		0.0289	2.5151	***
		0.0240	0.4013				
Consumer price index, country	$cpit^*$	0.1190	1.6940	*	-	-	***
⋮					0.3050	6.5419	
Nominal money market rate, country	$irt^*$	0.4529	2.4571	***	0.0893	3.0314	***
⋮							
Nominal effective exchange	$ert^*$	-	-	***	0.0511	3.4171	***
		0.4182	7.8976				

rate, country $\dot{m}_t^c$						
stock price index, country $\dot{r}_{t,i}$	$\dot{r}_{t,i}$	0.0383	1.0899	0.0262	3.5931	***

**Note:** SSR = 0.2565, estimated residual variance = 0.0007, F1 test statistic = 45.7717 with p-value = 0.0000.

The theory explains that the impact of the addition of the world's money supply will increase the real output of the country in the world. At high world GDP levels, an increase in the CBOE Volatility Index leads to an increase in regional output, but not so for the lower regime. The inflation rate causes the reduction of regional output in the world's low GDP regime.

The left and right of Table 3 show the effect of the free regime variance  $\dot{vix}_t^w$  lower and higher from -0.4680 separately. Significant impacts occur on nominal effective exchange rate ( $\dot{er}_t^1$ ). At the high level of volatility (upper regime), almost all economic variables affect ASEAN output significantly.

**Table 3.** Volatility Index as threshold

Independent Variable		Dependent variable: $\dot{y}_t^w$					
		$\dot{vix}_t^w \leq -0.4680$		$\dot{vix}_t^w > -0.4680$			
Global money supply, US dollar	$\dot{m}_{t,u}^w$	0.2847	0.0000	0.0264	0.8027		
CBOE Volatility Index	$\dot{vix}_t^w$	0.0392	0.0000	-	-	***	
Global real output	$\dot{y}_t^w$	1.3637	0.0001	0.0108	2.1504	***	
Global inflation	$\dot{in}_t^w$	-	0.0000	0.8025	5.4279	***	
Global commodity price index	$\dot{idcom}_t^w$	1.4447	0.0000	0.1621	5.2740		
Consumer price index, country $\dot{cpi}_t^c$	$\dot{cpi}_t^c$	0.1080	0.0000	0.0234	2.3023	***	
Nominal money market rate, country $\dot{ir}_t^c$	$\dot{ir}_t^c$	0.0391	0.0799	-	-	***	
Nominal effective exchange rate, country $\dot{er}_t^1$	$\dot{er}_t^1$	0.3797	0.9323	0.0839	3.0094	***	
stock price index, country $\dot{r}_{t,i}$	$\dot{r}_{t,i}$	-	-	***	0.0547	3.7944	***
		0.4577	2.5855	0.0272	3.5771	***	
		0.0432	1.1607				

**Note:** SSR = 0.2381, estimated residual variance = 0.0007, F1 test statistic = 77.4318 with p-value = 0.0000.

The left and right Table 4 show the impact of the inflation-independent variable world  $\dot{ir}_t^w$  lower and higher from -0.2730 separately. The impact of global inflation on national inflation rates is described in this section. We show that global inflation behaves as an attractor of ASEAN inflation rates.

**Table 4.** World Inflation as the threshold

Independent Variable	Dependent variable: $\pi_{it}^w$						
	$\pi_{it}^w \leq -0.2730$			$\pi_{it}^w > -0.2730$			
Global money supply, US dollar	$m_{us,t}$	-	-		0.1423	1.1967	
CBOE Volatility Index	$vic_t^w$	-	-	***	-	-	**
Global real output	$gdp_t^w$	0.0181	3.3393	***	0.0536	1.9478	***
Global inflation	$\pi_{it}^w$	-	-	**	0.0442	0.6032	
Global commodity price index	$idcomst_t^w$	0.3000	1.8955				
Consumer price index, country $i$	$cpi_t^i$	0.0405	3.8438	***	0.1919	2.3478	***
Nominal money market rate, country $i$	$ir_t^i$	-	-	***	-	-	***
Nominal effective exchange rate, country $i$	$ert_t^i$	0.2596	5.9334	***	0.8465	8.3737	***
stock price index, country $i$	$stock_t^i$	0.0837	3.0503	***	0.2628	3.4982	***
		0.0513	3.6390	***	-	-	***
		0.0357	4.1054	***	0.0023	0.1996	

*Note:* SSR = 0.2564, estimated residual variance = 0.0007, F1 test statistic = 45.9866 with p-value = 0.0000.

This mechanism is important to guide our understanding of the inflation process and pursue practical policy purposes such as forecasting. In this case, then, global inflation became as an attractor, and ASEAN inflation fluctuates around its projection on this attractor. Incidentally, the importance of the global component of inflation leads us to reconsider the debate on inflation persistence

### 5. Conclusion

Regression with threshold calculates a smaller SSR value than Regression without threshold. Threshold regression considers the unobserved factor of exogenous variables from within the model or beyond the model. According to different threshold, the SSR value of volatility index  $vic_t^w$  is lower than other regressions' Regression with volatility index  $vic_t^w$  the most efficient.

Global liquidity does not affect ASEAN GDP at different levels of world GDP, world inflation and world economic volatility. The impact of regional economic variables on ASEAN GDP differs according to world economic volatility, world GDP and world inflation. World GDP remains the actor of ASEAN regional change, especially in influencing the ASEAN GDP. The world economic volatility does not affect ASEAN's economic growth. This result is shown from the insignificant impact of many independent variables. Changes in volatility levels do not become actors affecting ASEAN's economic growth.

World inflation remains the actor of ASEAN region change, especially in influencing the output of ASEAN. This is in line with the development of monetary policy in developing countries to maintain the inflation rate. The third change in inflation will affect the economic development of countries and regions.

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## The Effect of Macroeconomics Factors and Capital Structure on Foreign Bank Performance in Indonesia

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Akbar, Muhammad \*)

### **Abstract:**

*This study aims to determine the effect of macroeconomic factors and capital structure on the performance of foreign bank branch offices in Indonesia registered in the Financial Services Authority Indonesia period 2007 to 2016. The data used consists of the annual reports from each sample company, published through the website [www.ojk.go.id](http://www.ojk.go.id).*

*This research is based on quantitative methods. The population in this study is all foreign banks operating in Indonesia with the data period 2007-2016. So, the analysis used is static panel data regression. The variables of this study consist of macroeconomics factor the dependent variable. The hypothesis test results revealed that macroeconomic factors and capital structures affect the CAR simultaneously, which consists partially of BI rate, interest rates and DTA and which significantly affect the CAR.*

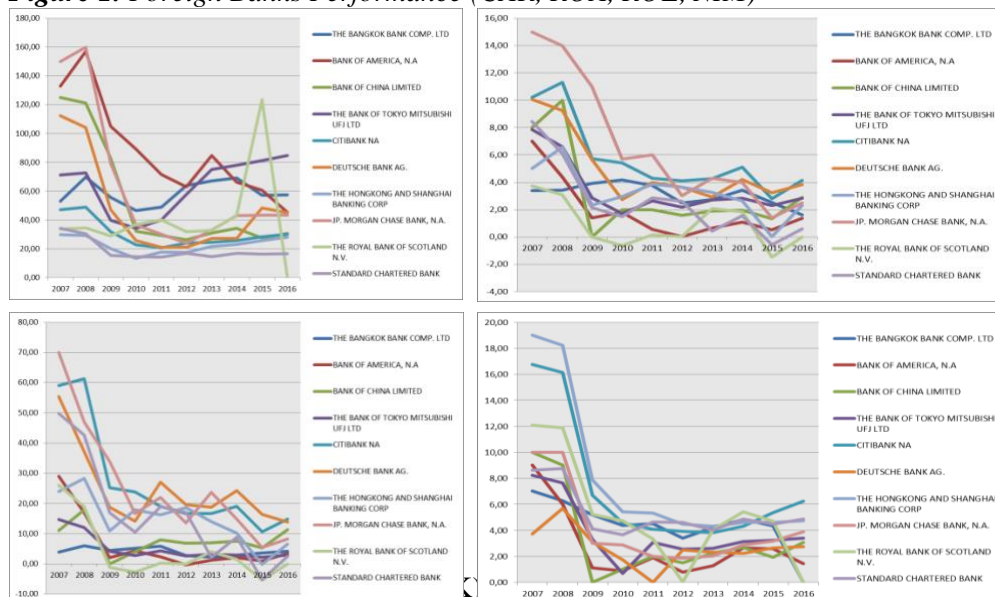
*Macroeconomic factors and capital structure affect the ROA simultaneously, where partially BI rate, Middle Exchange and DTE and DPKTE which have significant effect on ROA. Macroeconomic factors and capital structure affect ROE simultaneously, where partially BI rate, Middle Rate, interest rate and DTE and DPKTE which have significant effect on ROE*

**Keywords:** Liquidity, money market, deposits, banking.

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### **1. Introduction**

Foreign banks generally have a strong capital structure, well above the national average of 22.91% per position in December 2016, only Standard Chartered Bank has a minimal CAR compared to other Foreign Banks (Japparova and Rupeika-Apoga, 2017; Thalassinos et al., 2013).

**Figure 1. Foreign Banks Performance (CAR, ROA, ROE, NIM)**

There are foreign banks which's performance tends to decline and even lose. But in general, the financial performance of the company tends to be stable. Foreign banks tend to be conservative in performing the improvement of strategies.

Indonesian banking is still far from efficient, so the competition between banks leads to interest rate competition only to maintain third party funds that are the main source of bank liquidity in financing its operations (Setyawati et al., 2017). This is supported by data obtained from Bank Indonesia, where the monetary transmission is conducted by Bank Indonesia since January 2016, i.e. lowered the BI Rate four times to 6.5% and GWM (Primary) since December 2015 also became 6.5% but has not effectively lowered bank lending rates and only down 0.07%.

The conditions are inseparable for the difficulty of the company in developing the current asset ownership, where at present the working capital condition is still relatively difficult to obtain, so this is very much disturbing the stability of the existing capital structure. The alternative of additional capital derived from debt is generally based on cheap consideration, it is said to be cheap because the interest cost to be borne by the company is less than the profit earned from the utilization of the debt (Gitman, 1994; Grima and Caruana, 2017; Denisova et al., 2017).

Jensen and Meckling (1976) argue that the decision of managers in determining the capital structure is to balance the cost of debt and own capital costs, minimizing their influence on firm value. Managers are professionals and will be responsible for the decisions that have been made. Managerial decisions relating to capital structure are spending decisions or often referred to as funding decisions. This decision relates

to the determination of sources of financing, including the debt policy. The following is the structure of foreign banking capital for the period 2007-2016.

The company performance is not only affected by the capital structure, but there are also other influencing factors, namely the macroeconomic factors. The macroeconomic context tends to affect bank activities and investment decisions that form the bank liquidity profile (Pana, Park, & Query, 2009; Hua Shen, et al., 2009). External factors (factors that come from outside the company), including monetary policy, exchange rate fluctuations, and inflation rate, interest rate volatility, and innovation of financial instruments (Siamat, 2005; El-Charani, 2014).

Based on the description above, the author intends to examine the effect of macroeconomic factors and capital structure on the performance of foreign banks in Indonesia.

## **1. Literature review**

### *Macroeconomic Factors and Foreign Bank Performance:*

Athanasoglou et al. (2005) found that the stability of macroeconomic policy Gross Domestic Product, Inflation, Interest Rates and political instability as well as other macroeconomics variables affect the bank performance. As for Al-Tamimi (2010), he suggests that the internal factors of the Bank and macroeconomic (external) are the determinant of bank performance.

### *Capital Structure and Foreign Bank Performance:*

Berger and Bonaccorsi (2003) propose a new approach to test leverage theory that affects the agency costs and thus affects the firm's performance. It was found that data in the US banking industry was consistent with theory, and the results were significant statistically and economically and strong. Zuraidah Ahmad et al. (2012) conducted a study of the effect of capital structure on financial performance of industrial sector and consumer in Malaysia. The results showed that Short Term Debt (STD) and Total Debt (TD) have a significant effect on financial performance in this case ROA and ROE (Pontoh, 2017).

Saeed et al. (2013) examines the impact of capital structure on the performance of the Pakistani banks. Performance is measured by Return on Asset, Return on Equity and earnings per share. Determinants of capital structure include long-term debt to capital, short-term debt to capital and the ratio of total debt to capital. The findings of this study were a positive relationship between the determinants of capital structure and the performance of the banking industry.

## **2. Methodology**

This research is based on a quantitative method. Quantitative methods are studies that use quantitative data with statistical methods (Kuncoro & Suhardjono, 2011).



The population in this study is all foreign banks operating in Indonesia with the data period 2007-2016. So, the analysis used is static panel data regression. The variables of this study consist of macroeconomic factors, which are proxied into BI Rate / BI 7 day Repo Rate, Inflation rate, middle exchange, and Interbank Money Market Rate; capital structure, which is proxied into Debt to Total Equity (DTE), Debt to Total Assets (DTA), and Third Party Funds to Total Equity (DPKTE); and the Company's Financial Performance proxied into CAR KPMI, Gross NPL, Net NPL, ROA, ROE and NIM as the dependent variable.

### 3. Result and Discussion

The following will discuss how the Macroeconomic Factors and Capital Structure on the Performance of Foreign Banks as measured by 6 indicators are CAR KPMI, Gross NPL, NPL Net, ROA, ROE and NIM in Foreign Banks in Indonesia 2007-2016 period.

**Table 1.** Average of Macroeconomics Factors and Capital Structure

Year	Macroeconomics				Capital Structure		
	BI Rate / BI7DRR	Inflation rate	Exchange Rate	Interbank Money Market Rate	DTA	DTE	DPKTE
2007	8.60%	6.59	9,136	5.45	0.94	-918.97	75.90
2008	8.67%	11.06	9,680	8.41	0.93	-1449.49	63.16
2009	7.15%	2.78	10,398	7.14	0.92	139.32	47.97
2010	6.50%	6.96	9,085	6.10	0.91	34.82	38.13
2011	6.58%	3.79	8,779	5.68	0.90	33.73	30.81
2012	5.77%	4.3	9,380	4.02	0.91	64.92	24.56
2013	6.48%	8.38	10,451	4.95	0.92	26.63	24.56
2014	7.54%	8.36	11,878	5.92	0.91	-19.51	57.12
2015	7.52%	3.35	13,392	6.12	0.89	60.75	63.37
2016	6.00%	3.02	13,307	4.79	0.87	-21.92	48.13

**Table 2.** Result of Statistical Test

Variable	Indicator	Foreign Bank Performance					
		CAR	NPLG	NPLN	ROA	ROE	NIM
Macro-economics Factor	BI RATE	1491,904*	167,870*	365,306*	167,870*	787,974*	280,525*
	INFLATION	0,045	0,060	-0,017	0,060	0,106	0,031
	EXCHANGE RATE	0,000	-0,001*	0,000*	-0,001*	-0,003*	0,000*
	INTEREST RATE	-0,458*	-0,167	0,186*	-0,167	-17,350*	-0,432*
Capital	DTA	-116,119*	-1,346	-1,214*	-1,346	11,364	6,152*

Structure	DTE	-0,018*	-0,001*	0,000	-0,001*	-0,008*	0,000
	DPKTE	0,025	0,003	0,000	0,003*	0,013*	0,000
Method		Random Effect	Random Effect	Random Effect	Random Effect	Random Effect	Random Effect
F-test		10.832 (p value =0.00)	16.866 (p value =0.00)	4.709 (p value =0.00)	16.866 (p value =0.00)	17.917 (p value =0.00)	20.342 (p value =0.00)
R2		0.4545	0.5647	0.2659	0.5647	0.5795	0.6101

From the result of F test in Table 1, it can be concluded that macro factors and capital structure simultaneously have significant effect on the performance of foreign banks (p value <0.05).

Macroeconomic factors and capital structures affect the performance of foreign banks in Indonesia either simultaneously or partially. There is the effect of macroeconomic factors and capital structure on CAR simultaneously, where partially BI rate, interest rate and DTA have significant effect on CAR. There is the effect of macroeconomic factors and capital structure on ROA simultaneously, where partially BI rate, Middle Exchange and DTE, and DPKTE have significant effect on ROA. There is the effect of macroeconomic factors and capital structure on ROE simultaneously, where partially BI rate, Middle Rate, interest rate and DTE and DPKTE which have significant influence on ROE. There is the effect of macroeconomic factors and capital structure on NIM simultaneously, and partially BI rate, Middle Rate, interest rate and DTA which significantly affect NIM.

These results indicate that changes in macroeconomic factors and the determination of capital structure of foreign bank branch offices affect the financial performance. Money market interest rates will affect the cost of third-party funds. If the cost of the funds increases, then lending rates will soar that will slow the intermediation of the bank. On short term it can increase profitability but in the long run it can reduce the financial performance. Monitoring of macroeconomic factors becomes an integral part of the treasury division in determining the source of financing and placement funds to other earning assets.

#### **4. Conclusion**

Based on the result of hypotheses testing is revealed that:

- There is the effect of macroeconomic factors and capital structure on CAR simultaneously, where partially BI rate, interest rate and DTA which have significant effect on CAR.
- There is the effect of macroeconomic factors and capital structure on ROA simultaneously, where partially BI rate, Middle Exchange and DTE, and DPKTE which have significant effect on ROA.

- There is the effect of macroeconomic factors and capital structure on ROE simultaneously, where partially BI rate, Middle Rate, interest rate, DTE and DPKTE which have significant influence on ROE.
- There is the effect of macroeconomic factors and capital structure on NIM simultaneously, and partially BI rate, Middle Rate, interest rate and DTA which significantly affect NIM.

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## The Effect of Organizational Conflict and Learning of Organization on Creativity of Basic School Teachers in District Duren Sawit East Jakarta

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### **Abstract:**

*The purpose of this research is to determine the effect of organizational conflict and organizational Learning on teacher's creativity in the state primary school district Duren Sawit in east Jakarta. The research methodology was based on survey, the simple random sampling technique.*

*The analysis and interpretation of the data indicate that (1) the organizational conflict has a positive direct effect in creativity, (2) organizational learning has a positive direct effect on creativity, (3) organizational conflict has a positive direct effect on organizational learning.*

**Keywords:** *Organizational conflict, organizational learning, creativity.*

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### **1. Introduction**

Teachers are an education element in schools, that has a very big role in the achievement of the educational goals. In the process of education in schools, teachers hold the dual task of being teachers and educators. As teacher is in charge of pouring several learning materials into the students' brains, while teacher are also educators in charge of guiding and nurturing students to become noble capable, active, creative, and independent humans. Therefore, the heavy duty of a teacher is basically only applicable by teachers who have high professionalism.

The demands of teachers having high creativity is the thing that must be immediately realized to improve the condition of education. So it is appropriate that the teacher should have special competence, as in the national education policy, the government has formulated four types of teacher competences, as stated in the Elucidation Government Regulation No. 32 of 2013, Article 28, Paragraph 3 on National Education Standards that competence as a learning agent at primary and secondary education and early childhood education include: pedagogic competence,

personality competence, social competence, and professional competencies gained through education profession, that is: the first, pedagogic competence is the ability in management of learners which includes: (a) understanding of insights or educational foundations; (b) understanding of learners; (c) curriculum / syllabus development; (d) learning design; (e) the implementation of educational and dialogical learning; (f) evaluation of learning outcomes; and (g) the development of learners to actualize their potentials. Secondly, personality competence is a personality skill that: (a) steady; (b) stable; (c) adult; (d) wise and prudent; (e) authoritative; (f) having a noble character; (g) being role models for learners and society; (h) evaluating its own performance; and (i) developing sustainably. Third, social competence is the ability of educators as part of society to: (a) communicate in oral and written; (b) use functional communication and information technology; (c) associate effectively with learners, fellow educators, education personnel, parent / guardians of learners; and (d) get along well with the surrounding community. Fourth, professional competence is the ability of mastery of learning materials widely and deeply covering: (a) concept, structure, and method of science / technology / art which coated / coherent with teaching materials; (b) teaching materials present in the school curriculum; (c) conceptual relationships among related subjects; (d) application of scientific concepts in everyday life; and (e) competing professionally in a global context while maintaining national values and culture.

Of the four teacher competencies, the creativity of a teacher in absolute and attached to the profession he bears, especially in every process of educational activities. So, the teacher should try to improve creativity in work, thus the implications of teacher creativity include to improve the life of teachers who are able to penetrate new creativity that is useful for themselves, especially for students in learning activities.

Associated with the work of teachers, one of the main tasks and functions of teachers is to carry out learning activities, ranging from planning, implementation and evaluation. Learning activities undertaken by a teacher should be done with high creativity. The demand for implementation of the Curriculum 2013, as stated by Deputy Education Minister of Education, Musliar Kasim, "*three competencies at once, namely knowledge competence, attitude competence, and skill competence*". In line with the statement, Abdullah Alkaf as Expert Staff of the Minister of the Organization and Management of the Ministry of Education and Culture stated, "The Curriculum 2013 introduces a varied learning model." This variation becomes part of the teacher's creativity when delivering the 2013 Curriculum lesson to learners. The discussion on October 20, 2014 with some principals at the Public Elementary School in Kecamatan Duren Sawit, East Jakarta, shows that there are still many teachers who do not have creativity in their work. Ciptahadi Mulyana as Head of SDN Klender 14 Pagi Kecamatan Duren Sawit stated, that our teachers still apply a monotonous learning pattern, whereas ICT media has been provided. In line with the statement, Mistiah as Head of SDN Duren Sawit 07 Pagi Duren Sawit Sub-district stated that the teachers are still waiting for the headmaster's direction in carrying out the duty, they should be able to do the job if there are creativity values on them.

Another phenomenon, it is often seen that teachers who have a working period of over twenty years have not shown optimization in work. The majority of teachers seem less motivated to improve their quality. They did not read much, though limited to reading newspapers and magazines, so the science of teachers was narrow and shallow. Generally, the teachers after the learning activities just finished the job just like that without any evaluation or reflection on the learning that has been done. Based on the problems that have been described, the author tries to trace further related to the creativity of the Master by formulating the title research the influence of organizational conflict and organizational learning on the creativity of teachers of Primary Schools in the District Duren Sawit East Jakarta.

*Creativity:*

Based on the description of creativity can be synthesized that creativity is the application of imaginative person's thoughts and generate new things that become solutions to problems encountered in carrying out the work, with indicators; fluency, flexibility, originality, elaboration.

*Organizational conflict:*

from the description of organizational conflict, it can be synthesized that an organizational conflict is a discrepancy that occurs within the organization either individual or group and can bring positive and negative impacts on the organization, with indicators; social tensions, relationships among members, changes occurring, and resource allocation.

*Organizational Learning:*

Based on the above organizational learning concepts, it can be synthesized that organizational learning is an organization's activities to create, obtain, interpret, transfer and share knowledge, which aims to modify organizational members to describe new knowledge and insights, with indicators; personal master (personal excellence), mental models, shared vision, team learning, and system thinking (thinking systems)

## **2. Methodology**

This research uses the survey method with path analysis technique (path analyze). The data of this study has been collected by selecting samples in the population. The affordable population in this study was consisting of all-public elementary school teachers in Kecamatan Duren Sawit, East Jakarta, totaling 98 teachers. Calculations were done using slovin, a number of 79 samples were obtained from teachers being part of this study. Data collection used for this research is descriptive statistics and inferential statistics.

## **3. Result and Discussion**

*The Influence of Organizational Conflict Against Creativity:*

From the results of the first hypothesis testing can be concluded that there is a direct negative influence of organizational conflict on creativity with the value of correlation coefficient of -0.491 and coefficient value of -0.350. This gives the meaning that the organizational conflict directly affect creativity.

The results of this study are consistent with the opinions of some experts including Hellriegel and Slocum (2011), "*conflict occurs in organizations whenever interests collide. Sometimes, employees will think differently, want to act differently, and seek to pursue different goals*". Conflict occurs in an organization when the interests of several parties collide with each other. Sometimes, employees will think differently, they will want to act differently, and try to pursue different goals. Furthermore, according to Ricky W. Griffin and Gregory Moorhead (2014), "*creativity is the ability of an individual to generate new ideas or to conceive of new perspectives on existing ideas*". Creativity is the ability of individuals to generate new ideas or to understand new perspectives on existing ideas. Related to one's creativity in working according to Laurie J. Mullins (2005), "*creativity draws crucially on our ordinary abilities. Noticing, remembering, seeing, speaking, hearing, understanding language and recognizing analogies; all these talents of Everyman are important*". That creativity appeals to everyday abilities, caring, remembering, seeing, speaking, listening, understanding language and acknowledging analogies; all these talents are very important to everyone. It means that to do creative work, one must have good memory and sensory abilities.

The relevance of organizational conflict to creativity in a person according to James L. Gibson, James H. Donnelly, John M. Ivancevich, Robert Konopaske Jr. (2009), "*studying the pattern of intragroup conflict over time, affects high-performing teams compared with low-performing teams. Three-person teams were studied over a three-phase period. High-performing teams, overall, experienced less tasks, relationship, and conflict process than low-performing teams. The only exception occurred in the middle period during which the high-performing team experienced a higher increase in task conflict.*" Studying patterns of conflict over time, researchers have found some differences, how conflicts affect high performing teams (who have work creativity) compared to low performing teams. High performing teams, overall, experience less conflict than low performing teams. The only exception occurred in the middle period in which teams with high-esteem experienced a higher increase in task conflicts. The more frequent the organizational conflicts the lower the creativity of a person. Conversely the lower the conflict, the higher the creativity of a person. Based on these descriptions, it is suspected that there is a direct influence of organizational conflict on teacher's creativity.

*Effect of Organizational Learning on Creativity:*

From the results of testing the second hypothesis can be concluded that there is a direct positive influence of organizational learning on creativity with the value of



correlation coefficient of 0.533 and coefficient value of 0.414. This gives meaning to organizational learning and has a direct effect on creativity.

The results of this study are consistent with the opinions of some experts among them is according to McShane and Von Glinow (2010), "*organizational learning is any structured activity that improves its survival and success*". Organizational learning is any structured activity that enhances the organizational capacity to acquire, share, and use knowledge in ways that improve survival and success. So that organizational learning is an activity in order to increase organizational capacity of organization member.

Steven M. Jex, Thomas W. Britt (2002), "*to enhance creativity-relevant skills, organizations can provide training in the use of creative problem-solving methods such as brainstorming. A typical activity in such a training program*". To enhance relevant creativity skills, organizations can provide training in the use of creative problem-solving methods such as brainstorming. Typical activities through a training program

Further Steven M. Jex, Thomas W. Britt (2002), states that, "*Amabile and Conti have extended the organizational context in facilitating the creativity of employees. She argues that it encourages creativity, autonomy and freedom, resources (the opposite of removing constraints), pressures, and obstacles to creativity.*" Amabile and Conti have also expanded Amabile's work on individual creativity into organizations, and explicitly acknowledged the importance of organizational context in facilitating employee creativity. He argues that the five environmental factors in the organization can contribute to creativity in employees: encouraging creativity, autonomy and freedom, resources (the opposite of eliminating obstacles), pressure (increasing positive challenges and reducing factors such as workload), and barriers to creativity.

#### *The Influence of Organizational Conflict to Organizational Learning:*

From the results of testing the third hypothesis can be concluded that there is a direct negative influence of organizational conflict on organizational learning with correlation coefficient value of -0.340 and coefficient value of -0.340. This gives the meaning of organizational conflict which directly affect the learning of the organization.

The results of this study are consistent with the opinion of several experts including James L. Gibson, James H. Donnelly, John M. Ivancevich, Robert Konopaske Jr (2009) that, "*conflict may have a positive or a negative effect on organizational performance, depending on the nature of the conflict and how it is managed. For every organization, an optimal level of conflict exists that can be considered highly functional; it helps generate positive performance. On one hand, when the conflict level is too low, performance can suffer. Innovation and change are difficult, and the organization may have difficulty in adapting to change in its environment. If this low conflict level continues, the organization's very survival can be threatened. On the*

*other hand, if the conflict level is too high, the resulting chaos can also threaten its survival ". Conflict can have either a positive or a negative effect on organizational performance, depending on the nature of the conflict and how it is managed. For each organization, optimal levels of conflict exist that can be considered highly functional; helps generate positive performance. On the one hand, when the level of conflict is too low, performance may decrease. Innovation and change can be difficult, and organizations may find it difficult to adapt to changes in their environment. If this low level of conflict continues, organizational survival can be threatened. On the other hand, if the level of conflict becomes too high, the resulting chaos may also threaten its survival.*

The conflicts that occur within an organization can be a learning tool for members of the organization, as John A. Wagner III and John R. Hollenbeck (2010), "*conflict affects relationships among people and groups in many ways. Especially when conflict occurs between groups, some important effects can be predicted to occur within the opposing groups. First, external threats such as intergroup conflict bring about increased group cohesiveness. As a result, groups engaged in conflict become more attractive and important to their own members. Ongoing conflict also stimulates an emphasis on task performance. All efforts within each conflicting group are directed toward meeting the challenge posed by other groups, and concerns about individual members' satisfaction diminish in importance. A sense of urgency surrounds task performance; defeating the enemy to be uppermost, and much less loafing occurs*". Conflict affects the relationship between people and groups in many ways. Particularly when conflicts occur between groups, some important effects can be predicted to occur within opposing groups. External threats such as inter-group conflict lead to increased group cohesiveness. As a result, the groups involved in the conflict become more attractive and important to their own members. Ongoing conflict also stimulates an emphasis on task performance.

#### **4. Conclusion**

Conclusion: 1) Organizational conflict has a direct negative effect on creativity. This means that when a conflict occurs in school then it can reduce the creativity of the teachers. 2) Organizational learning has a direct positive effect on creativity. This means that in the growth of teacher creativity is necessary once the learning organization. 3) Organizational conflict has a direct negative effect on organizational learning. This means that organizational conflict has a negative impact on the learning of teacher organizations that will hamper the learning process and affect the creativity of teachers.

Suggestion: 1) It is necessary to improve the work creativity of teachers through training, workshops, seminars and further studies. 2) Teacher creativity should be improved through regular guidance by principals and supervisors of State Elementary School in Kecamatan Duren Sawit, East Jakarta. 3) Need to improve the work creativity of teachers through training, education, and guidance from

supervisors and frequent seminars to absorb the experience of the principal managerial skills that are effective among trainees inside and outside public primary schools in Kecamatan Duren Sawit, East Jakarta. 4) In addition to this research should be continued research on the study of teacher work creativity through other research, both quantitatively and qualitatively from other variables for teacher work creativity can be seen more comprehensively and clearly and actual.

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## **Song Copyright Law Protection Competence in Paying Royalty as Exclusive Rights Substance According to the Law Number 28 of 2014 About Copyright**

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**Abstract:**

*Copyright is considered a moving and intangible object; therefore, a copyright devolution cannot be done verbally, but with an authentic deed or Underhand deed. Problem Identification: 1. How does the song copyright devolution mechanism make economic interest for a composer or Copyright Holder? 2. What is the system of song copyright royalty payment in Indonesia? and 3. What should be done by the parties to resolve the royalty payment execution dispute? It is a normative juridical method that must be used. Research Result: It is true that copyright license mechanism, fee retaining, or royalty payment is considered as logic consequences that must be done by a licensee over a licensor (Copyright holder). It is because the licensee gets material profits due to the economic rights exploitation over the copyright itself.*

*There are many varieties or different ways of compensation payment systems or indemnification from the licensee to the licensor over one copyright object to another, for instance in song/music are known two different ways such as royalty and flat systems, while in music or song are known several ways, namely by percentage system, period system, profit sharing system, compensation or copyright selling system.*

*Royalty payment dispute resolving may come in many ways, and, generally, the dispute resolving forums are available into two forms, such as litigation forum through courts and non-litigation forum out of court.*

**Keywords:** Song composing copyright, royalty, exclusive rights;

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### **1. Introduction**

Copyright is an intellectual property right besides industrial rights such as patent, trademark, industrial design, integrated layout circuits design, trade secrets and plant varieties are considered to be a very personal or exclusive right for composers or copyright holders to announce or reproduce their works as well without any restrictions based on applicable acts and regulations. The right to announce and

reproduce is regarded as an economic right that benefits an author and copyright holder. An author or a copyright holder could provide the economic benefits by him or herself or devolves someone else as his or her representative either by devolving his or her economic right or giving license. This case should be agreed upon, through a written agreement since the agreement itself will merely grant economic right consequence in the form of fee or royalties' payment.

Song as a work is protected by copyright laws in Indonesia and has developed quite rapidly. Again, song as a human intellectual work gets legal protection. So, if one wants to use it rightly, she or he should ask permission to a copyright holder. The development could be seen through many new artists and musicians who produce qualified songs to be listened. Legal protection in songs trading through cassettes, and in other forms of recordings, a song writer requires a formal agreement. The agreement itself will provide clear provisions of both parties' rights and obligations, so, all weak-need song writers/authors will feel save and finally they have strong motivation to compose new songs.

There are lots of royalty issues which occur due to economic rights, someone whose economic value is disturbed will prosecute or sue either by deliberation or come to the law court. This is because royalty acquisition executing mechanism through license is not easy done by song authors/writers, either in the implementation of license agreement or in the collection of royalties. The mechanism is regarded as a legal relationship made by the parties in optimizing the exploitation of songwriting works. Therefore, all law instruments that provide legal protection or protection over the parties involved in it are really required. In the provisions of Law Number 28 Year 2014 about Copyright Article 80 paragraph 4 says that "Royalty amount determination as what stated in paragraph (3) and Royalty granting procedures is based on License agreement between Copyright holder and other related right possessor and Licensee".

In Article 80 paragraph 4 of the Act Number 28 Year 2014 about copyright does not clearly set the provisions of royalty payments implementation, technically, royalty amount, parties' relationship or even disputes resolving that occur but just simply regulates the obligation of royalty payments by the licensee over copyright holder based on the agreement of both parties in accordance with the organization profession agreement.

*Problem Form:*

1. How does the song copyright devolution mechanism exceptionally benefit an author or Copyright Holder? 2. What is the system of song copyright royalty payment in Indonesia? and, 3. What should be done by the parties to resolve the royalty payment execution dispute?

**2. Result and Discussion**

The method used in this research is a normative juridical method by performing an investigation based on applicable law theorem and it is really expected to could give a problem solving during the investigation.

Data collecting technique used in this research is secondary data obtained from a Primary legal material which is related directly to the object of research, in this case, it is Law Number. 28-year 2014 about Copyright. Secondary law material means legal material that explains the Primary legal material in the form of bibliography literatures, scientific work and research results. The tertiary legal material is the material that explains both primary raw material and secondary legal materials in the form of dictionaries and encyclopedias. After all the data were collected, they were classified in accordance with applicable provisions to be systematically analyzed in accordance with existing rules and regulations, and finally came to conclusion.

*Discussion:*

*Song copyright transitional mechanism that grants economic benefit to a songwriter or copyright holder.*

Music copyright is one of the available absolute means to support the ongoing business activities such as discotheque entertainment, karaoke, television broadcasting, radio etc. but, still there are also some business activities which can even take place without music existence. These reasons are used to distinguish the number of tariffs that music users have to pay, so, depends on the intensity (role) and extensity (duration) of the music using.

Therefore, those who get commercial benefits to use music copyrighted works of any kind, they have to ask permission from the author and be rewarded. Someone who buys cassettes to be played and listened in a private car or at home he or she does not need to pay royalty, but, if the one is a television businessman and play the cassettes or tape in his or her business areas, he or she must get permission from the author, by paying royalty. Another example, when someone is walking here and there in the market while singing, he or she does not need to ask permission, but if the person is asked by a promoter to perform and the promoter sells tickets, the principle rules of copyrighted works commercial use is done.

The copyright license mechanism has different mechanisms in the implementation of giving license between one copyright object to another, either between song or music license, book publishing license or computer program license or computer software program. However, in copyright license mechanism concerning license agreement found two kinds of mechanisms such as standard contract and non-standard one. In music or song announcement license mechanism, the license agreement is made after the users announce the music or song firstly and it is invoiced by the songwriter's or copyright holder's representative.

As license substitution, the assignee is required to pay royalties. License may limit character, scope, time or territory of the assigned special rights. Frankly speaking, even after economic right transferring over a work, the author may choose to defend his moral right over his or her work. In the provision of Article 4 of Law Number 28 Year 2014 about Copyright, says that a copyright consists of economic right and moral right. Economic right is the right to obtain economic benefits over the work and related right products, and economic rights are to announce and reproduce. Announcing and reproducing activities are translating, adapting, arranging, transferring, selling, renting, lending, importing, displaying, publicly performing, broadcasting, recording and work advertising to the public through any means.

In the provisions of Article 80 of Law Number 28 Year 2014 about Copyright, giving license procedures are:

Unless otherwise agreed, Copyright holder or someone similar with it could give license to another party based on written agreement to perform the acts referred to Article 9 paragraph 1, Article 23 paragraph 2, Article 24 paragraph 2 and Article 25 paragraph 2.

The License Agreement referred to in paragraph 1 is valid for a certain period and shall not exceed Copyright and Related Rights validity period.

Unless otherwise agreed, the implementation performance refers to paragraph 1 which comes with the licensee's obligation to pay royalty to the Copyright Holder or similar with it during the License period.

Royalties amount quotation as referred to in paragraph 3 and Royalties paying procedure shall be done in accordance with the License Agreement between the Copyright Holder or the owner of the Related Rights and Licensee. The number of Royalties in License Agreement must be assigned based on prevailing practice and of complying with the element of justice.

For a comparison, it can be stated in a bulletin issued by Karya Cipta Indonesia, which said that kinds of announcement activities are broadcasting (by radio/television) sounding (by playing tapes, compact discs, other or performing in a show), reading songs. Propagation means to reproduce songs through cassettes, compact discs, or other rotators.

The complexity of copyright license mechanism is also caused by so many parties involved as right holders in song composing or music arrangement. In the case of songs or music, the copyright holders are those listed below:

- Melody song composer is the one who composes a melody of a song or music;
- Song writer is one who composes text or lyrics of a song or music;
- Music arranger is one who changes songs or music creation of others to a certain level, or add in such a way, so that by his or her creative contribution over the song or music will be unique and special;

- Lyrics adapting is one who writes the text or the new lyrics or translates the original lyrics of a musical work which is re-published in the territory of Indonesia;
- Publisher and sub-publisher, a legal entity authorized by the composer to become a copyright holder and therefore has an interest in the entire work of the song or the music.

When copyright is announced by the other party, for example by the user, first of all, the users must be permitted by song writer or copyright holder. Usually in the matter of permission, a writer or copyright holder is represented by a royalty agency. The user is required to pay royalty to the agency. Indonesia has just royalty organization which represents the song writer or music arranger, but not other copyrighted works.

*Song Royalty Rights Payment System in Indonesia:*

Music copyright is one of the absolute means which supports business activities ongoing like Discotheques, Karaoke, Concerts and so on, but, anyhow, there are also some business activities which still can be run even without music existence in it. Those reasons are used to differentiate the tariff amount to be paid by music listeners and it depends on the role and duration of music applied. Therefore, those who get commercial profits from music performing, the song writer or music arranger is deserved to be awarded by the song or music users themselves.

Composer, copyright holder, artist, musician, producer and broadcasting organizations in publicizing his/her masterpiece maximally need the help of a professional party who handles problem professionally. It is impossible for them to come to each organizer, like concerts, radio, discotheques, television broadcasting organizers, hotels and public places that apply songs or music in commercial activities, to demand fulfillment of economic rights exploitation of a Copyright holder.

As the representative for both song writer and music arranger, Karya Cipta Indonesia Foundation performs supervision and observation to record the songs which will be played in some certain discotheques with consideration there is a tendency to play the same song in some restaurants. Karya Cipta Indonesia Foundation on behalf of song writer and music arranger/copyright holder, permits those who want to use songs, especially for announcing activities or reproducing (although this is limited). For obtaining license from Karya Cipta Indonesia Foundation, the user must pay annual royalty in advance. After paying, Karya Cipta Indonesia provides the Music Announcement License Certificate (MALC) that allows user to use any song in their business activities and liberate them from all claims by writer or arranger of Karya Cipta Indonesia. Those who use or play songs and perform the song for commercial activities must have license and pay royalty, however, it is not merely limited on the Minister of Justice letter as Copyright Chairman Council, but also included parties that use such songs as Radio, Television, Companies aviation, Transportation, and other entertainment agencies.



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Author's Economic rights payment devolution are usually done in two ways; royalty pay system and flat pay system. So far, songwriters get "flat pay" payment, without considering cassette unit quantities, VCDs and CDs which are sold and "Bonus", each first rated song found on the tape cover comes to a selection, compilation, and others will get extra payment. If royalty system compares to the flat one, it is of course, different from terms of the amount of money received in advance. By flat system, received down payment is greater than royalty system. In vice-versa, in royalty system the author may get bigger rewards after big selling.

The royalty system does not classify songs whether it is a master piece or not since the price assessment is based on how many songs are played. The most important impact of royalty system is songwriter's welfare during his life, even if he dies though, can be given to his or her heirs.

Legal remedy analysis which can be conducted by parties to resolve royalty payment implementation disputes.

Song or Music is one of copyright objects which is basically regarded as an author intellectual masterpiece in expressing sense quality, intention, and author's capability. The expertise to compose or write for an author is not just as a gift given by God which is merely used to express emotions, feeling and sense of work but has moral and economic values as well, so that the result of his or her works become his or her main source of income. Refers to Article 80 paragraph 3 is stated that the licensing implementation is accompanied by an obligation to pay royalty to a copyright holder by a licensee, unless otherwise agreed. The amount of royalty to be paid is based on both party's agreement. This is contained in the provisions of Article 80, paragraphs 4 and 5, that the number of royalties determining as referred to paragraph 3 and royalties granting procedure is done based on license agreement between the copyright holder or related right possessor/licensee and the royalty's quantity in license agreement shall be determined based on applicable common sense and has the sense of justice and is oriented to professional organizations agreement. Professional organizations or similar institutions with any titles which have the duty and function to collect, manage, and/or distribute Royalty before the enactment of Law Number 28 Year 2014 about Copyright is required to adjust and change to be Management Institute Collective (MIC) within the longest period of 2 (two) years since the enactment of Law Number 28 Year 2014 about Copyright.

Royalty payment disputes resolving appear within various forms, generally, available dispute resolving forums are classified into two forums as litigation forum by law court and non-litigation forum out of the court. Dispute resolving outside the court or often called Alternative Dispute Resolution (ADR) is a conflict resolution concept or cooperative dispute resolution which is directed to an agreement or solution to the conflict or a win-win dispute solution (winning).

When parties come to arbitration dispute alternative resolution, then the parties can take commercial courts as it is confirmed by the provisions of Article 95 of Law Number 28 Year 2014 about Copyright, explains that:

- A copyright dispute resolution may be performed through alternative resolution, arbitration, or court.
- The competent court as referred to in paragraph 1 is a Commercial Court.
- Another Court than Commercial Court, as referred to in paragraph 2, does not have authorization to handle Copyright dispute resolution.
- Besides copyright infringement and/or Related Rights in the form of Piracy, as long as the parties who are in dispute are know where they are/or to be in the territory of the Republic of Indonesia must do dispute resolution through mediation firstly before making it into a criminal case.

The Article 100 of Law Number 28 Year 2014 about Copyright explains that:

- Lawsuit over copyright infringement is submitted to the Chairman of Commercial Court.
- The lawsuit as referred to in paragraph (1) shall be recorded by the Commercial Court clerk in lawsuit court registration on the date of the lawsuit was registered.
- 3. The Commercial Court Clerk provides signed receipts on the same date as the date of registration.
- The Commercial Court Clerk shall deliver a lawsuit request to the Commercial Court chairman maximum two days long since the lawsuit registration.
- The Commercial Court sets trial day within a maximum three days long since the lawsuit registration.

Notification and parties summon are conducted by the bailiff's maximum seven days long since the lawsuit was registered. Article 101 of Law Number 28-year 2014 about Copyright, explains that:

- The decision over a lawsuit must be spoken not later than 90 (ninety) days since the lawsuit was registered.
- In terms of period of time, as referred to in paragraph 1, if it cannot be fulfilled, upon approval of The Supreme Court Chief, the period of time may be extended for the next 30 (thirty) days.
- The decision as referred to in paragraph 1 shall be pronounced in an open court session for the public.
- Commercial Court decision as referred to in paragraph 3 shall be submitted by bailiffs to the parties for maximum 14 (fourteen) days long since pronouncement.

If one party would like to propose an objection because of the thought that he or she was disaffected by the Commercial Court decision, then, he or she can pronounce highest court's decision on the case. This matter is clearly confirmed by the provisions of Article 102 Law Number 28 Year 2014 about Copyright that:

- Commercial Court's decision as referred to in Article 101 paragraph 3 may only be appealed to the supreme court.
- Appealing to the supreme court as referred to in paragraph (1) shall be submitted for 14 (fourteen) days longest time since the date of the Commercial Court ruling pronounced in open court session or notified to the parties.
- The application referred to in paragraph (2) is registered to the Commercial Court that has broken the lawsuit by paying fee which is set by the court.
- The Commercial Court Clerk registers the appealing proposal on the registration day and grant the signed receipt to the applicant of the appeal on the same date with the registration date.
- The Commercial Court Clerk must submit the appealing request as referred to paragraph (4) to the appellant of the cassation at the latest 7 (seven) days from the date of application cassation is registered.

Article 103 of Law Number 28 Year 2014 about Copyright explains that:

- The applicant must submit the appeal memory of appeal to Commercial Court clerks within a period of 14 fourteen days long since the appealing to the supreme court is registered.
- The Commercial Court Clerk shall send cassation memory as referred to in paragraph (1) to the cassation Respondent within 7 (seven) days long since the Commercial Court clerk receives a cassation memory.
- The requested cassation may submit cassation contra memory to Commercial Court clerk maximum 14 (fourteen) days long since the requested cassation has received a cassation appealing.
- The Commercial Court Clerk is obliged to deliver contra memory cassation to the appellant not later than 7 (seven) days since the Commercial Court clerk accepted counter cassation memory.

The Commercial Court Clerk is obliged to send cassation file to the Supreme Court not later than 14 (fourteen) days as referred to in paragraph (3). Article 104 Article 103 of the number 28 Year 2014 about Copyright explains that:

- Within maximum 7 (seven) days since the Supreme Court received a request for a cassation, the Supreme Court sets the trial day.
- The decision of the cassation shall be pronounced not later than 90 (ninety) days since the cassation request is received by the Supreme Court.

- The Supreme Court Registrar shall deliver the copy of cassation decision to Commercial Court clerk not later long 7 (seven) days since the cassation decision was pronounced.
- Commercial Court Bailiffs shall deliver the copy of the cassation decision as referred to paragraph (3) to the cassation applicant and the requested party cassation not later than seven days from the Commercial Court Clerk receives the decision of cassation.<sup>10</sup>
- Based on the provisions of those articles defined in Law Number 28 Year 2014 about Copyright, namely Articles 95 through 109.

### **3. Conclusion**

Copyright Licensing mechanism, benefits or royalty's payment are a logic consequence which must be done by a licensee to a licensor. This thing happens because a licensee gets material advantages through economic rights exploitation over copyright. In Song or Music announcement licensing mechanism, the license agreement is made after the users published the songs or music firstly and billed by author's or right holder's representative.

The Reward or Compensation Payment system from the licensee to licensor consists of many different kinds among one copyright object to another, for instance in song/music the two known systems are royalty and flat systems, in music or song are known some systems as percentage, terminal system, profit-sharing system and compensation system and copyright selling system. The royalty number amount to be paid is based on both parties' agreement. This is contained in the provisions of Article 80, paragraphs 4 and 5, that the number of royalties determining as referred to in paragraph 3 and royalties granting procedure is done based on license agreement between copyright holder or related right possessor and licensee and royalty's quantity in license agreement shall be determined based on applicable common sense and has the sense of justice element and is oriented to professional organizations agreement.

Royalty payment disputes resolution appear within various forms, generally, available dispute resolving forums are classified into two forums as litigation forum by law court and non-litigation forum out of the court. Dispute resolution out of the court or often called Alternative Dispute Resolution (ADR) is a conflict resolution concept or cooperative dispute resolution which is directed to an agreement or solution to the conflict or a win-win dispute solution (winning). In the Act of Copyright Number 28-year 2014 appoint Commercial Court to resolve the copyright infringement issue, but the royalty payment disputes are not firmly mentioned in the Act.

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## The Legal Concepts of Abuse of Dominant Position on Monopolistic Practices and Unfair Business Competition

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M. Alvi Syahrin \*)

**Abstract:**

*The provisions of Law of the Republic of Indonesia Number 5 of 1999 concerning the Ban on Monopolistic Practices and Unfair Business Competition, has banned a dominant position in the market, because such activity could result in the fact that the party that has a dominant position can easily know the strength of competitors in the market.*

*The formulation of the problem shows that the research is done through normative juridical approach. Based on the above discussion, can be concluded two aspects. The legal concept forms of abuse of dominant position according to Law of the Republic of Indonesia Number 5 of 1999 are (i) abuse of a dominant position (Article 25), (ii) prohibition of double position (Article 26), (iii) position of shares majority (Article 27), (iv) dominant position due to acquisitions, mergers, and take over (Article 28).*

*The Legal Concepts of Stock Taking Over according to the Law of the Republic of Indonesia Number 5 of 1999 is regulated in Article 28 jo. Article 48 paragraph (1) and paragraph (2) letter e, and Article 29.*

**Keywords:** Dominant position, unfair business competition;

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### 1. Introduction

The provisions of Law of the Republic of Indonesia Number 5 of 1999 concerning the Ban on Monopolistic Practices and Unfair Business Competition, has banned a dominant position in the market, because such activity could result in the fact that the party that has a dominant position can easily know the strength of competitors in the market, and with its power could determine the will of the market. Therefore, it will result in the occurrence of monopolistic practices and/or unfair business competition [i]. Sizes that can be used to identify the existence of a dominant position in the determination of price is the power of price determining. In economics, this power is called monopoly power. Monopoly power is calculated from how high the price difference is when compared to the cost of its marginal.

However, the company that controlled the huge market has the potential to abuse of its dominating position by doing a variety of behavioral anti competition. Abuse of dominant position is very detrimental to the perpetrators of other businesses, consumers, and the economy. Therefore, the abuse of dominant position should be avoided and prevented as early as possible.

Sellers who have a dominant position can lead to the monopolistic seller [ii]. Sellers who have a dominant position can specify prices or create a barrier to entry on the market for the new seller. In principle, all practices that result in higher prices and fewer goods supply due in connection with businessmen as the owner of a dominant position can be categorized as abuse of a dominant position. Based on the above description, the problem is: How are the legal concepts of abuse of dominant position according to Law of the Republic of Indonesia Number 5 of 1999?

## **2. Literature review**

According to Law of the Republic of Indonesia Number 5 of 1999, there are three forms of abuse of a dominant position, namely [iii].

- Set the terms for the purpose of preventing or deterring consumers acquire goods and/or services that compete both in terms of price or quality;
- Limiting the market and/or technology;
- Inhibit other businessmen whose competitors could potentially enter the market in question.

The next forms of misuse of businessmen who have a dominant position can potentially do [iv].

- price discrimination;
- closed agreements (exclusive dealing), including the sale of packages (trying in sale);
- discrimination (barrier to entry) against the perpetrators of certain business;
- vertical restraint;
- selling loss (predatory pricing) to shut down its competitors.

In addition to mastery of a large market share, early indications that can be used as a reference in detecting abuses of dominant position are:

- The price is likely to move up without fluctuations at all;
- The profit margins of companies that controlled a large share is very high, above normal;
- A company is not prohibited to master market shares of 50% or more. Some companies are also not prohibited from mastering the market share of 75% or more, which means holding a dominant position.

However, Law of the Republic of Indonesia Number 5 of 1999 prohibits the dominant position.

## **3. Methodology**

*Method Approach:*

- The formulation of the problem shows that the research is done by normative juridical approach, where the normative jurisdiction is to examine a legal problem and make the settlement through the applicable legislation.

*Research Specifications:*

- The specification of this study is descriptive analysis to provide an overview of the real facts along with an accurate analysis of laws and regulations that can be used as material analysis related to abuse of dominant position.

#### **4. Result and Discussion**

The Legal Concepts of Abuse of Dominant Position according to Law of the Republic of Indonesia Number 5 of 1999.

*Abuse of a Dominant Position:*

One form of unfair competition occurs because there are business terms that became a stumbling block or hindrance to other businessmen. Action to implement certain requirements or terms barrier is the abuse of a dominant position [v].

The following are excerpts from the Article 25 paragraph (1) and (2) of Law of the Republic of Indonesia Number 5 of 1999, which regulates the form of the abuse of the dominant position, that is:

- Businessmen are prohibited from using a dominant position either directly or indirectly, to:
  - Prevent the terms of trade for the purpose of preventing and/or deterring consumers acquiring the goods and/or services that compete both in terms of price or quality;
  - Limit the markets and technology development;
  - Inhibit other businessmen whose competitors could potentially enter the market in question.
- Businessmen have the dominant position referred to subsection (1) if:
  - One perpetrator of the attempt or one group of businessmen controlled 50% (fifty percent) or more of the market share of a certain type of goods or services;
  - Two or three businessmen or business group controlled 75% (seventy five percent) or more of the market share of a certain type of goods or services.

*Examples of cases:*

Ruling of the Matter Number 06/KPPU-L/2004 against alleged anti-competitive conduct promotional programs ABC competition entitled "Program Slide Competitor" during the period March-June 2004 conducted by the Company Limited (PT) Arta Boga brilliantly.



*Prohibition of Double Position:*

Having a duplicate position within the company also has potential against the occurrence of monopolistic practices or unfair competition [vi]. Due to the nature of the subject matter has a duplicate position prohibited by Law of the Republic of Indonesia Number 5 of 1999. A duplicate term (interlocking directorate) provided for in Article 26 of Law of the Republic of Indonesia Number 5 of 1999 prohibiting a duplicate from a position of director or commissioner of a company.

The article specifies that: Someone who has positions as directors or commissioners of a company, at the same time, is prohibited to become directors or commissioners at another company, when the company [vii].

- is in the same market;
- Has a close relation in the field and/or line of business;
- Together can master the market share that can lead to the occurrence of monopoly and competition venture is not healthy.

Based on Article 26 above, so that it can be said that a duplicate position prohibited by Law of the Republic of Indonesia Number 5 of 1999, as follows:

- Minimum requirement there are 2 (two) of the company;
- Someone has a minimum of 2 (two) of the company;
- The duplicate officer as both the board of directors or as commissioner;

The minimum requirement of two of those companies had one of the business relations, namely:

- Located on market share concerned;
- Related to the field or certain business;
- Master the market share over certain products together.
- The double position can result in the occurrence of monopolistic practices and unfair business competition.

*Possession of the Shares Majority:*

One of the provisions concerning the dominant position prohibited in Law of the Republic of Indonesia Number 5 of 1999 is a form of ownership. These provisions prohibit the possession of the shares majority in similar companies that perform business activities on the same markets concerned, and the establishment of companies that do the business activities on the same condition - ownership of shares and the establishment of companies that was prohibited by the Law.

The provisions of the share ownership are regulated in Article 27 of Law of the Republic of Indonesia Number 5 of 1999. As for the elements that must be met for a stock ownership to be prohibited in Article 17 qualifications are as follows:

- There are several types of companies;

- There is at least someone businessmen already have stakes in some companies;
- A few companies of its kind have been conducting business activities in the same field in the same market;

The share ownership resulted in:

- One perpetrator of the attempt or one group of businessmen controlled more than 50% of the market share of a certain type of goods or services;
- Two or not businessmen groups controlled more than 75% (seventy five percent) of the market share of a certain type of goods or services.

*Dominant Position due to the Merger, Acquisition, and Takeover:*

The negative effects of mergers, acquisitions and take over, that is the creation of market concentrations which may lead to higher product prices be a great market power that would threaten small businesses [viii].

Merger of a business entity is prohibited if such a feat can lead to monopoly and competition venture which is unfair. There are substantially two things set forth in the provisions of article for this regulation:

- Incorporation and smelting business entities which can result in the occurrence of monopolistic practices and/or unhealthy business competition [Article 28 paragraph (1)];
- Shares of other companies that may lead to the occurrence of monopolistic practices and/or unhealthy business competition [Article 28 paragraph (2)].

In determining the impact of antitrust to a merger, acquisition, and takeover of the company, in a Law of the Republic of Indonesia Number 5 of 1999 can be seen from some of the factors that follow it as:

- Market prices are formed because of the monopoly;
- The result of economic exploitation;
- Arising out of power monopoly.

In a merger that was banned, it should be determined what factors can be categorized form merger antitrust laws that are prohibited, among other things:

- There are future modifications upon the market conditions;
- Financial market participants;
- The merger activity to Ease entry into the market;
- Product availability;
- The impact of the efficiency of the merger.

## **5. Conclusion**

Based on the description above, then a conclusion can be drawn as it follows: The legal concept forms of abuse of dominant position according to Law of the Republic of Indonesia Number 5 of 1999:

- Abuse of a Dominant Position - Regulated for in Article 25 Law of the Republic of Indonesia Number 5 of 1999.
- Prohibition of Double Position - Regulated for in Article 26 Law of the Republic of Indonesia Number 5 of 1999.
- Position of Shares Majority - Regulated for in Article 27 Law of the Republic of Indonesia Number 5 of 1999.
- Dominant position due to Acquisitions, Mergers, and Take Over - Regulated for in Article 28 Law of the Republic of Indonesia Number 5 of 1999

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## **Antecedent Audit Quality: Analysis of Auditor-Auditee Factors in the Perspective Theory of Regulation**

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Rahmawati, Bandi, Payamta, Taqi, M \*)

**Abstract:**

*This study aims to examine the antecedent variables of audit quality and analyze auditor and auditee factors in the perspective theory of regulation. The research aims to test and provide empirical evidence of the effect of other services, audit tenure, and industry specialization as auditor factors; size of client company as auditee factor on audit quality both audit quality-detecting misstatement and audit quality-reporting misstatement.*

*The type of research is quantitative-causality conducted by survey method. The population in this study is an accountant who works as an external auditor who is in Indonesia with a sample of accountants who work as external auditors at the audit firm (KAP) located in the Jakarta area.*

*The results showed several interesting conclusions. Among them that not only auditor factors affect audit quality, but auditee factors also affect the audit quality.*

**Keywords:** *Audit quality, other services, audit tenure, industry specialization, company size.*

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### **1. Introduction**

Audit practice attracted the world's attention when the Enron case involved the big auditor Arthur Anderson. The existence of Enron case is perceived by many parties as evidence of decreasing audit quality in the world without exception in Indonesia. This is in line with the statements of Krisnan and Gul (2009) and Francis (2004) who state that the existence of the Enron collapse case raises the issue that audit quality has decreased. In the context of Indonesia, the decline in audit quality can be seen from several cases such as PT. Telkom, PT. KAI, and PT. Kimia Farma. Krisnan and Gul (2009) stated that the decrease in audit quality is caused by the number of firm audits that provide other services outside the audit, so that there is a conflict of interest and ambivalence. The existence of cases above suspected audit

quality has decreased to make the regulator in Indonesia both government and professional institutions make some regulations to protect various interests and witnesses against public accountants who commit violations. Some public accountants have been subject to sanctions freezing permits by the Ministry of Finance in the form of a practice ban for 3 months to 1 year and even revocation of permits in June 2017. The decrease in audit quality is due to the low audit fee that the auditor is forced to accept so that the auditor is forced to reduce the audit time, the number of personnel in the audit team and the stages in the audit process.

The Regulation of the Board of Public Accountants of Indonesia (IAPI) number 2 of 2016 attachment IV has calculated the minimum tariff of audit fee of Rp 60 million. In reality, however, many public accounting firms in Indonesia are forced to accept audit fees below the minimum tariff of audit fees so that partners will make a strategy to avoid losses that impact the audit quality. The above cases and phenomena make audit quality topics in Indonesia still interesting to be studied. In addition to the low audit fees that auditors are forced to accept, conflicting interests and ambivalence are triggered by the increasing bargaining position of auditee caused by the intensity of relationships between auditors that result in auditor independence erosion, and the critical deterioration of partners in auditing judgments (Carrey and Simnett, 2006) as well as the economic bonding factor and financial dependence of the auditor on the client (Hoitash, Markelevich, and Barragato, 2007) and the bounded rationality factor (Fischbacher and Stefani, 2007) which can be utilized by the auditee for lobbying the final audit results. It shows that the auditee factor also effects to audit quality.

There is also a factor other than the auditor that determines the audit quality in line with the two audit risks that are inherent risk and control risk sourced from the auditee / internal company (Arens et al., 2012; and Al-Thuneibat et al., 2011; Amilin 2017). Even Al-Thuneibat et al. (2011) concludes that clients who have a good reputation in controlling financial statements, accurate financial statements and management with high integrity and competence will create a form of confidence or trust in the audit team, and if they will retain the same client in the upcoming future, they will lower the level of skepticism needed to conduct a professional audit. It also shows that the auditee factor determines the audit quality as well and research that analyze the auditee factor in determining the audit quality has not been done.

However, this is contrary to DeAngelo (1981) and Watkins et al. (2004) stating that the audit quality is the credibility of the auditor, who determines the audit quality to be generated. The dispute opens gaps and further research opportunities on audit quality. To fill the gap and the opportunity of this research is to test antecedent variable from audit quality and analyze by auditor and auditee factor in regulation theory perspective whereas operationally this research aims to test and give empirical evidence effect of other services, audit tenure, and industry specialization representing auditor factors, and firm size representing auditee factors on audit quality. This study is different from that done previously, because in addition to

analyzing the effect the of auditor factor, it also researches the factor to audit quality, both audit quality-detecting misstatement and audit quality-reporting misstatement. In addition, this research is important because of the originality in the development of hypotheses that test more specific audit quality and empirical research model, as well as the location of the research with a sample of external auditors in KAP in Jakarta-Indonesia.

## **2. Literature review**

### **2.1 Effect of Other Services on Audit Quality**

The researcher who stated that other services (non-audit services) negatively impacted the quality of the audit (Wooten, 2003) which stated that the large consulting fees had a negative impact on the auditor's independence and degraded the audit quality. In addition, a substantial amount of costs paid to the auditor by the client, especially for non-auditing services, will make the auditor economically dependent on the client (Hoitash et al., 2007). However, non-audit services will increase the probability of finding problems within the company and will reduce the auditor's independence (Lennox, 1999). In line with the probability of finding problems within the firm, some auditors argue that there is an actual positive relationship between audit quality and additional service delivery. They argue that providing additional services gives them access to a better understanding of the client and business processes (Wooten, 2003; Suryanto 2016).

In addition, Watkins et al. (2004) states that his studies do not provide evidence that the auditor's independence can be compromised through the grant of privileges such as the offering of non-audit services by the auditor. In addition, a study by Frankel et al. (2002) found a positive relationship between the ratio of non-audit service fees to the total cost and the amount of discretionary accrual income. In addition, the results of research by Patel and Prasad (2013) found that the big 4 auditors provide less non-audit services compared to non-big auditors 4. It shows that all auditors both big 4 and non-big 4 auditors provide other services in outside the audit even though the amount is different. However, there is an auditor's economic dependence on the auditee. Then the study of Watkins et al. (2004) explaining that regulatory actions or government actions such as establishing rules in the Sarbanes Oxley Act will prevent an auditor from providing non-audit service fees to the clients they audit, which proves to be ineffective in improving audit quality (Yazid and Suryanto, 2016).

In the context of regulatory theory, the decision of the Government of Indonesia to make the regulation by allowing KAP to provide other services (Law No. 5 of 2011) and (Government Regulation No. 20 of 2015) responses to specific groups' requests to maximize their prosperity (group interest theory), but require the management of the Firm to submit a business activity report (audit services and non-audit services) and financial statements to the Minister (Law No. 5 of 2011) as a form of government oversight in order to protect the public interest. Based on the above

statement, where there is a group that states that there is a negative effect and the group that states there is a positive effect on audit quality, the hypothesis raised is:

*H1a: Other services negative effect on audit quality-detecting misstatement.*

*H1b: Other services negative effect on audit quality-reporting misstatement.*

## **2.2 Effect of Tenure Audit on Audit Quality**

The decision to reapply audit assignments from the same client by KAP management will establish a personal relationship between the auditor and their clients that impact on the erosion of independence and the critical deterioration of partners in the assessment (Carey and Simnett, 2006). Then the results of research by Al-Thuneibat et al. (2011) indicates that the length of cooperative relationship between client and auditor will result in a negative effect (negative) on the audit quality result. Anis (2014) research results related to tenure audit stated that: there is a negative relationship between the length of the auditor and the audit quality. The final result of Bedard and Johnstone (2010) states that it is significant that the rotation or turnover of such partners is costly to the public accountant's firm, and no significant advantages can be achieved. It will not be different for clients who have a partner relationship with a duration of more than five years versus a shorter duration partner relationship. Then research from Taiwan conducted by Chen (2008) found that the value of abnormal accruals will decrease along with the length of partnership relationship between auditors and clients. This implies that the quality of income increases.

The findings of Bedard and Johnstone (2010) and Chen et al. (2008) differ from the results of a study conducted by Carey and Simnett (2006) suggesting a lower quality audit when the relationship between the auditor and the client lasts longer. The findings of Bedard and Johnstone (2010) and Chen et al. (2008) is in line with the statements of Geiger and Raghunandan (2002) who states that the number of audit failures actually occurs in the early years of the auditor-client relationship so that additional auditors may need additional time to avoid audit failure. In the context of regulatory theories, Government Regulation No. 20 of 2015 concerning Public Accountant Practices which provides the same constraint limitation on audit services for the same client for 5 (five) consecutive years only to Public Accountants (not KAP) and for certain entities industries in the capital market sector, commercial banks, pension funds, insurance / reinsurance companies, and state-owned enterprises. The policy is the government's response to the interests of the group. In addition, the existence of several cases related to audit quality, such as the Enron case behind this research, formed the initial perception of audit quality. Based on the above statement then the hypothesis raised is:

*H2a: Audit tenure negative effect on audit quality-detecting misstatement.*

*H2b: Audit tenure negative effect on audit quality-reporting misstatement.*



### 2.3 Effect of Industrial Specialization on Audit Quality

KAPs that have different types of clients in one type or the same industry scope will provide a deeper understanding of the unique audit risks arising from an industry. KAPs that have few clients in an industry may not be critical enough, so they can keep up with the pace of news and practice development in the industry (Wooten, 2003). Craswell et al. (1995) reported that industry experts set a premium cost, which gives an indication of the difference in quality pricing. The more clients a KAP has in an industry, the larger the KAP builds its reputation because it is considered to have successfully provided a good audit service within a particular industry type. The results of their research stated that the audit cost for the big 8 auditors contain premiums relating to general brand name and industry specialization. The results of Behn et al. (2008) indicates that high audit quality is given by big 5 auditors and industry specialists non-big 5 auditors. This result is in line with the results of Inaam et al. (2012) which states that industry specialist auditors and big4 auditors are associated with low levels of earnings management accruals. In addition, industry specialization may offset the negative effects of mandatory rotation on audit quality (Anis, 2014). KAPs with higher client concentrations in certain industry types will have higher quality levels as well because they have more resources to use (Deis and Giroux, 1992). In the context of regulatory theories, the decision of KAP management to make its auditors specialist in certain industries is in line with the Standards of Professional Public Accountants related to KAP quality control standard. Based on the above statement then the hypothesis raised is:

*H3a: Industry specialization positive effect on audit quality-detecting misstatement.*

*H3b: Industry specialization positive effect on audit quality-reporting misstatement.*

### 2.4 Effect of Client Company Size on Audit Quality

Two audit risks that are innate risk and control risk are sourced from the auditee / internal company (Arens et al., 2012). The existence of audit risk that is sourced from internal / auditee factor causing some researchers associate audit quality with factors that come from auditee. Research Fernando et al. (2010) linking audit quality to client size and equity capital costs. In addition, Chen et al. (2008) also attributes the importance of clients with audit quality. The results of Leventis and Caramanis (2005) stated that the audit effort ratio is calculated based on the actual minimum hour that has been determined and found to be positively correlated with firm size. It shows that to get high audit quality, each company of different size will be allocated different minimum audit hour. Other research results from Adeyemi and Fagbemi (2010) suggest that the size factor of a company and business effect are important factors in audit quality for companies on the Nigerian Stock Exchange. Companies of all sizes have different interests when they request an audit. The problem is that their interests tend to contradict the auditor's desire to maintain audit quality as Xinjun's research (2007) states that the client's interests are negatively related to the

quality of the audit. Further research on audit quality-related, Al-Thuneibat et al. (2011) has used the firm's size as a control variable in its research. In the context of regulatory theories, companies with a certain scale and already go public, are required to be audited by a registered KAP at BAPEPAM. Similarly, for state-owned companies must be audited by BPK RI or KAP who have permission / registered in BPK RI. Based on the above statement then the hypothesis raised is:

*H4a: Company size has a positive effect on audit quality-detecting misstatement.*

*H4b: Company size has a positive effect on audit quality-reporting misstatement.*

### **3. Methodology**

This research is conducted by the survey method, using path analysis to explain the above variables. The population in this study is an accountant who works as an external auditor residing in Indonesia. This is because the external auditor is still considered to be a responsible party for audit quality (DeAngelo, 1981; Watkins et al., 2004). The sample in this study are the accountants who work as auditors in firm audit (KAP) located in the Jakarta area. The selection of auditors located in the Jakarta area is due to the largest external auditor population (active IAPI members) in Jakarta area as many as 475 people from 808 people or as much as 58.79% (IAI, 2010). In addition, they conduct audits not only in Jakarta but also outside Jakarta.

The withdrawal technique / sampling is done by purposive sampling based on certain considerations (judgment sampling). The sample consideration / criteria are the following: (1) external auditor working in KAP, (2) working in Jakarta area. Data collection techniques used in this study is the technique of collecting data by using questionnaires by way of delivering and sending questionnaires via the post office. The construct/variable measurements in this study used the interval scale by providing answer choices to the following questions: 1 = strongly disagree, 2 = disagree (TS), 3 = Somewhat disagree (ATS), 4 = Somewhat agree, 5 = agree (S), and 6 = Strongly agree (SS).

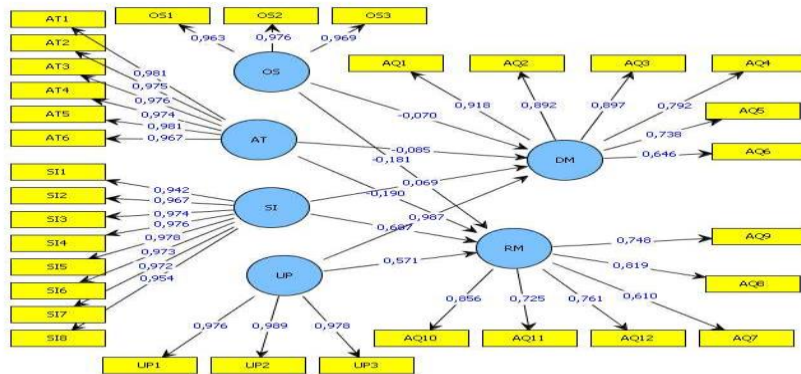
### **4. Result and Discussion**

#### **4.1 Data Analysis**

##### **4.1.1 Measurement Model or Outer Model**

The model of measurement or outer model with reflexive indicator is evaluated with convergent validity, discriminant validity of the indicator and composite reliability for indicator block. Convergent validity and discriminant validity are performed to test validity while composite reliability is performed to test reliability.

Figure 1. Full Model Research Using Path Analysis



Source: PLS (2017).

Information:

OS = Other Services;

AT = Audit Tenure;

SI = Industrial Specialization;

UP = Size of Company Client;

DM = Audit Quality-Detecting Misstatement;

RM = Audit Quality-Reporting Misstatement;

#### 4.1.2 Hypothesis Testing

Table 1. Statistical Results of Endogenous and Exogenous Variables

Hypothesis	Test	Original sample estimate	Mean of sub Samples	Standard deviation	T-Statistic	Note
1a (-)	OS >DM	-0,070	-0,122	0,228	0,309	Negative effect, not significant
1b (-)	OS >RM	-0,181	-0,173	0,180	1,003	Negative effect, not significant
2a (-)	AT >DM	-0,085	-0,073	0,160	0,533	Negative effect, not significant
2b (-)	AT >RM	-0,190	-0,279	0,238	0,799	Negative effect, not significant
3a (+)	SI >DM	0,069	-0,196	0,426	0,162	Positive effect, not significant
3b (+)	SI >RM	0,687	0,634	0,307	2,241**	Positive effect, significant
4a (+)	UP >DM	0,987	1,296	0,563	1,755*	Positive effect, significant
4b (+)	UP >RM	0,571	0,705	0,444	1,284	Positive effect, not significant

Note: \*\*\*p<0,01= 2,576; \*\*p<0,05=1,960; dan \*p<0,10=1,645.

Source: PLS (2017)

#### 4.2 Discussion

#### ***4.2.1 Other Services Effect on Audit Quality***

The result of statistical test of the effect of other services on audit quality in general, the result of negative effect, is not significant. The above test results indicate that the negative effect of the other services on audit quality in this study is proven although not significant. The existence of the relationships that were established when other services before the audit and economic troubles (Hoitash, et al., 2007), and the bounded rationality (Fischbacher and Stefani, 2007) experienced by the auditor triggered a decrease in audit quality. The results of this study also reinforce the concerns of conflicts of interest and ambiguity due to the provision of other services outside the audit and the prejudice that the audit's quality has decreased as stated by Krisnan and Gul (2009).

It is argued that there is an actual positive relationship between the quality of the audit and the provision of additional services in the form of their access to a better understanding of the client and business processes (Wooten, 2003), and arguing that when a public accountants firm can provide non-audit services to the audited, there is likely to be leakage of knowledge/information resulting in efficiency for audit results (Simunic, 1984), the positive effect in this study is not proven. In the context of auditor-auditee factor analysis, if the auditor is in prime condition without any problem of economic difficulty (Hoitash, et al., 2007) and bounded rationality (Fischbacher and Stefani, 2007), the auditor will be able to detect, and report errors committed by the client. This is because audit quality is the auditor's credibility (Watkins et al., 2004). This shows that the auditor's factor is more dominant in determining audit quality. In the context of regulatory theories, regardless of the results of this study are not significant, but the government of Indonesia still needs to regulate related services other than audit as a preventive effort. This is done in order to improve the quality of audit and protect the public interest (Stigler, 1971, Posner, 1974).

#### ***4.2.2 Effect of Tenure Audit on Audit Quality***

The result of statistical test of tenure audit effect on audit quality has in general a not significant negative effect. Audit tenure negatively affects the audit quality-detecting misstatement and reporting misstatement but not significant. This is in line with Carey and Simnett (2006) Al-Thuneibat et al. (2011), Anis (2014), and Deis and Giroux (1996) and in contrast to the results of Bedard and Johnstone (2010) research, which significantly states that the rotation or turnaround of such partners is costly to the public accountant's firm, and no significant advantages can be achieved. It will not be different for clients who have a partner relationship with a duration of more than five years versus a shorter duration partner relationship. The results of this study are also different from the results of research Chen et al. (2008) and Geiger and Raghunandan (2002). Nevertheless, regardless of the results of this study, it has negative not significant effect, Government Regulation No. 20 of 2015 concerning Public Accountant Practices which grants constraints on the limitation of providing audit services for the same client for at least 5 (five) consecutive years only to Public Accountants (not KAP institutions) and for certain entities industry in

the capital market sector, commercial banks, pension funds, insurance/reinsurance companies and State-Owned Enterprises. This is done in order to improve audit quality and protect groups interest and public interest (Stigler, 1971, Posner, 1974). In the context of auditor-auditee factor analysis as well as in other services cases, if the auditor is in prime condition without any problems of economic difficulty (Hoitash, et al., 2007) and bounded rationality (Fischbacher and Stefani, 2007), then the auditor will not be affected by any conditions or circumstances so that it is still able to detect errors committed by the client. This is because the audit quality is the auditor's credibility (Watkins et al., 2004). It also shows that the auditor factor is more dominant in determining audit quality.

#### ***4.2.3 Effect of Industrial Specialization on Audit Quality***

The statistical test of the effect of industry specialization on audit quality in general has a positive effect. The industry specialization positively impacts the audit quality-detecting misstatement but is not significant, while industry specialization positively affects the audit quality-reporting misstatement and is significant. These results prove that the number of clients in similar industries are handled, can improve the generated audit quality, especially related to the ability to detect and report any errors. This may be because the auditor uses the client's auditing experience on the same industry, technical ability and professional expertise it has to detect errors committed by the client. The results of the insignificant study may be due to the large number of respondents coming from small KAPs causing the results of this study to have an effect but not significant. This is because small KAP does not specialize to the auditor. The results of this study are in accordance with Wooten's (2003,) Deis and Giroux (1992), Craswell et al. (1995). The results of Behn et al. (2008) indicates that high audit quality is given by big 5 auditors and industry specialists non-big 5 auditors.

This result is in line with the results of Inaam et al. (2012) which states that industry specialist auditors and big4 auditors are associated with low levels of earnings management accruals. In addition, industry specialization may offset the negative effects of mandatory rotation on audit quality (Anis, 2014). The results of this study provide evidence of differential risk-specific effects of customers on all types of auditors. In the context of auditor-auditee factor analysis, the positive effect of industry specialization on audit quality shows that since auditors have frequently audited clients in the same industry, auditors become more specialized to audit certain industries in order to improve audit quality. It shows that the dominant auditor factors effect audit quality. In the context of regulatory theories, the decision of KAP management to make its auditors specialist in certain industries is in line with the Standards of Professional Public Accountants related to KAP quality control standard. The standards are made in order to maintain audit quality and protect the public interest (Stigler, 1971, Posner, 1974).

#### ***4.2.4 Effect of Client Company Size on Audit Quality***

The result of statistical test of firm size effect to audit-detecting misstatement quality got result have positive significant effect while company size to quality audit-reporting misstatement have positive but not significant effect. The results of this test prove that the higher the size of the company, the higher the audit quality generated by the Auditor / KAP in terms of the ability to detect or report any mistakes made by the client. The positive effect of firm size on audit quality lies in good internal control and support of data generated by good systems that have been built by large scale companies to accelerate and facilitate the work of auditors to find any errors in the client / auditee financial statements and complete the auditor's work papers as well as the basis for the preparation of audit reports. This is in line with the statement of Arens et al. (2012) which states that the two audit risks that are inherent risk and control risk are sourced from the auditee / internal company. If the two risks are well controlled, then the risk of audit failure is low and that means the audit quality increases.

In line with the results of Leventis and Caramanis (2005) research which states that the audit effort ratio calculated based on the minimum hours found to be positively correlated with firm size. It shows that to get high audit quality, each company of different size will be allocated different minimum audit hour. In line with the results of Adeyemi and Fagbemi (2010) research which states that the size factor of a company and business effect are important factors in audit quality for companies on the Nigerian Stock Exchange. In the context of auditor-auditee factor analysis, positive effect indicates that the larger the size of the client's company, the better the generated audit quality. Al-Thuneibat et al. (2011) concludes that clients who have a good reputation in controlling financial statements, accurate financial statements and management with high integrity and competence will create a form of confidence or trust in the audit team. It reinforces the existence of other factors besides auditors that effect audit quality. The results of this study also dismissed the notion that the audit quality depends on the audit quality ORA such as the statement Watkins et al. (2004) which states that audit quality is the auditor's credibility. In the context of regulatory theories, companies with a certain scale and already go public, are required to be audited by a registered KAP at BAPEPAM. Similarly, for state-owned companies must be audited by BPK RI or KAP who have permission/registered in BPK RI. This is done in order to improve audit quality and protect public interest (Stigler, 1971, Posner, 1974).

## **5. Conclusion**

The research conclusions are: 1(a) Other services have no significant negative effect on the audit quality-detecting misstatement; (b) Other services have no significant negative effect on the audit quality-reporting misstatement. 2(a) Tenure audit has no significant negative effect on the audit quality-detecting misstatement; (b) Tenure audit has no significant negative effect on the audit quality-reporting misstatement. Furthermore: 3(a) Industry specialization positively insignificant to the audit quality-detecting misstatement; (b) Industry specialization has a significant positive effect

on the audit quality-reporting misstatement. 4(a) The size of the client company positively affects the audit quality-detecting misstatement; (b) The size of the client company has a positive effect on the audit quality-reporting misstatement.

Regulatory theories are implication to industry specialization and the size of the client company. Practical implication is: For Regulators: Supporting regulations that permit KAP to provide other services, rotation for auditors, quality control standard regarding personnel assignment, and employment, minimum auditing time, and minimum auditing fees. For Auditors: Independence to be maintained and not affected by the client. The economic dependence of the auditor on the client should be avoided as it may decrease the independence.

This study is a perception of external auditors working on KAP in Jakarta, so some things can happen such as: (a) individuals see the same thing but interpret it differently; (b) the observation time of 2015 which may be different from the current conditions so that it will produce different research; (c) the background and the resemblance to events abroad form the initial perception.

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## Market Reactions Before and After the Stock-split Policy (Study on Go-Public Company Period 2013-2016)

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### **Abstract:**

*The purpose of this study was to investigate stock price, abnormal return, and trading volume activity around stock split in Go Public companies in Indonesia Stock Exchange during 2013-2016.*

*The observation period in this study was starting 7 days before the event date and 7 days after the event date. This study used Paired Sample T-test and Wilcoxon Sign Rank Test in hypothesis testing.*

*The results of this study show that there was a significant difference between stock price and abnormal return before and after the stock split. Another result of this study was not reflected significant trading volume activity around the stock split.*

**Keywords:** *Stock split, stock price, abnormal return, trading volume activity.*

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### **1. Introduction**

Stock splits have long been a puzzling phenomenon to financial economists. Stock splits usually occur after an increase in stock prices and usually elicit a positive stock price reaction upon announcement. The reason for this announcement reaction, however, has not been fully understood. Since stock splits themselves do not directly affect a company's cash flows, the increase in a company's stock price at the time of these announcements must, assuming market efficiency, reflect the release of new information. (Asquith, Healy, & Palepu, 1989)

Researchers have observed and analyzed various corporate and market activities before, during, and after splits. They have explored issues such as the motives for splits, split practices in relation to motives, splits' effect on firm value, and changes in market activities around splits. This paper provides a review and summary of stock split literature and addresses the following questions:

Why do firms split their stocks? Is the rationale to lower share price or to signal good news? Do other corporate events such as mergers and acquisitions (M&As) and seasoned equity offerings (SEOs) or external factors such as a change in market regulation affect the split decision? What makes a fund or an American Depository Receipt (ADR) split its shares?

Do split practices such as the frequency of splits, the split factor, and signal credibility relate to the split motives? If so, how?

Does a split event affect the firm value? Does the positive abnormal return upon a split announcement fully reflect good news? Are the announcement effects the same for stocks with option trading as for stocks without option trading? Will a split enlarge the investor base? Do the cash flows (dividends and earnings) actually increase after a split? (He & Wang, 2015).

However, one of the major obstacles when examining the effect of stock splits and price reactions is the fact that these announcements are often made in conjunction with other corporate announcements; therefore, it leads to the challenge of how to disentangle the effects. (Berglund, Liljebloom, & Löflund, 1989). For many stocks, these two increments comprise more than half of all closing prices. This extensive degree of price clustering tends to point to a psychological bias toward round numbers (Griffin, 2010).

Based on previous studies, the impact of the stock split on stock prices, abnormal return, and stock trading volume is an important issue for investors. Therefore, the authors view that still needed a similar study on the phenomenon of the stock split is because there are still differences in findings from several studies conducted.

## **2. Literature review**

### ***Stock Price:***

Stock prices are likely to be among the prices that are relatively vulnerable to purely social movements because there is no accepted theory by which to understand the worth of stocks and no clearly predictable consequences to changing one's investments (Shiller, 1984).

### ***Stock Split:***

A stock split is conceptually similar to a stock dividend, but it is commonly expressed as a ratio. For example, in a three-for-two split, each shareholder receives one additional share of stock for each two held originally, so a three-for-two split amounts to a 50 percent stock dividend. Again, no cash is paid out, and the percentage of the entire firm that each shareholder owns, is unaffected (Michayluk, 2011).

Stock-split is a corporate action in which the firm divides its shares based on a certain multiple, typically two. In theory, while the number of share increases, the dollar value of the company should not change as a stock split should not change the

future cash-flows, and hence the result of a two-factor split will be a double of the shares outstanding with a corresponding split is share price. Considering it does not change the corporate real value and there are costs associated with stock split implementation, in a perfect capital market, there should be no motive for corporations to do so (Fama, Fisher, Jensen, & Roll, 1969).

***Signaling Theory:***

The intuitive nature of signaling theory in part helps explain its pervasiveness. A journalist once famously asked Spence, who first put forth the theory, if it were possible that one could receive the Nobel Prize in Economics for simply noticing that in some markets certain participants do not know certain things that others in the market may wish to communicate (Spence, 2002). Spence replied that the correct answer was probably “no” but that what did blossom at the time was a serious attempt to capture the informational aspects of market structures. The profundity of the theory, therefore, lies in ascribing costs to information acquisition processes that resolve information asymmetries in a wide range of economic and social phenomena (Connelly, Certo, Ireland, & Reutzel, 2011).

Signaling theory offers an intriguing opportunity for reconciling the strategic-actor and materialist approaches in the social sciences with approaches centered on meaning, social value, and ritual. While many social anthropologists have long recognized the role of symbolic capital in motivating individual behavior, they have generally been averse to both formal theory and quantitative empirical tests (i.e., to conventional methods of science) (Bliege Bird & Smith, 2005).

***Trading Range Theory:***

Stocks trade within the range are presumed to have lower brokerage fees as a percent of value traded and appear to be more liquid. Investors, either consciously or subconsciously, seek out stocks that trade within a certain range. Once a stock passes the upper limit of this range, companies may choose to declare a stock split to bring down the share price to the optimal range. This optimal trading range is largely psychological, sounds like a “diversification”, as investors with limited investing budget would prefer to receive more stock shares than fewer, even though the amount invested would be the same (So & Tse, 2004).

***Abnormal Return:***

The abnormal return is the excess of the return that actually happens to return to normal which is also called “excess return”. Abnormal return occurs because the obtained investors returns are as expected. The difference happens to be a positive return if the obtained return is greater than the expected or calculated return. While the return will be negative, if return is obtained, it is smaller than the expected or calculated return (Suryanto, 2015).

***Stock Trading Volume:***

One factor that many have considered in the prediction of prices, is the trading volume. Volume is a measure of the quantity of shares that changes owners for a given security. The amount of daily volume on a security can fluctuate on any given day depending on the amount of new information available about the company, whether options contracts are set to expire soon (Sun, 2003; Hapsoro and Suryanto, 2017; Suryanto, 2016).

### 3. Methodology

The scope of this research is to analyze the stock companies listed on the Indonesia Stock Exchange (go public) period 2013-2016. The data window used in this research is 7 days before and 7 days after stock split activity. The population in this study is a go-public company in Indonesia Stock Exchange. In this research, the used technique is to take the samples, that is purposive sampling or sampling conducted based on certain goals (Arikunto, 2010). The number of samples selected in this study is 33 companies. The selection of samples in this study is based on certain considerations. Some of the criteria used to determine the sample in this study are as follows:

1. Go-public companies or those who have registered their securities in the Indonesia Stock Exchange incorporated in various industries throughout the years 2013-2016.
2. Go-public companies or those who have registered their securities in the Indonesia Stock Exchange for at least seven days before the stock split event. Because of the use of data for seven days before and seven days after the stock split event, the collecting process did not last long, and the study is not biased.
3. Companies that only conduct stock split policies and do not engage in other corporate actions such as for warrant, rights issue, dividend payout and other corporate actions in the year when stock split events are implemented.
4. Companies whose data are fully available for analysis needs.

### 4. Result and Discussion

#### a. Hypothesis Test of Stock Price

The stock price data has been tested for normality and the result is normally distributed data, so the data can be tested further by paired sample t-test method (Table 1).

**Table 1. Paired Samples Test**

	Paired Differences			95% Confidence Interval of the Difference
	Mean	Std. Deviation	Std. Error Mean	

				Lower	
Pair 1	SEBELUM - SESUDAH	1.424212480	.0887464545	.154487748	1.109531236
		Paired Differences		T	Df
		95% Confidence Interval of the Difference			Sig. (2-tailed)
		Upper			
Pair 1	SEBELUM - SESUDAH	1.738893724		9.219	32
					.000

Source: Data is processed.

From the results of the table above can be seen that the t-count value of 9,219 and significance of 0.000 which means smaller than the level of significance 0.05 (0.000 < 0.05). Thus, it can be concluded that the third hypothesis is accepted, so there are differences in stock prices before and after the stock split.

b. Hypothesis Test of Stock Trading Volume

Average data of trading activity volume has been tested on normality and the result is normally distributed data so that data can be further tested by the paired sample t-test method (Table 2).

Table 2. Paired Samples Test

		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference
					Lower
Pair 1	Before - After	-.596790493	3.600466423	.626760755	-.679879388
		Paired Differences		T	Df
		95% Confidence Interval of the Difference			Sig. (2-tailed)
		Upper			
Pair 1	Before - After	1.873460374		.952	32
					.348

Source: Data is processed.

From the results table above can be seen that the value of t-count 0.952 and significance of 0.348 which means greater than the level of significance 0.05 (0.004 > 0.05).

$> 0.05$ ). Thus, it can be concluded that the second hypothesis is rejected, so there is no difference in trading volume of stock, before and after the stock split.

*a. First Hypothesis*

Based on the results of testing the first hypothesis is shown that  $H_0$  is rejected and  $H_1$  is accepted, which means that there is a significant difference between the stock price before and after the stock split. This is indicated by a significance value of  $0.000 < \text{significance } 0.05$ . The results of this study in accordance with the purpose of the stock split is done so that companies can form a price in accordance with the market so that the stock becomes more liquid. In addition, the results of this study are also in line with the trading range theory which states that by doing the stock split, the over-stock price, resulting in the shares being less actively traded, will become more liquid after the announcement of the split stock. This is evidenced by the significant difference in stock prices for 7 days before and 7 days after the stock split.

*b. Second Hypothesis*

Based on the results of the second hypothesis testing is shown that  $H_0$  is rejected and  $H_1$  is accepted which means that there is a significant difference between abnormal return before and after the stock split. This is indicated by a significance value of  $0.004 < 0.05$  significance. The results of this study are in line with the signaling theory which states that there is information asymmetry between managers and investors, where managers can use stock split policies to provide a positive signal to the market about their future expectations. The stock split activity conducted by the firm will be interpreted by investors as a sign that the manager has information that future investors may benefit from, in which it is shown the significant abnormal return before and after the stock split. In other words, investors react quickly to the abnormal return on stock split policies and investors get positive signals and information on stock split policies.

*c. Third Hypothesis*

Based on the results of the third hypothesis testing is shown that  $H_0$  is received and  $H_1$  is rejected, which means that there is no significant difference between the trading volume of stock before and after the stock split. This is indicated by the significance value of  $0.348 > 0.05$  significance. The results also show that there is no significant difference between the average trading volume of stock before the stock split policy.

The results of this study are not in line with the trading range theory which states that by doing stock split, the over-stock price, resulting in the shares being less actively traded, will become more liquid after the announcement of stock split. This is evidenced by the fact that there is no significant difference between stock trading volume before and after stock split policy.

The stock split policy can reduce the Earning Per Share (EPS) that will be accepted by the investor due to the number of stocks circulating more and more but the offered stock price is reduced from the previous price. This is one reason there is no difference between the trading volume of stock before and after the stock split.

## **5. Conclusion**

Based on the results of the analysis and the discussion of research results, it can be concluded that:

- a. There is a significant difference between the stock price before and after the stock split. The results of this study is in line with the trading range theory that states that by doing the stock split (stock split), the stock will become more liquid.
- b. There is a significant difference between abnormal returns before and after stock splits. The results of this study are in line with the signaling theory which states that there is information asymmetry between managers and investors, where managers can use stock split policies to provide a positive signal to the market about their future expectations.
- c. There is no significant difference between stock trading volume before and after the stock split. One reason there is no difference between the stock trading volume before and after the stock split is that the value of Earning Per Share (EPS) that will be accepted by investors will be reduced due to the number of shares in circulation more and more, but the offered stock price is reduced from the previous price so that the trading volume is not significantly changed.

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## **The Influence of Incentives and Discipline Against Motivation and Its Implication on Work Productivity (Case of Indonesia)**

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Mohammad Halilintar \*)

**Abstract:**

*Based on the results of statistical tests, it can be seen clearly that partially (individual) all independent variables affect the dependent variable either directly or indirectly.*

*Incentives directly affect productivity, discipline directly affects productivity. Incentives directly influence motivation, discipline directly affects motivation. Motivation directly affects productivity. Incentives indirectly affect productivity through motivation, discipline indirectly affect productivity through motivation.*

**Keywords:** *Incentive, discipline, motivation, work productivity.*

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### **1. Introduction**

Human resources are central figures in organizations and companies (Lin, 2008). For the management activities to run well, the company must have high-skilled and knowledgeable employees and efforts to manage the company optimally so that the productivity of employees increases. Employees productivity is the result or performance of employees who are assessed in terms of quality and quantity based on work standards determined by the organization (Chipika and Wilson, 2006). Good productivity is optimal productivity, which is in accordance with the organization standard and support to achieve organizational goals (Alegre and Chiva, 2008). A good organization is an organization that seeks to improve the capabilities of its human resources.

Incentives are the behavioral norms used by a person when trying to influence the behavior of others (Jerez-Gomez, Cespedes-Lorente and Valle-Cabrera, 2005). Incentives are appropriate if the company's goals have been communicated and subordinates have received them. A leader must apply Incentives to manage his subordinates, because a leader will greatly influence the organization's success in achieving its goals (Chiva and Delorme 2004).

Motivation is the impetus, effort and desire that exist within the human being that activates, empowers and directs the behavior to perform tasks well in the scope of his work (Chipika and Wilson, 2006) defines motivation as a process that determines the intensity, direction, and perseverance of individuals to achieve goals. Motivation is a process that begins with physiological and psychological forces or needs behavioral or impulsive indicated results on an objective or incentive (Atwood and Mora, 2010).

Discipline as the ideal situation in support of the implementation of tasks according to the rules in order to support the optimization of work (Kamal, 2006). One of the conditions for discipline to be grown in the working environment is the complete division of labor to the bottom of the staff or officer, so that everyone consciously knows what the task is, how to do it, when the work begins and finishes, what the required work is, and to whom is responsible for the work. Discipline must be developed to also grow order and efficiency. Without good discipline, do not expect to be an ideal leader or employee as expected by society and company (Gordon and Tarafdar, 2007).

The increased employee productivity will help the company progress and survive in an unstable business environment competition (Galih, 2013). Therefore, efforts to improve Employee Productivity are the most serious management challenges, because the success to achieve company goals and survival depends on the quality of human resource productivity within them (Jamil, 2011).

High employee productivity is highly expected by an organization or agency (Wahyu, 2017a; 2017b; 2017c). The more employees who have high productivity, the overall productivity of agencies will increase so that organizations or agencies will be able to survive in global competition. The role of a leader is important to achieve the goals of the organization or agency which is mainly related to the increased employee productivity in carrying out his work. Novelty in this study is the motivation which is impressed by incentives and discipline, its implication directly and indirectly affects the employee productivity.

## **2. Literature review**

The definition of human resources can be divided into two, namely human resources in macro and micro. The definition of macro human resources is the number of productive age population in a country, while understanding of micro-human resources more pointed on individuals who work at an institution (Kim, 1993).

Productivity is an organizational behavior that is directly related to the production of goods or service delivery. Information on organizational productivity is a very important thing used to evaluate whether the productivity process undertaken by the organization has been in line with the expected goals or not (Rowley, 2010).

The incentive of a motivating means of material, which is given as an incentive or a deliberate incentive to the workers so that in them arises a great passion to increase work productivity in the organization. Motivation comes from the Latin word "Movere" which means "drive or driving force". Motivation is questioned how to give encouragement to his followers or subordinates, in order to work truly (Gordon and Tarafdar, 2007). Discipline is a feeling of obedience to the values that are believed to be the own responsibility. Discipline is an attempt to instill value or coercion so that the subject could obey a rule.

### 3. Methodology

#### *Research Instruments:*

Measurements with the Likert Scale have advantages in diversity of scores so that respondents in this case can express their level of opinion to be close to the actual reality. Likert scale used in this study are as follows:

- Strongly Agree (SS): Given weight / score 5
- Agree (S): Given weight / score 4
- Less Agree (KS): Given weight / score 3
- Disagree (TS): Given weight / score 2
- Strongly Disagree (STS): Given weight / score 1

#### *Normality Test Data:*

Method of decision making by using criteria:

Data is normally distributed if probability > 0.05

Data is not normally distributed if the probability is < 0.05

#### *Multicollinearity Test:*

Identify the presence or absence of multicollinearity of Variance Inflation Factor (VIF) values.

#### *Heteroscedasticity Test:*

To detect the presence or absence of heteroscedasticity, the authors used Spearman's test method "s rho.

#### *Hypothesis testing:*

##### **Test F:**

Ho:  $\beta_i = 0$  (regression coefficient is not significant)

Ha:  $\beta_i \neq 0$  (regression coefficient is significant)

Where the value of F can be calculated as follows:

If  $F_{hit} > F_{tab}$  with a certain significant level (e.g. 5%) then Ho is rejected, and Ha accepted. If  $F_{hit} < F_{tab}$  with a certain level of significance (e.g. 5%) then Ho is accepted, and Ha rejected.

**Partial Test / t Test:**

T test is used to determine the influence of each independent variable to the dependent variable. T test is done by comparing t count with t-table. To determine the t value of the table, it is determined by the 5% significance level with degrees of freedom  $df = (n-k-1)$  where n is the number of respondents and k is the number of variables.

**Coefficient of Determination:**

Testing of significant variables then found its determination or value R2 (R-Square). If the coefficient of determination is zero, meaning independent variable, it has no effect on the dependent variable. If the value of coefficient of determination is closer to one, then it can be said that the independent variables affect the dependent variable.

**Path Analysis:**

The calculation of path coefficient is processed by using SPSS software version 22.0. Path analysis is used to analyze the relationship pattern between variables with the aim to know the direct or indirect effect of a set of exogenous variables on endogen.

**4. Result and Discussion**

**Descriptive Analysis:**

Data collected for analysis in the form of questionnaires data of Insurance employees. The results of data processing in the form of information to determine the effect of incentives and discipline on the motivation and its impact on employee productivity. In the path analysis model used in this study, there are four input variables, namely employee productivity as the dependent variable is denoted by Z, while the independent variable of incentive is denoted by X1, the discipline is denoted by X2 and the motivation is denoted by Y.

**Hypothesis testing:**

**Table 1. F-Simultaneous Test**

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	475,470	3	108,194	37,626	,000b
	Residual	188,266	109	3,004		
	Total	762,836	112			

a. Dependent Variable: Productivity

b. Predictors: (Constant), incentive, discipline, motivation

**Table 2. T-Partial Test**

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1(Constant)	10,718	1,206		4,016	,000		
Motivasi	,356	,130	,450	2,222	,000	,151	5,077
Insentif	,537	,105	,042	1,703	,000	,255	2,651
Disiplin	,135	,128	,210	1,661	,000	,130	6,028

Dependent Variable: Productivity

**Table 3. Coefficient of Determination**

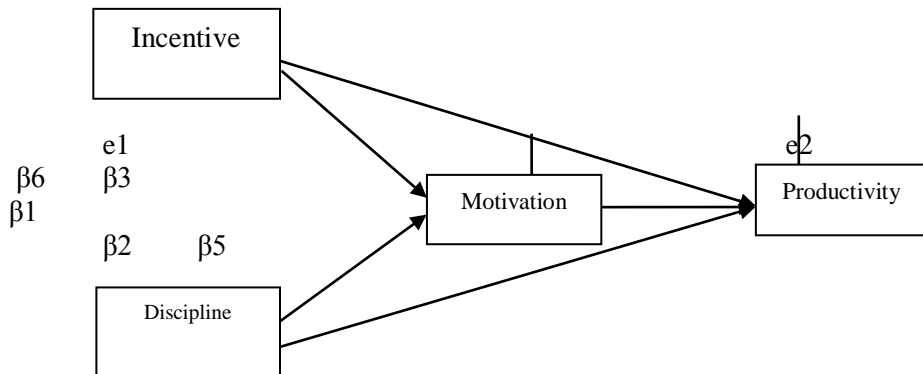
Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,829a	,680	,666	2,10127

a. Predictors: (Constant), Insentif, Disiplin, Motivasi

b. Dependent Variable: Produktivitas

**Figure 1. Model Analysis**



**Table 4. Results of Sub Structure Determination Coefficient II**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,826	,760	,755	1,67487

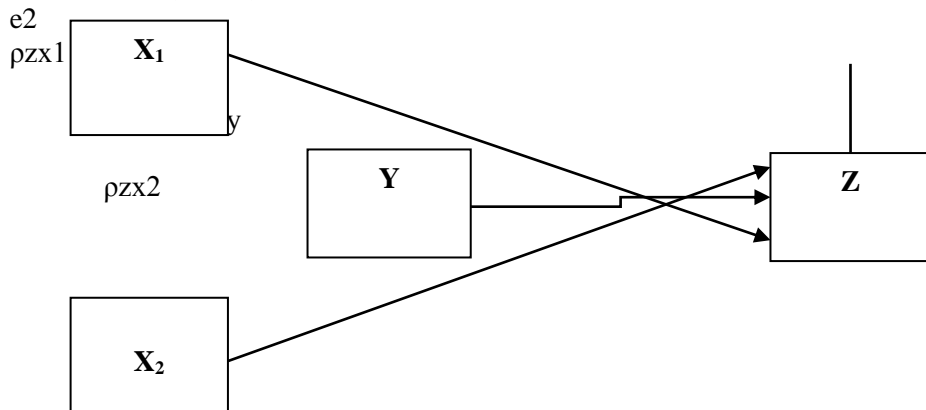
a. Predictors: (Constant), incentives, discipline

b. Dependent Variable: Motivation

**Table 5.** Summary of Sub Structural Analysis Result

	Coefficient	Direction	Result	Result	Coefficient	Coefficient
Variable	Path (Beta)	Relation	Uji F	Uji t	Determination	Rest
X1 to Y	0,558	Positive	Significant	Significant	0,760	0,202
X2 to Y	0,406	Positive	Significant	Significant	0,760	0,354

**Figure 2.** Sub Pathway Analysis Model Structure II



**Table 6.** Results of Determination Coefficient Analysis sub-structure II

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,718a	,570	,555	2,0011

a. Predictors: (Constant), insentivity, discipline

b. Dependent Variable: Productivity

## 5. Conclusion

Based on the results of statistical tests can be clearly seen that the partial (individual) all independent variables affect the dependent variable either directly or indirectly. The influence of incentives and discipline both directly on motivation and productivity and indirectly influences incentives and disciplines through productivity motivation.

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## The Influence of Competence, Communication, and Work Motivation, on Tutor Performance

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Radiansyah, Adrian., Ahmad Yani., Afrizal \*)

**Abstract:**

*The aims of this research were to determine the influence of competence, communication, and work motivation, on tutor performance at Universitas Terbuka In Bangka Belitung Archipelago Province.*

*The method of research used, is a survey on 230 people from 544 persons population, taken by proportionality random sampling and questionnaire as the instrument of research.*

*The findings are significantly showing that: 1) competence and communication bring positively direct effect on work motivation, 2) competence, work motivation, and communication bring positively direct effect on performance.*

**Keywords:** *competence, communication, work motivation, and performance.*

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### 1. Introduction

Rapid development and change are happening in the world, caused by the rapid development of science and technology. Education is a complex issue because it is not just a cultural barrier that concerns the culture and work ethic, as well as the obstacles of the school curriculum that have not been able to create and develop independence, but it is also very important because it touches the Human Resources (HR) issues. Similarly, the Universitas Terbuka Public University (UT) organization, which not only pays attention to the development of improved learning outcomes or the quality of education but also the management of human resources, in this case, is the tutor.

According to Law no. 20 of 2003 on National Education System, there are qualified educators as teachers, lecturers, counselors, among learners, tutors, instructors, facilitators, and other designations in accordance with their specificity and participate in the implementation of education. The tutor is a term for educators at Universitas Terbuka colleges. Based on the results of the survey of tutor performance on Studies Group (KBM) spread on two islands, namely Bangka Island



and Belitung island found an indication of poor performance of tutors at UT Units in Pangkalpinang as evidenced by: (1) not preparing learning materials in a timely and orderly manner, (2) lack of skills in delivering learning materials, (3) lack of competence in delivering learning materials, (4) violation of the use of teaching and learning time; starting the classroom teaching hours, (5) violation of the use of teaching and learning time; during class teaching hours, (6) violation of the use of teaching and learning time; (7) lack of enthusiasm and responsibility during the learning process, (8) lack of innovation, creative and varied in the management of learning, and (9) reports of learning outcomes are not appropriate predefined schedule. It shows that the low quality of tutor performance with an average of 245 people or 45.02% of tutor performance quality is still low, where as much as 299 or 54.98% the quality of tutor performance is still good.

Based on the description that has been expressed above, in this problem, the researcher is interested to choose the title of Influence competence, communication, and work motivation to the performance of Universitas Terbuka Tutor in Bangka Belitung Islands Province.

#### *Formulation of the problem:*

Based on the background of the above, problems in this study can be formulated as follows:

- 1) Does competitiveness affect directly to work motivation?
- 2) Does the communication directly affect work motivation?
- 3) Does the competence affect the performance directly?
- 4) What is the motivation to work directly influence on performance?
- 5) Does the communication directly affect performance/

## **2. Literature review**

#### *Performance:*

George et al. (2005) says that performance is an evaluation of the results of a person's behavior. It involves determining how well or poorly a person has accomplished a task or a job. Performance is a series of behaviors of people being evaluated. It is a way of avoiding poor performance and being able to apply how to work together to improve performance. In order to achieve the goals of a successful organization, according to TR Mitchell in Sedarmayanti (2009) that performance includes several aspects, namely: (1) quality of work, (2) accuracy, (3) initiative, (4) ability, 5) communication.

Based on the opinions of experts who have described the performance, it can be synthesized that the performance is the activity of individuals and groups in the form of performance both the achievement of quality and quantity. How much contribution to the job function on the execution of duties and responsibilities given to him in order to achieve the goals and objectives of the organization within a certain period coupled with management activities. The dimensions of performance

measurement include several aspects, namely: 1) quality of work: (a) job satisfaction, (b) understanding the student's condition, (c) student achievement, 2) accuracy: (a) utilization of hours of learning, (b) (a) positive thinking, (b) realizing creativity, (c) achievement, 4) ability: (a) mastery of material, (b) mastery of teaching method, 5) communication: (a) quality or quality of delivery of learning metrics, (b) mastery of the state of learning.

*Competence:*

Competence is closely linked to the educated and methodical ability that the teacher must possess so that he or she can act as a good educator and mentor. In line with Janawi's opinion (2011) pedagogic competence is the ability of teachers with respect to theoretical mastery and the application process in learning.

According to Regulation of Education Ministry Number 16 of 2007, which includes pedagogic competence, are as follows: (1) mastering the characteristics of learners from the physical, moral, social, cultural, emotional and intellectual aspects, (2) learning and learning principles, (3) develop curriculum related to the lesson / field of developing development, (4) organize educational learning, (5) utilize information and communication technology for learning purposes, (6) facilitate the development of potential learners to actualize various potentials owned, (7) communicates effectively, empathetically, well mannered with learners, (8) conducts assessment and evaluation of learning process and outcomes, (9) utilizes assessment and evaluation results for learning purposes, (10) undertakes a reflective action for quality improvement learning.

From several definitions of concepts that have been expressed by experts, it can be synthesized that competence is the understanding and ability to manage learning, with a set of characteristics in the form of: ability, behavior, attitude and knowledge that are interconnected with each other in order to be able to implement the learning management of learners with true, with the appropriate dimensions Permendiknas Nomor 16 Year 2017 above. The above statements and indicators are also used to measure the extent to which the achievement of competence is, in addition, a standard that must be achieved by a teacher and lecturer related to its competence.

*Communication*

Hodgetts communications expert et. al., (2006: 180) says that Communication is the process of transferring meaning from sender to receiver. Communication is a process of sending an understanding of the sender to the recipient of the message. Communication events are very broad and complex because they involve various social, cultural, economic and political aspects of human life. Communication is one of the important elements in organizational life.

Based on the opinions of experts who have described the communication, it can be synthesized that communication is a process of message formation, message delivery, message reception and manage the overall message that occurs in a person

or more with the purpose of certain purposes, with dimensions: (1) have (2) expressing emotions and information; (3) facilitating the release of emotion expression of feelings; (4) providing information needed by individuals / groups to make decisions.

*Work Motivation:*

The Hierarchy of Needs Theory by Abraham Maslow according to Luthan (2006) says that motivation is a process that starts with the physiological or psychological needs that lead to goals or incentives. Motivation includes three elements that interact with each other, namely: (1) the need, the need is created when there is an imbalance of physiological and psychological, (2) encouragement, created to meet the needs, (3) incentives, everything that can meet your needs and reduce the urge. Motivation is a process that begins with the needs of physiology and psychology that drive behavior or encouragement that leads to goals or incentives. Motivation includes 3 interacting elements: (1) needs, needs to be created when there is physiological and psychological imbalance, (2) encouragement, created to meet needs, (3) incentives, everything that can meet needs and decrease drive.

Based on the opinion of the experts above, it can be synthesized that work motivation is a behavioral process in moving oneself starting from the fulfillment of physiology and psychology needs, and the drive to meet certain needs, with dimensions, including 3 interacting elements, namely: (1) needs, needs to be created when there are physiological and psychological imbalances, (2) encouragement, created to meet the needs, (3) incentives, everything that can meet needs and lower the drive.

*Research Hypotheses:*

Based on the above framework, the hypothesis in this study can be formulated as follows:

- 1) Competence has a direct positive effect on work motivation.
- 2) Communication has a direct positive effect on work motivation.
- 3) Competence has a direct positive effect on performance.
- 4) Work motivation has a positive direct effect on performance.
- 5) Communication has a direct positive effect on performance.

### **3. Methodology**

Based on the problems of this research, the general purpose of this study is to obtain empirical data about the variables related to competence, communication, work motivation, and performance, specifically the purpose of this study is to know: (1) direct influence of competence on work motivation, (2) direct communication to work motivation, (3) direct influence of competence on performance, (4) direct influence of work motivation on performance, (5) direct influence of communication to performance.

Analytical technique in this research using path analysis method that is done to explain thoroughly the relationship between variables and used aims to examine and justify the structural model and measurement model in the form of a path diagram based on theory. In this study the population is all tutors located in the province of Bangka Belitung Islands, amounting to 544 people. Sampling was done by proportional random sampling technique to determine the required sampling for a population of writers using an approach with the Slovin formula as many as 230 people.

The research instrument to collect the necessary information in this study was conducted by using questionnaires for tutor performance variables, competence, communication, and work motivation. The instrument used was first tested on 120 tutors. Questionnaires are designed in the form of ranking scales in the form of proposed statements supplemented by alternative answers with the following ranking weightings; 5= always,4=frequent, 3=sometimes,2= rare,1= never as well as multiple options with the following answer choices;1= correct answer and 0=the wrong answer. Instrument test is done to see validity level (validity) used Pearson Product Moment correlation formula and Biserial Point formula while reliability (reliability) used Cronbach Alpha formula.

#### 4. Result and Discussion

Before the hypothesis testing is done, testing requirements analysis including normality and linearity test:

**Table 1.** Summary of Test Result Normality Estimated Estimation Errors

No	Regression Estimated Error	Lcount	Ltabel	Decision	Conclusion
1	X3 over X1	0,1492	0,1843	Ho accepted	Normal
2	X3 over X2	0,0985	0,1843	Ho accepted	Normal
3	X4 over X1	0,1495	0,1843	Ho accepted	Normal
4	X4 over X3	0,1820	0,1843	Ho accepted	Normal
5	X4 over X2	0,1217	0,1843	Ho accepted	Normal

Furthermore, the regression linearity test is done by using Anava Table procedure. The results of the analysis indicate that Ho is accepted or that the relationship pattern between exogenous and endogenous variables is linear.

**Table 2.** Summary of Linearity Test Results

No	Regression Model	Fcount	Ftabel	Conclusion
1	$X_3 = 13,908 + 4,941X_1$	1,244	1,35	Linier
2	$X_3 = 16,447 + 0,736X_2$	1,143	1,35	Linier
3	$X_4 = 11,161 + 3,825X_1$	0,955	1,35	Linier
4	$X_4 = 18,580 + 0,810X_3$	1,348	1,35	Linier
5	$X_4 = 23,49 + 0,678X_2$	0,972	1,35	Linier

Prior to model testing, using path analysis method, the data has been tested and all requirements were fulfilled. Correlation between variables related significance and all correlation coefficients between variables showed a positive and significant relationship at  $\alpha = 0.05$ .

**Table 3.** Matrix of Correlation Coefficients between Variables

	X1	X2	X3	X4
X1	1,000	0,745	0,895	0,684
X2		1,000	0,813	0,739
X3			1,000	0,800
X4				1,000

**Table 4.** Summary of Line Coefficient Calculation Results

No	Variable	t-table	t-count	Conclusion
1	X3 over X1	0,608	15,839	Significant
2	X3 over X2	0,195	4,050	Significant
3	X4 over X1	0,184	2,141	Significant
4	X4 over X3	0,744	7,551	Significant
5	X4 over X2	0,271	4,120	Significant

*Discussion:*

Based on the results of hypothesis analysis and testing proposed in this study generally, it has been proved as follows:

First, the results of hypothesis testing show that competence has a direct positive effect on the motivation of tutor work. This positive influence indicates that good competence will give implication to the improvement of work motivation tutor. Competence is the ability, behavior, attitude, and knowledge that are related to each other in order to be able to implement the learning management of learners correctly, include: the characteristics of learners, master the theory learning and learning principles, developing curriculum, organizing learning, utilizing information technology, facilitating potential development, communicating, organizing and utilizing assessment and evaluation, and taking reflective actions. This is reinforced by the Regulation of the Minister of National Education (Permendiknas) Number 16 of 2007. The two opinions are referred to Permendiknas.

Motivation of work is a process of behavior in moving a person starting from the fulfillment of physiology and psychology needs, and the drive to meet certain needs, with dimensions, including 3 interacting elements, namely: (1) needs, needs to be created when there exists physiological and psychological imbalance, (2) encouragement, created to meet the needs, (3) incentives, everything that can meet the needs and lower the impetus. This shows the importance of competence as a reference in improving the motivation of tutor work. Competence has an influence on the motivation of work because it is an indicator in determining the achievement

of the success rate of universities. Thus, it can be said that if the competence ability is improved, the work motivation can increase.

Second, the result of hypothesis testing shows that the communication has a positive direct effect on the motivation of the tutor's work. This positive influence indicates that good communication will have implications for improving the tutor's work motivation. Communication is a process of sending and receiving messages and managing the overall message that occurs within a person or more with the purpose of a particular purpose, with dimensions: (1) having control functions; (2) expressing emotions and information; facilitate the release of emotional expression of feelings, (4) provide the information needed by individuals / groups to make decisions. According to expert communication Hodgetts (2006; 180) communication is a process of sending understanding of the sender to the recipient of the message. Communications events are very broad and complex because they deal with various social, cultural, economic and political aspects of human life.

Communications can be viewed as a process whereby the participating parties use each other's information in order to achieve a better mutual understanding of the issues that are important to all parties concerned. Communication is one of the important elements in the organizational life. The motivation of work is a behavioral process in moving a person, starting with the fulfillment of physiology and psychology needs, and the drive to meet certain needs, with dimensions, including 3 interacting elements, namely: (1) needs, needs created when there is physiological and psychological imbalance, (2) encouragement, created to meet the needs, (3) incentives, everything that can meet the needs and lower the impetus. This shows the importance of communication skills as a reference in improving work motivation from the education providers. The motivation of work has an influence on communication because it is an indicator in determining the achievement of the success level of college. Thus, can be said if the tutor communication skills are improved then the motivation of work can increase.

Third, the result of hypothesis testing shows that competence has a positive direct effect on performance. This positive influence shows that good competence will give implication to the improvement of tutor's performance. Competence means the ability, attitude and knowledge that are related to each other in order to be able to implement the learning management of learners correctly, including: the characteristics of learners, master the theory of learning and principles of learning, developing curriculum, organizing learning, utilizing information technology, facilitating potential development, communicating, organizing and utilizing assessment and evaluation, and carrying out reflective actions. Dimensions of performance measurement that performance includes several aspects, namely: 1) quality of work: (a) job satisfaction, (b) understanding the student's condition, (c) assessment of student achievement, 2) accuracy: (a) time of study utilization, (b) achievement of creativity, (c) gaining achievement, 4) ability: (a) mastery of material, (b) mastery of teaching method, 5) communication: (a) quality / quality of

delivery of learning metrics, (b) mastery of the state of learning. Competence has an influence on performance because it is an indicator in determining the achievement of the success rate of universities. Thus, it can be said if the competence of the tutor is improved, the performance can increase.

Fourth, the result of hypothesis testing shows that work motivation has a positive direct effect on performance. These positive influences indicate that good work motivation will have implications improving the tutor's performance. The motivation of work is a process of behavior in moving oneself starting from meeting the physiology and psychology needs, and the drive to meet certain needs and incentives. Hierarchy theory Needs by Abraham Maslow according to Luthan (2006) motivation is a process that starts with the need of physiology and psychology that drive the behavior or impulse that leads to the goal or incentives. Motivation includes 3 interacting elements: (1) needs, needs to be created when there is physiological and psychological imbalance, (2) drive, created to meet the needs, (3) incentives, everything that can meet the needs and decrease the motivation. is a process of behavior in moving oneself starting from the fulfillment of physiology and psychology needs, and the drive to meet certain needs?

Performance is the result obtained by an organization, whether the organization is profit oriented and nonprofit oriented generated during a period of time. Individual performance is part of the work of employees both in terms of quality and quantity based on predetermined work standards, while the performance of universities is a combination of individual performance tutors and group performance, in this case, the Studies Groups (KBM) is managed by universities. Basically, the motivation of work can spur tutor to work smartly and thoroughly to achieve the goals of the college. This shows the importance of the ability of work motivation as a reference in improving the performance of the education providers. The motivation of work has an influence on performance because it is an indicator in determining the achievement of the success rate of universities. Thus, can be said if the ability of work motivation is improved then the performance can increase.

Fifth, the results of hypothesis testing show that communication has a positive direct effect on performance. This positive influence shows that good communication will have implications for the improvement of tutor's performance. Communication is the process of messaging, message reception and managing the overall message that occurs within the tutor, including control functions, emotional and information disclosure, release the emotional expression of feelings, and provide information needed by individuals/groups to make decisions. Dimensions of performance measurement that performance includes several aspects, namely: 1) quality of work: (a) job satisfaction, (b) understanding the student's condition, (c) student achievement, 2) accuracy: (a) utilization of hours of learning, (b) realizing creativity, (c) achievement, 4) ability: (a) mastery of the material, (b) mastery of teaching methods, 5) communication: (a) quality or quality of delivery of learning metrics, (b) mastery of the state of learning. According to TR Mitchell in

Sedarmayanti (2009) performance includes several aspects, namely: (1) quality of work, (2) accuracy, (3) initiative, (4) ability, (5) communication. This shows the importance of communication skills as a reference in improving the performance of education providers. Communication has an influence on performance because it is an indicator in determining the achievement of the success level of college. Thus, can be said if the communication ability is improved then the performance can increase.

## **5. Conclusion**

From the results of hypothesis testing that has been described in the previous chapter, has been generated some research findings that can be concluded as follows: (1) Competence directly and positive effects on work motivation. That means that tutors with high competence skills, will increase the motivation of work; (2) Communication has a direct positive effect on work motivation. Meaning that tutors with high communication ability, hence, will increase work motivation; (3) Competence has a direct positive effect on to performance. The meaning that tutors with high competence skills, will improve performance; (4) Work motivation has a direct positive effect on performance. Meaning that the tutor who has high work motivation, will improve performance; (5) Communication has a direct positive effect on performance. Meaning that tutors who have high communication skills, will improve performance.

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## How to Increase Café Customer Pro-Social Behavior

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### **Abstract:**

*Cafe business is a business that highly attracts the attention of businessmen, since visiting a café shop has become a trend of people's lifestyle today. The bright prospects of the cafe business have led to tough competition that requires every businessman to have the right strategy.*

*The research aimed to analyze the influence of service quality and its dimensions toward customer satisfaction, and its impact on customer pro-social behavior. Structural Equation Modeling collected data from 250 cafe visitors in five major cities in Indonesia was selected by purposive sampling technique and analyzed.*

*The findings of this study support the findings of previous research, where service quality, setting, staff, performance and corporate are predictors of customer satisfaction, which can ultimately impact customer pro-social behavior.*

*This research adds corporate, as a new dimension to enrich the service quality concept in cafe business context and find that corporate is the strongest predictor for customer satisfaction of cafe visitors. For further research, it is advisable to apply to cafes located in small towns that may yield different results.*

**Keywords:** *Service quality, customer satisfaction, customer pro-social behavior, café.*

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### **1. Introduction**

The drink that is currently very popular and is highly consumed around the world, as well as provide health benefits is coffee (Poole, 2017). Coffee is the third most consumed drink in the world, after water and tea. As coffee demand increases, many countries are competing to produce it. In 2016, Brazil occupies the first rank of coffee beans in the world, followed by Vietnam, Colombia, Indonesia, and Ethiopia (<http://bisnis.liputan6.com>). The enthusiasm of the community to consume coffee is increasing, encouraging the development of coffee shop industry, and it has become a lifestyle trend of people in various countries around the world, including Indonesia. The United States is a market share of the leading coffee chains in 2016

with more than 20,000 coffee shop businesses with an average revenue of \$ 10 billions per year, and it is estimated that by 2021 the industry can generate \$ 46.2 billions revenue. The coffee shop industry was a good business prospect in the last five years and has gained a positive consumer response to visit (<https://www.ibisworld.com>). This creates increasingly high competition and is a challenge for many companies to maintain and enhance consumer confidence in the coffee shop. Bekkers and de Graaf (2005), said that consumer trust is a source of competitive advantage for the company, because it can generate customer pro-social behavior.

Consumers who have pro-social behavior not only encourage and motivate others to utilize the company services, but the consumer is also willing to notify the weaknesses of corporate services and provide advice to the company to enhance its service quality (Kordshouli et al., 2016), hence the company can reduce costs to maintain the service quality (Fowler, 2013). Customers pro-social behavior will be created if the company can respond to customer satisfaction. Customer satisfaction will confidently influence customer attitudes and behavior, namely escalating the company's good image, repurchases intention, repurchase behavior, and positive word of mouth (Kordshouli et al., 2016).

Customer interaction with the service provider during the service encounters and experience with the service provider affects the customer's perception of service quality and ultimately affects customer's satisfaction with service (Almohaimmed, 2017). In this study, consumers using 4 dimensions, namely, assess service quality: setting, staff, performance (Kordshouli et al., 2016), and corporate (Lehtinen and Lehtinen, 1991) expanded as a new dimension in research. The main purpose of marketing activities is to establish a brand image in consumer's point of views that will encourage consumer buying behavior on brands. Corporate refers to the results of how consumers perceive the company (image). Service is an important part of the company perceived by the consumer, therefore the corporate can be expected to be built from service quality delivered by the company (Zhang, 2015).

## **2. Literature review**

Service quality and customer satisfaction are two core concepts of marketing theory and practice (Saeed et al., 2011). In the service marketing literature, service quality is an assessment of the overall service provided by the service provider, while customer satisfaction is the comparison between consumer expectations prior to consuming services and consumer perceptions after having actual experience on service performance (Carol et al., 2015). The assessment of the overall service provided by the service providers in this study uses four service dimensions, namely: setting, staff, performance, and corporate (Kordshouli et al., 2016; Lehtinen and Lehtinen, 1991). Some studies have found that service quality and its dimensions are an intense predictor of customer satisfaction (Esmailpour et al., 2012; Murad and Ali, 2015; Kordshouli et al., 2016). When the overall attitude of consumers to the

service quality delivered is in line with consumer expectations in the context can meet the demands, goals, and desires of consumers, afterward consumers will feel satisfaction (Angelova and Zekiri, 2011).

Consumers can obtain service experience through service setting during service encounter (Tamwatin et al., 2015). Moreover, throughout the occurrence of service delivery process and customer interaction, the staff directly facing the consumer must conform the rules set by the company, otherwise the consumer will feel dissatisfied (Chen et al., 2013). Furthermore, if the services consumed can indicate its high performance, consumers will gain a great service experience, so that consumers will provide high affective/satisfied responses in overall. Service performance is related to timeliness, trust and service design that generates service experience (Chang and Yang, 2008). Corporate phrase that refers to the image of the company is the impression and public opinion toward the overall company activities and performance. Corporate image is the impact of accumulated customer purchase experiences that can lead to customer satisfaction (Hu and Huang, 2011). Based on the description above, the hypotheses to be tested in this study are:

*H1: There is a positive effect of service quality toward customer satisfaction.*

*H1a: There is a positive effect of setting toward customer satisfaction.*

*H1b: There is a positive effect of staff toward customer satisfaction.*

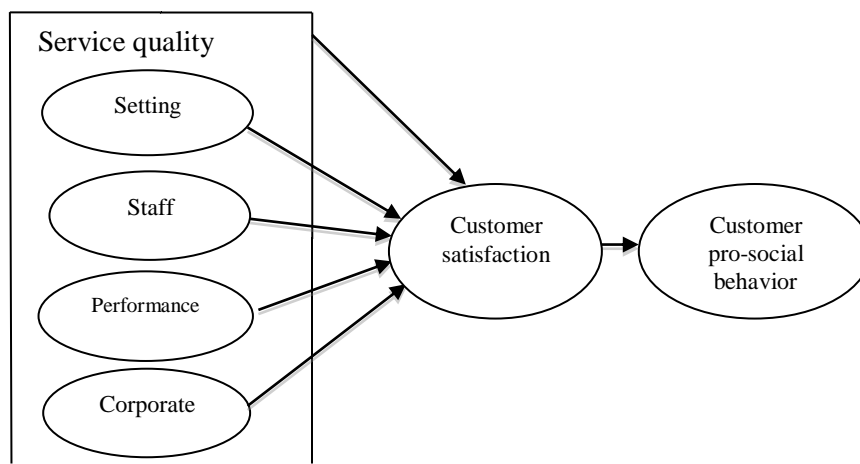
*H1c: There is a positive effect of performance toward customer satisfaction.*

*H1d: There is a positive effect of corporate toward customer satisfaction.*

Customer pro-social behavior is a consumer behavior that is not only beneficial to other customers, but also can be beneficial to the company. The basis of this theory is that people will feel obligated to "return" to others when they sense they are benefiting from that person (Yi and Taeshik, 2008). The company's efforts to provide satisfaction will have a positive effect on customer pro-social behavior, each consumer will intend to reciprocate the treatment that benefits them by providing valuable actions to the company.

Customers who are well treated by service companies, will contribute in various ways beyond its role as a consumer. Therefore, when consumers are satisfied with a service provided by a service provider or feel that they have gotten a preferential treatment beyond their expectations, the consumer is more likely to reciprocate by engaging in voluntary behavior that benefits the service company (Patterson et al., 2003). Research Kordshouli et al., (2016) has also found a positive effect of customer satisfaction toward customer pro-social behavior. Based on the theory and the results of previous research, the hypothesis to be tested in this study is formulated as follows:

*H2: There is a positive effect of customer satisfaction toward customer pro-social behavior.*

**Figure 1.** Conceptual Framework

### 3. Methodology

In this study, data are collected from the 5 largest cities in Indonesia in 2017 as many as 250 café visitors as samples, which were collected during June and July 2017. Based on the largest population, the five largest cities in Indonesia are Jakarta, Surabaya, Medan, Bandung and Makassar (<http://ilmupengetahuan.umum.com>), where the questionnaire as a data collection tool is distributed evenly in the cafes in each city, and obtained the description that the majority of café visitors are male (59%), age 20 to 29 years 45.5%, occupation as employee (42.5%), undergraduate education (65%), with average monthly income of Rp. 3 million up to Rp. 5 million (38%), and more than 10 times visits a year to the café (62%).

To test the hypothesis, the data collected is data on service quality, customer satisfaction, and customer pro-social behavior, where each variable is measured by a number of dimensions and statement items adapted from a recognizable source, with the answer using 5 point of Likert scale Prior to be applied to collect data, validity and reliability test were performed toward research instruments. From the result of validity test with confirmatory factor analysis technique, it was obtained that all statement items have factor loading from 0.687 until 0.75, and  $> 0.6$  (Tabachnick and Fidell, 2014), which means valid. Meanwhile, from the reliability test results using internal consistency reliability method, it was obtained the value of cronbach's coefficient alpha of each variable  $> 0.6$  (from 0.736 until 0.849) (Tabachnick and Fidell, 2014), which means reliable. It can be concluded that all statement items are appropriate for measuring each related variable, and consistent to be utilized as a measuring tool of each variable.

### 4. Result and Discussion

Based on hypothesis testing requirement, hypothesis testing can be continued if the model is fit, then based on the result of goodness of fit test, fit result is obtained (RMSEA=0.05; GFI=0.97; AGFI=0.96; TLI=0.97; CFI=0.96).

All hypotheses developed in this study are supported, where all  $\beta$  values show positive results, which means there is a consistency between theory and reality of the influence direction of all hypotheses constructed. Furthermore, for H1 there is a positive effect of service quality toward customer satisfaction ( $\beta=0.526$ ; p-value=0.000). This means that if the café management can design the more enjoyable physical evidence, train the more committed staff, provide service which conform with the commitment and bestow upon the café's better image, the consumers will be more satisfied to visit the café. H1 research findings support previous research from Kordshouli et al. (2016). The provision of increasingly qualified services enables achieving what consumers expect prior to consuming services to meet their necessities and desires (Esmailpour et al., 2012). When the expectations of consumers prior to consuming services conform the reality, after warding it is a condition where consumers feel satisfaction (Hu and Huang, 2011).

Similarly, from the test results for all service quality dimensions, namely H1a, H1b, H1c, and H1d, each hypothesis is also supported and consistent with the study of Kordshouli et al. (2016). For H1a testing, there is a positive effect of setting toward customer satisfaction ( $\beta=0.425$ ; p-value=0.020); H1b there is positive influence of staff toward customer satisfaction ( $\beta=0.448$ ; p-value= 0.001), and H1c also have positive influence toward customer satisfaction ( $\beta=0.389$ ; p-value=0.000). Setting that refers to the appearance and capability of the infrastructure being a tangible and concrete demonstration provided by the service provider. Consumers will accept a lower risk when consuming goods than services that are intangible, but setting can minimize the risk of services consumed so that customer satisfaction can increase (Tamwatin et al., 2015). In addition, service quality and customer satisfaction in the service industry are highly dependent on staff. Staff direct contact with consumers will affect the quality relationship between consumers and the company, since corporate behavior, reflects the staff behavior. Furthermore, service performance is determined by employees who can provide reliable and professional service (Turkay and Sengul, 2014).

However, nowadays, cafes have heavily relied on technology for delivering its services. Mariappan (2006) said that companies can improve service performance by using information technology that can bring changes in business, where using technology to deliver services creates value added for consumers because it can provide assurance on the accuracy of services provided, as well as lowering the costs for companies. From the study (H1d), it is also found the positive influence of corporate toward customer satisfaction ( $\beta=0.659$ ; p-value=0.000) and it supports the study of Hu and Huang (2011). Corporate image is the result of the accumulation of ideas, feelings, attitudes, and consumer experiences derived from physical attributes and behavior of firms and stored and embedded in the minds of consumers who

generate positive or negative meaning when the name of the organization is heard or mentioned (Hu and Huang, 2011). Corporate as a new dimension of service quality is found to have the strongest influence on customer satisfaction. For testing of H2, from the results of data, then it is found that customer satisfaction has a positive effect toward customer pro-social behavior ( $\beta=0.592$ ;  $p\text{-value}=0.000$ ). This finding also supports the findings of Kordshouli et al. (2016). Consumers who are well treated by service companies, will contribute in a variety of ways beyond their role as a consumer, because they feel they have an obligation to 'repay' by showing voluntary behavior that benefits the company (Patterson et al., 2003).

## **5. Conclusion**

The research undertaken contributes in enriching the dimensions as a measurement of service quality café concept. Corporate added as a new dimension of service quality, in addition to setting, staff, and performance. From the results of the study, the positive effect of service quality along with dimensions toward customer satisfaction is found. Corporate as a new dimension added in this study is the strongest predictor of customer satisfaction. Furthermore, this research found also positive effect of customer satisfaction toward customer pro-social behavior.

Based on research conducted, some recommendations for café Manager are given. First, service quality can be improved by (a) making café clean, neat, no smell, cool, not arid, and separating the smoking and no smoking room to make the consumer more comfortable (b) provide regular training for employees to improve their capabilities in serving customers, (c) using technology as a possible substitute for services, so that café can be more quickly and flexible in responding to consumer's desire.

Second, to ensure customer satisfaction, café managers must urge to provide warranty if consumers are disappointed with the services provided, since consumer's dissatisfaction can not be avoided for the café business. Third, while customer pro-social behavior can be improved by forming teams that focus on interaction with consumers, either directly or indirectly (using letters, phone and electronic media) and aims to accommodate any complaints, criticisms, suggestions or other information.

Some suggestions may be given for further research. First, the café studied in the study is a café located in the city, especially large cities. Currently, middle- and lower-class cafés have also grown in small towns, so it is advisable to research cafes located in small towns that may give different results. Secondly, this research is only performed for café service, so it is suggested to be applied to restaurant service or service which is relatively the same. Third, it is advisable to improve customer's engagement concept for the café consumers to create the interdependency between the consumers and the café they visit.



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## Relationship Between Customer Value and Brand Image Toward Customer Satisfaction and Customer Retention on Home Appliance Industry

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Denny Bernardus,\*) Christina Whidya Utami\* Dian Permata Wijaya\*\*)

### **Abstract:**

*In the era of globalization, there are many business opportunities as well as business challenges. Companies must compete to offer the best products and services for customers and to be able to deliver added value to them.*

*Corporate brand image is a key factor that supports the image of a company to be easily remembered by consumers. In the process of seizing and retaining customers, there should be a strategy that requires commitment in both money and human resources field, aiming to make the offered products in accordance with the wishes and needs of customers to give them satisfaction.*

*Consumer expectation now is to obtain good products with high brand image, if these expectations are met, they will feel satisfied and consequently become more loyal consumers. Based on calculations, we found that the value of customers significantly influences customer satisfaction. Customer value significantly influences customer retention with customer satisfaction as a mediating variable.*

*Customer value significantly influences customer retention. Brand image significantly influences customer satisfaction. Brand image significantly influences customer retention with customer satisfaction as a mediating variable. Brand image significantly influences customer retention.*

**Keywords:** *Customer value, brand image, customer satisfaction, customer retention.*

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### **1. Introduction**

This era of globalization presents many business opportunities as well as business challenges for companies. With so many challenges, it is common to find competition among companies, such as competing products, prices, services up to competition in the brand. Today the brand's presence is increasing in importance, the brand is not just a name or a symbol. The brand has become a differentiating

factor for the product within the wider community, while emphasizing the consumer perception. This perception is not just about the goods or services, but also about the perception of the quality and achieved prestige. The business strives to create a brand that can be easily remembered and embedded for a long time in the minds of customers. It is not an easy task. However, the company's ability to produce good quality products will certainly lead to a positive brand image of the customer and will ultimately make customers be more loyal to the brand of the company. Anxiety caused by manufacturers increases fierce competition atmosphere, various brands of products on offer, and on the other hand, the consumer is not able to remember all of the products offered. Therefore, only products that have distinguished characteristics or a strong brand alone are able to be distinguished from other products that can be more easily remembered by consumers.

Consumer expectation now is to obtain good products with high brand image, if these expectations are met, they will feel satisfied and consequently become more loyal consumers. Customers will choose products that are considered to have more value than other products, so that the customer value is a relevant concept and brand image is selected to support the product, so it can be superior as compared to existing competitors. Competition in both services and manufacturing business are growing rapidly. The company should not only think about how to create quality products and services for the costumers, but also how companies can instill offer valuable experience to their customers. This experience is to be embedded in the consumer's mind as to express the quality of the products and/or services produced by the company. In addition, the company will try to make all the components of the products and services produced to be distinguished, so it can be easily remembered by customers. Therefore, research was conducted to measure the value of a given customer and the level of performance of the brand image and how it affects customer satisfaction and customer retention having an impact for the company concerned.

## **2. Literature review**

### *Costumer Value:*

A company wanted to create a product or service that can meet the needs and the wants of customers. This is done so that the product or service to be accepted by the customer. In response to these conditions, a company should think about customer's value. A company that knows the desired value by the customer can offer them a good value.

In the opinion of Band (1991) and Joonä Keränen, Anne Jalkala, (2014), "Quality and service are the means, but value for the customer is the end." According to Naumann (1995), "The most important success factor for a firm is the ability to deliver better customer value than the other competitors." A better value will make customers be more satisfied. According to Kotler and Armstrong (2011), "Customer value is the difference between the values of the customer gains from owning and

using a product and the cost of obtaining the product." According to Gale (1994: xvi), "Customer value is a market perceived quality adjusted for the relative price of your own product. Market perceived quality is the customer's opinion of your products (or services) compared to those of your competitors." The concept of customer value indicates a strong relationship to the satisfaction of the customer or the customer itself (Woodruff, 1997). The concept describes the evaluative judgment of the customers about the products they consume. Customer perceived product performance equal to or is greater than expected, which is considered valuable, and can give satisfaction to the customer (Kotler and Keller, 2012).

Based on some of the definition above, it can be concluded about customer value. Customer value is a perception in the mind of the customer about the quality and benefits of what customers pay for their needs. Customer value as well as the preferences of the customers feels about the product's characteristics, performance, and the extent of compliance with what he wanted. According to Kotler and Keller (2012: 147), variable customer value can be measured by the following elements:

1. Product Value: This variable indicates the value of the products made by companies such as features, performance, conformance, durability, reliability, repair ability, style, and design.
2. Service Value: This variable indicates the value of a company in the way that the quality of service delivery, installation, customer training, consulting service, and repair.
3. Personnel Value: This variable indicates the high and low levels of personal relationships with customers. Variable value consists of personnel competence, courtesy, credibility, reliability, responsiveness, and communication.
4. Image Value: This variable indicates the level of corporate image in the eyes of the customer. Variable value image consists of symbols, media, atmospheres, and events.

Four elements of customer value are included in each company. It's just that every company has a different composition. Different compositions will provide uniqueness for the company. The excess of a company with a careful arrangement can support the four measures mentioned above to make the company can improve its competitiveness.

#### *Brand Image:*

At this time customers are not just looking at a product's quality and price, but also see the brand image attached to the consumed product. Many companies are aware of it, so competing to create a brand image through massive campaigns. Brand image itself according to Kotler, Ang, Leong, and Tan (1999) can be interpreted as "the set of beliefs consumers hold about a particular brand." Customers may develop a series of brand beliefs attributing a position to every brand. Brand trust established brand image. Each customer has a impression of a brand which arises after the customer sees, hears and reads, whether through TV, radio, and print media

something related to the brand. The impression of a brand can also occur after a customer purchases a product from the brand and feels the products of the brand themselves.

According to Keller (1993), "*Brand image is perception about a brand as reflected by the brand association held in consumer memory.*" According to Assael (1998) is suggested "A brand image is the overall impression created in the consumer's mind by a brand's physical characteristics, name, symbols, packages, and reputation for service. That image may be the most important factor in a purchase decision." So, the brand image is a group of beliefs, ideas and impressions that exist in the minds of consumers that are created by physical characteristics, name, symbol, packaging, and service reputation so that the brand image is very influential in the marketing of a product in which the beliefs, ideas and impressions consumers of the product will result in attitude and action taken against the product. Products that have a strong brand image can provide confidence, ideas, and a good impression on the consumer so that the consumer has the attitude of a good brand on the product. Therefore, the attitudes and actions of consumers towards a brand are determined by the brand image.

According to Akaah and Korgaonkar (1988, in Lin, 2007), it can be concluded that: "*Consumers are more Likely to purchase well-known brand products with positive brand image as a way to lower purchase risks.*" His opinion was explaining the need for companies and marketers to build a good brand image in the eyes of consumers with respect to the quality of the product. Variable refers to the brand image Rajh (2005) measured with the following elements: brand meet consumer needs, brand characteristics satisfying consumer needs. brand has given the best satisfaction of the need.

#### *Customer Satisfaction:*

Customer Satisfaction is one of the goals to be achieved by a business entity. Basically, customer satisfaction includes the difference between customer expectations on a product or service with the results obtained after the effective usage. When the performance of the products or services are not in line with the expectations, the customer will be dissatisfied, otherwise if the performance of the products or services exceed customer expectations, customers will feel very satisfied.

Kotler and Keller (2012) states that "*Satisfaction is a person's feeling of pleasure or disappointment resulting from Comparing a product's perceived performance (or outcome) in relation to his or her expectance.*" Hanan and Karp (1994) says that "The business mission to create and grow the maximum number of satisfied customers for the company in the most cost-effective manner, thereby maximizing profits." Customer satisfaction is very important, Anderson, Fornell and Rust (1997) said "*high customer satisfaction will result in Increased loyalty for the firm and that customers will be less prone to Overtures from competition*". Based on the above

definition, it can be concluded that customer satisfaction is the level of feelings after comparing the performance of the product that is felt to his expectations. According to Montgomery (2001), there are five major factors to consider in measuring customer satisfaction, among others:

- **Quality Products**, Customers will be satisfied if the results of their evaluation show that the products they use are of quality. A product is of quality if it can meet customer's needs. Product qualities are both external and internal. One of the qualities of the product of external factors is the company's brand image.
- **Willingness Products** Customers will be satisfied if the product is complete and has a lot of choices of product offered, so there is no need in booking in advance and wait for the finished product.
- **Product Price**, the products have the same quality, but relatively cheap set will give a higher value.

*Quality employees:*

Customers are satisfied with the services provided by the employees of the company as the friendly attitude of employees, employees who can help customers and are knowledgeable enough, and has a highly motivated spirit so as to provide a good service for customers.

*The payment system:*

Customers can easily make payment transactions to purchase a product or service if they are likely to be satisfied with it. Examples such as the transfer payment, debit card, or credit card. Based on the above, the factor that affects customer satisfaction is the quality of the product. A product is qualitative if it meets the customer's expectations based on the actual performance of the product. This expectation rests on the product image. Furthermore, the image of the product is a component of the brand image.

*Customer retention:*

Today many companies are recognizing the importance of satisfying and retaining current customers. According to the research done by Clancy and Shulman (1994) as cited in Tjiptono (2005), the focus of this kind is less precise, due solely short-term oriented and is the so-called Death Wish Paradox, which is the ratio of marketing efforts, the value for marketers and the cost of marketing programs to attract new customers, retain new customers, retain current customers and increase customer purchases at this time. If it is assumed that the existing marketing programs are adequate, the possibility of maintaining a customer today is more than 60%, while the probability of getting new customers is less than 30%. According to Reichheld and Sasser (1990), increasing customer retention by 5% can result in improved long-term profitability between 25% to 95% in several industries. Wise companies will always measure customer satisfaction on a regular basis because customer satisfaction is the key to customer retention.

Customer retention is customer perception of the work done by the company to satisfy customers by building long term relationships with them. Hoyer and MacInnis (2001) states that "Customer retention is the practice of working to satisfy customers with the intention of developing long-term relationships with them." According to Zeithaml (2000) as quoted by Fullerton (2004) Retention of customers is a consequence investigated in the evaluation of the customers in service quality. According Shajahan (2004) as quoted in Utami (2006), customer retention is "*Customer retention could be simply defined as the capability of the business firm's offer to its customer to purchase or patronage its product or service over a specified time period*". Clarke (2001) said "*A business that focuses exclusively on customer satisfaction runs the risk of Becoming an undifferentiated brand Whose cusook for ways of establishing ties of loyalty that will help ward off competitor attack*". Clarke (2001) states that "*...Customer retention is still a key to long-term profits, while on the other side of the coin there is a high cost to low-penalty loyalty. Indeed, the very fact that so customers can readily assess the competing services and products on offer and then so Easily make the new purchase does give added weight to the importance of building strong ties of loyalty with customers.*"

With this emphasis, it can be known that the presence of customer retention can realize long-term benefits for the company. Looy et al. (2003) tries to distinguish between customer retention and loyalty, he said "*Some activities like reward system can and do Affect customer behavior (retention) but they can't change attitude (loyalty). Real loyalty comes from real differentiation.*" Customer retention it can be defined as a customer's overall perception of the extent to which the company is actively making efforts relational and quality assurance services for the attention of customers so that the customer will remain on the retailer. The amount of customer retention of some elements will be indicated below:

1. Willingness to pay more, 2. Advocacy, 3. Switching intention, 4. Alternative scarcity.

#### *Effect of Customer Value on Customer Satisfaction:*

Customer value has an influence on customer satisfaction. Hanan and Karp (1994) states that "*Satisfaction will be determined by the value of the difference between what the customer receives and what he received to pay it.*" Similar statement also provided Naumann (1995) "*If a business Considered as representing a series of processes designed to deliver value to the customer, then a customer satisfaction program must be a continuous process as well.*" Customer value is to be aware of the company to create customer satisfaction. Companies to improve customer satisfaction can use customer value. Band (1991) states that "*Value is created and customer satisfaction is achieved.*" Customers will form an expectation of value and act on those expectations. If the value contained in the product or service according to the needs and wants of the customer, then the customer satisfaction can be created. Naumann (1995) states that "*low delivering customer value dramatically increases customer dissatisfaction and customer turnover. This result in direct and indirect costs that are far greater and far more pervasive than most managers*



*realize*". It can be followed by increased customer turnover, which in turn will reduce the repeat orders from customers.

Reduced repeat orders from customers can be caused by only satisfied customers are more likely to get back in touch with the company. If high customer value, the customer turnover can be reduced. The above statement is reinforced by Kotler and Keller (2012) which states that "To create customer satisfaction, a company must manage its value chain as well as the whole value delivery systems in a customer centered way. The company's goal is not only getting customers but even more importantly to retain customers.

*Effect of Customer Value on Customer Retention:*

Customer value has an influence on customer retention. In the opinion of Band (1991), "*Quality and service are the means, but value for the customer is the end.*" Clark (1997) states that "*Customer retention is Potentially one of the most powerful weapons that companies can employ in their fight to gain a strategic advantage and survive in today's competitive environment ever increasing. It is vitally important to understand the factors that impact on customer retention and the role that it can play in formulating strategies and plans.*" Customer retention is a form of loyalty-related behavior (behavioral loyalty) which is measured based on customer buying behavior demonstrated by the high frequency of customers into buying a product. Customer retention focuses on the development of marketing activities that cause repeated purchase behavior on the managerial aspects of the marketer and the customer itself (Hennig-Thurau and Klee, 1997). Customer retention is defined as the customer's tendency to stay in the future afloat against the service provider. Customers will buy the product again if he/she feels that the products delivered have high value that deserves to be used continuously. The value assigned to the customers will greatly affect the customer's desire to stay on the products that have been purchased.

*Effect of Brand Image on Customer Satisfaction:*

Brand image has an influence on customer satisfaction. Brand image is a set of beliefs that customers hold in their respective as special attributes of a brand (Kotler and Keller, 2012). In some cases, the customers consider more than the product' brand when purchasing. This is because the brand has had a good perception in the minds of customers. Customer satisfaction is a person's feelings of pleasure or disappointment suffered after comparing the perceptions of the performance or the result of a product with its expectations (Kotler and Keller, 2012). Customer satisfaction is the phenomenon of purchase, meaning that customer satisfaction occurs after the purchase, when customers evaluate the product whether it is in accordance with expectations. If the performance of the product is in accordance with the expectations, customers will be satisfied. Conversely, if the performance of the product is not in line with expectations, the customer will be dissatisfied. According Gensch (1978) Considered "brand image as having more influence on the purchase intention and the satisfaction of customers while the product was not Easily

defined attributes." Therefore, a positive brand image can lead to a purchase, while only customer satisfaction can be seen when the individual is already purchased a product and have used it (Kotler and Keller, 2012) Anna Åslund and Ingela Bäckström, (2017).

*Effect of Brand Image on Customer Retention:*

The brand image has an influence on customer retention. According to Hsiung (2011), "Brand image is indispensable for marketing where customers infer the quality of products by the brand image and are further stirred up the behavior of purchasing." Brand image makes customers recognize the company's reputation so that customers continue to consume the same brand, which is expected to meet the needs of consumers. According to Aaker (1991) Chiquan Guo, Yong Wang, (2015) it is pointed out that "With the construction of good brand image, customers were Likely to increase of the satisfaction of usage and would like to recommend to others." Therefore, developing and maintaining long-term customer retention becomes a key for the survival and growth of the company, so that the brand image built by the company as well, will determine customers to remember it and stick to using the product.

*Effect of Customer Satisfaction on Customer Retention:*

Customer satisfaction has an influence on customer retention. According to Kotler and Keller (2012) it is suggested that "*the satisfaction of a customer depended on the performance of the goods conforming to the expectation of the customer after purchasing.*" Customer retention is the customer's perception of the work done by the company to satisfy the customer in a way to build long-term relationships with them. Customer retention is seen as a strength of the relationship between a person's relative attitude and repeated business. Oderkerken et al. (2003) defines a retailer as a customer retention to overall customer perception about the extent to which the company is actively trying to pay attention to the customer so that the customer stick to the retailer. Clarke (2001) said "*a business that focuses exclusively on customer satisfaction runs the risk of becoming an undifferentiated brand whose cusook for ways of establishing ties of loyalty that will help ward off competitor attack.*" It is also supported by Kotler and Keller (2012) Chiquan Guo, Yong Wang, (2015) which states that "*the key to customer retention is customer satisfaction.*" By creating customer satisfaction, the customer will be loyal and will continue to survive so that they can relate in a long period of time with the customer.

### **3. Methodology**

*Research Design:*

According to the explanation level, the research conducted by the authors is included in the study associative (Sugiyono, 2006). Associative research is a study that has the purpose to measure the presence or absence of influence among existing variables. This study is aimed to measure the impact of customer value variables (X1) and Brand Image (X2) on Customer Retention (Y2) and Customer Satisfaction

(Y1) as a mediating variable in the Home Appliance Industry in Indonesia. According to the type of data the research conducted by the authors included in the quantitative (Sugiyono, 2006).

*Population:*

Criteria in this study population are customers Home Appliance Industry Home Appliance Industry Stores buy products in Indonesia and has purchased Home Appliance Industry brand products more than once either for personal use or for others.

*Sample:*

The samples are part of the population that has relatively similar characteristics and can be considered representative of the population. Sampling method in this study is a non-probability sampling, in which the samples taken are not random, so that each member of the population has an equal chance to be elected as members of the sample (Sugiyono, 2006). Ferdinand (2005) argues that the appropriate sample size is between 100 to 200 and the minimum sample size by 5 observations for each estimated parameter and a maximum of 10 observations of each estimated parameter. In this study, the number of measurement studies are as many as 16 so the number of samples is 10 times the number of measurement or as much as  $16 \times 10 = 160$ .

The sampling technique used in this study is a non-probability sampling method based on purposive sampling where the sample is not randomly drawn to Home Appliance Industry Stores in Indonesia. Specifically, the samples selected using judgment sampling technique, which is a type of purposive sampling technique in which the sample was selected based on an assessment of researchers that he (respondent) is the most well-sampled for this study. Samples are taken in accordance with the considerations or requirements that have been established or in accordance with the objectives to be achieved. The characteristics of the sample to be taken as respondents in this study were consumers who have purchased some products in Home Appliance Industry Home Appliance Industry Stores more than 2 times within a period of 4 months, either for personal use or for someone else.

*Variable Classification:*

The variables used in the research are customer value, brand image, customer satisfaction, and customer retention. Understanding about a variable is needed to prevent a difference of opinion and perception. The operational definition is stipulated based on the parameters used as a measure in research. The operational definition to the variables in this research is as follows:

*Customer value:*

Customer value is that the whole monetary value received by the consumer from scratch usefulness that is what they expect from an offer. Some measurement underlying value of the customer is:

- Product value (X1.1) Judgment of customer the quality of products made by the company. The appraisal based on agreement or disagreement over claims that a high standard about the quality and this product meet a certain standard.
- Service Value (X1.2) Judgment of customer services provided by the company. The appraisal based on agreement or disagreement over claims that good service of the company is delivered.
- Personal Value (X1.3) Judgment of customer relations personally with the customers. The appraisal based on agreement or disagreement over claims that there are good personal relations with the company.
- Image Value (X1.4) Judgment of customer image companies in the eyes of their customers. The appraisal based on agreement or disagreement over claims that the corporation has a good image.

*Brand Image:*

The brand image is the perception on a brand that was drawn through the association of a brand that is in memory of a customer to help customers considering the brand. Some measurement underlying the brand image in research is this:

- Brands are expected to meet customer's needs (X2.1) with the existence of this brand what would be able to meet the needs of customers. The appraisal based on agreement or disagreement over claims that the brand company can meet according to needs.
- Characteristic of a brand that there are satisfactory customer needs (X2.2) The characteristic of a brand companies capable of satisfying the needs of the consumers. The appraisal based on agreement or disagreement over claims that the characteristics of a brand companies is satisfactory.
- Brand that there had been giving satisfaction the best for customer needs (X2.3) Brand companies have giving satisfaction best compared with competitor company. The appraisal based on agreement or disagreement over claims that a brand companies that have met according to needs.

*Customer Satisfaction:*

Customer satisfaction was a level of one's feeling after comparing between the performance of the products he perceived. Some measurement used to determine the level of customer satisfaction in research is this:

- The excellence of the purchased products (Y1.1) Customer satisfaction towards the excellence of the purchased products. Judgment of respondents based on agreement or disagreement over claims that the product preeminent made by the company is satisfactory.
- The availability of the product (Y1.2) Customer satisfaction against the availability of products completely offered and having all kinds of choice. Judgment of respondents based on agreement or disagreement over claims that the completeness of products provided by the company is satisfactory.

- The price of the product (Y1.3) Customer satisfaction against the price of products on offer. Judgment of respondents based on agreement or disagreement over claims that the price of products offered by the company is satisfactory.
- Quality employees (Y1.4) Customer satisfaction to the public in give by employees. Judgment of respondents based on agreement or disagreement over claims that the service rendered by employees of a company is satisfactory.
- A payment processing system (Y1.5) Customer satisfaction against a payment processing system that is given in transact. Judgment of respondents based on agreement or disagreement over claims that the payments processing system that provided by the company is satisfactory.

*Customer Retention:*

Customer retention is the whole perception customers have about the degree to which companies actively make relational efforts and guarantee of the quality of service to take notice of a customer, so customers will continue to adhere to the company. Some measurement measured to determine the level of customer retention in research is this:

- Switching Intention (Y2.1) The company able to reduce their customers to turn to other products. Judgment of respondents based on agreement or disagreement over claims that they have no intention of trying to buy the needs on other companies.
- Alternative Scarcity (Y2.2) A company has many options of a product to fulfill compliance with the wishes of their customers. Respondents based judgement on the agreement or disagreement over claims at their choice to go shopping at a certain company rather than to other companies.
- Customer Advocacy (Y2.3) Customers declaring that something is well of the company to another person. Judgment of respondents based on agreement or disagreement over claims that in every opportunity the shopping, they always state something nice about this company on others.
- Willingness to pay more (Y2.4) The customer willingness to pay more for the intended products. Judgment of respondents based on agreement or disagreement over claims that they are willing to pay more for benefits received by shopping in this company rather than from a competitor company.

*Research instrument:*

The main instrument used in this research is the questionnaire. This research uses a scale of measurement rating " scale doubles " with 5 points scale Likert, which starts from the numbers 1 to strongly disagree until number 5 to strongly agree.

#### **4. Result and Discussion**

*Description of respondents:*

The respondents chosen in this research are visitors that come into the Home Appliance Industry stores in Indonesia and have purchase products Home Appliance Industry more than two times, with the number of respondents, a total of 160 which is divided on three shops Home Appliance Industry, which is located in Indonesia. The characteristic of being tested divided into five, is gender, age, education lastly, job, and income obtained.

**Table 1. Characteristics Respondents**

Characteristics Respondents		Frequency	Percent
Gender	Man	60	37.50%
	Women	100	62.50%
Age	< 20 years old	5	3.10%
	21-30 years old	39	24.40%
	31-40 years old	74	46.30%
	41-50 years old	26	16.30%
	51-60 years old	16	10.00%
Education	Never graduated Elementary School	0	0.00%
	Graduated from Elementary School	0	0.00%
	Never graduated Junior High School	0	0.00%
	Graduated from Junior High School	6	3.80%
	Never graduated Senior High School	10	6.30%
	Graduated from Senior High School	57	35.60%
	Never graduated University	14	8.80%
Graduated from University	73	45.60%	
Job	Unemployment	3	1.90%
	Student	8	5.90%
	Officer	34	21.30%
	Private Employee	82	51.30%
	Entrepreneur	33	20.60%
	Retired Man	0	0.00%
Income	No Income	11	6.90%
	<2.000.000-Rp 3.000.000 IDR	76	47.50%
	3.000.001-Rp 5.000.000 IDR	45	28.10%
	>5.000.000 IDR	28	17.50%

Based on the results of observation on the image analysis of the confirmatory factors of endogenous and exogenous invalid constructs, calculation is done with AMOS and the result is as follows:

**Table 2. Result of Regression Weights Confirmatory Factors**

	Estimate	S.E.	C.R.	P	Label
X1.4 <--- Customer Value	1,000				
X1.3 <--- Customer Value	0,252	0,228	6,109	0,027	par_1
X1.2 <--- Customer Value	1,175	0,175	6,723	0,000	par_2
X1.1 <--- Customer Value	1,423	0,226	6,297	0,000	par_3

X2.3	<---	Brand Image	1,000				
X2.2	<---	Brand Image	0,968	0,258	3,752	0,000	par_4
X2.1	<---	Brand Image	0,910	0,255	3,574	0,000	par_5
Y1.5	<---	Customer Satisfaction	1,000				
Y1.4	<---	Customer Satisfaction	3,277	1,295	7,531	0,011	par_6
Y1.3	<---	Customer Satisfaction	3,426	1,371	7,500	0,012	par_7
Y1.2	<---	Customer Satisfaction	1,481	0,653	7,267	0,023	par_8
Y1.1	<---	Customer Satisfaction	1,146	0,508	7,257	0,024	par_9
Y2.1	<---	Customer Retention	1,000				
Y2.2	<---	Customer Retention	1,161	0,171	6,794	0,000	par_10
Y2.3	<---	Customer Retention	0,620	0,152	6,080	0,000	par_11
Y2.4	<---	Customer Retention	0,546	0,135	6,046	0,000	par_12

*Normality:*

The univariate normality testing is done by observing the value of skewness data used, when the cr value of skewness data is among the range between + - 2,58 on a significance level of 0.01, then the data used in research is considered normal.

**Table 3.** Assessment of normality

Variable	Min	Max	Skew	c.r.	kurtosis	c.r.
Y2.4	3,000	5,000	0,166	0,855	-0,110	-0,284
Y2.3	3,000	5,000	-0,023	-0,121	-0,187	-0,482
Y2.2	3,000	5,000	-0,013	-0,067	-0,140	-0,362
Y2.1	3,000	5,000	0,034	0,176	0,399	1,029
Y1.1	3,000	5,000	0,429	2,216	0,449	1,158
Y1.2	3,000	5,000	0,392	2,022	0,280	0,723
Y1.3	3,000	5,000	0,000	0,000	-0,037	-0,096
Y1.4	3,000	5,000	0,131	0,677	0,865	2,235
Y1.5	3,000	5,000	-0,166	-0,857	-0,608	-1,570
X2.1	3,000	5,000	0,052	0,267	-0,318	-0,821
X2.2	3,000	5,000	-0,007	-0,036	-0,746	-1,927
X2.3	2,000	5,000	-0,505	-2,610	-0,339	-0,876
X1.1	3,000	5,000	0,273	1,412	0,544	1,405
X1.2	3,000	5,000	0,136	0,701	0,168	0,435
X1.3	2,000	5,000	-0,135	-0,695	-0,977	-2,522
X1.4	3,000	5,000	0,109	0,561	0,049	0,126
Multivariate					10,481	2,762

*Outliers:*

The outlier on a multivariate level can be seen from mahalanobis distance. This test conducted using mahalanobis criteria distance on a level of  $p < 0.100$ . Mahalanobis distance is evaluated by  $\chi^2$  on degrees free of the degree of freedom, that is 98. So, in the research, if mahalanobis distance is greater than 107,565, the data is multivariate outlier.

**Validity:**

The relationship between indicators is valid if it has a significant value probability less than 0.10.

**Table 4. Validity**

		C.R.	P	Result
Customer Satisfaction	<--- Brand Image	6,955	0,051	Valid
Customer Satisfaction	<--- Customer Value	5,339	0,073	Valid
Customer Retention	<--- Customer Satisfaction	6,853	0,064	Valid
Customer Retention	<--- Customer Value	7,226	0,026	Valid
Customer Retention	<--- Brand Image	6,459	0,014	Valid
X1.4	<--- Customer Value			
X1.3	<--- Customer Value	6,109	0,027	Valid
X1.2	<--- Customer Value	6,723	0,000	Valid
X1.1	<--- Customer Value	6,297	0,000	Valid
X2.3	<--- Brand Image			
X2.2	<--- Brand Image	3,752	0,000	Valid
X2.1	<--- Brand Image	3,574	0,000	Valid
Y1.5	<--- Customer Satisfaction			
Y1.4	<--- Customer Satisfaction	7,531	0,011	Valid
Y1.3	<--- Customer Satisfaction	7,500	0,012	Valid
Y1.2	<--- Customer Satisfaction	7,267	0,023	Valid
Y1.1	<--- Customer Satisfaction	7,257	0,024	Valid
Y2.1	<--- Customer Retention			
Y2.2	<--- Customer Retention	6,794	0,000	Valid
Y2.3	<--- Customer Retention	6,080	0,000	Valid
Y2.4	<--- Customer Retention	6,046	0,000	Valid

**Reliability:**

The minimum value reliability of dimensions shaper of latent variable acceptable is worth 0,70.

**Table 5. Reliability**

	Load Factor	Load Factor <sup>2</sup>	1-(Load Factor <sup>2</sup> )
Customer Satisfaction	0,523	0,274	0,726
Customer Satisfaction	0,043	0,002	0,998
Customer Retention	0,331	0,110	0,890
Customer Retention	0,284	0,081	0,919
Customer Retention	0,269	0,072	0,928
X1.4	0,557	0,310	0,690
X1.3	0,097	0,009	0,991
X1.2	0,804	0,646	0,354
X1.1	0,857	0,734	0,266
X2.3	0,507	0,257	0,743
X2.2	0,504	0,254	0,746
X2.1	0,542	0,294	0,706
Y1.5	0,222	0,049	0,951

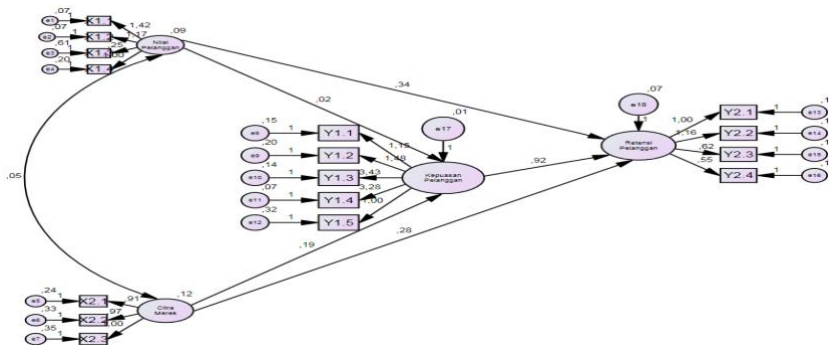


Y1.4	0,843	0,711	0,289
Y1.3	0,761	0,579	0,421
Y1.2	0,390	0,152	0,848
Y1.1	0,359	0,129	0,871
Y2.1	0,661	0,437	0,563
Y2.2	0,705	0,497	0,503
Y2.3	0,539	0,291	0,709
Y2.4	0,529	0,280	0,720
Total		5,629	10,370

Construct Reliability = Error! Objects cannot be created from editing field codes.= 0,754

Structural Model Fit:

Figure 1. Structural Model Fit



The structural equations presented in this research model is:

Equation 1:  $Y1 = 0.019 X1 + 0.194 X2$

Equation 2:  $Y2 = 0.338 X1 + 0.277 X2 + 0,916 Y1$

Table 6. Goodness of Fit Measure

Goodness of Fit Measure	Cut-off Value	Result	Evaluation Model
$\chi^2$ -chi-square	< 116,32	242,830	Moderate
CMIN/DF	≤ 2,00	1,849	Fit
RMSEA	≤ 0,08	0,073	Fit
ECVI < ECVI	< 1,711	1,617	Fit
AIC < AIC	< 272,000	257,175	Fit
CAIC < CAIC	< 826,224	412,032	Fit

Table 7. Hypothesis

Variable	Estimate	Critical Ratio	P	Result
Customer Value → Customer Satisfaction	0,019	5,339	0,073	Accepted

Customer Value → Customer Retention	0,338	7,226	0,026	Accepted
Brand Image → Customer Satisfaction	0,194	6,955	0,051	Accepted
Brand Image → Customer Retention	0,277	6,459	0,014	Accepted
Customer Satisfaction → Customer Retention	0,916	6,853	0,064	Accepted

## 5. Conclusion

From the research and discussions used in accordance with the purpose of a hypothesis that is done with the analysis of structural equation modeling (SEM), conclusions may be drawn as follows:

- Customer value significantly influences customer satisfaction at Home Appliance Industry in Indonesia. It showed that product value, service value, personal value, and image value can give gratification for consumers; so higher customer value will result in higher customer satisfaction.
- Customer value significantly influences customer satisfaction as variable mediating at Home Appliance Industry in Indonesia. It is showed that the higher the customer value, the higher the customer retention, strengthened by customer satisfaction which is as high as the mediating variable.
- Customer value significantly influences customer retention at Home Appliance Industry in Indonesia. It is showed that product value, service value, personal value, and image value affect the consumer to buy sustainably (Anna Åslund and Ingela Bäckström, 2017).
- The brand image significantly influences customer satisfaction at Home Appliance Industry in Indonesia. It is showed that a brand that fulfills the needs of customers and the characteristic of a brand is of good quality. And brands that are able of giving satisfaction and gratification to customers, will have a better brand image of the company Home Appliance Industry and the degree of gratification resulting will also be high as well.
- The brand image of influential is significantly higher with customer satisfaction as variable mediating on Home Appliance Industry in Indonesia. It is showed that the better the brand image of a company and the higher the support for its customer satisfaction, the more will the customer be a variable mediating.
- The brand image significantly influences customer retention at Home Appliance Industry in Indonesia. It is showed that a brand that fulfills the needs of customers and characteristic of a brand is of good quality. Brands that can give satisfaction are best able to make a customer stick with the same company.
- Customer satisfaction significantly influences Customer Retention at Home Appliance Industry in Indonesia. It is showed that lower customers satisfaction, good quality products, availability of products, the prices of its products; the quality of its employees and a payments processing system can make customers to keep afloat on the same company, so that the higher the satisfaction from customer hence the higher the customer retention.

*Suggestion:*

As the implications of this research result, some advice can be explained as follows:

- Home Appliance Industry does strategies to prove their products to have the quality of being fine supported by quality control, so, this can be a positive impact on image Home Appliance Industry in the society.
- Home Appliance Industry is improving customer retention, by assuring the availability of any product by assuring any size for the non-standard models (size and models overseas) to be able to provide attractiveness that consumers can lure decision not to move to other places and made the purchase in the same place.
- Home Appliance Industry promote namely by advertising, because advertising is a popular mean of advertising among the consumers so that it can create a positive brand attitude and the wish to buy more,

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## **The Management and Settlement of Bankruptcy Property: Case Study of Sky Camping Limited Company, Indonesia**

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Darwati\*, Nurlely Darwis\*)

**Abstract:**

*Management and settlement of Bankruptcy shall be regulated in Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Obligations. Curator and Heritage Hall do the management and settlement.*

*Formulation of the problem: 1. What is the procedure for the sale of a bankrupt property? 2. Who is entitled to change the bankruptcy of bankrupt property into non-bankrupt property? 3. Are there any sanctions against curators that harm the bankrupt property? The theory used is the theory of State law and theory of justice. For the Research Methodology was used normative and empirical approach.*

*The result shows that 1. Sale of bankrupt property shall be granted with the consent of the Supervisory Judge; 2. The proceedings of a bankrupt property shall be made through the decision of the Panel of Judges and filed by the Creditor or the Debtor; 3. Curators who harm the property of bankruptcy get sanction in civil or criminal.*

**Keywords:** Management and bankruptcy settlement, bankrupt property.

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### **1. Introduction**

The business world is suffering the most and feels the impact of the crisis that hit Indonesia. Many companies were closed and terminated business, as well as decreased wage payments to workers. In dealing with such problems, Government of Indonesia enacted Law Number 37 Year 2004 concerning Bankruptcy and Postponement of Debt Payment Obligations. Based on Article 2 of Law Number 37 Year 2004, the court may grant the bankruptcy decision against the Debtor if there are 2 (two) creditors and one is due but unable to pay, so the Commercial Court may decide to be bankrupt to the Debtor. Taking into-account the formulation of article 2 is very easy to drop the bankruptcy of a legal entity / company, resulting in massive unemployment.

Since the enactment of Law Number 37 Year 2004, many companies are decided to be bankrupt. In the bankruptcy verdict the Judge appointed the Curator and Supervisory Judge to administer and secure the bankruptcy property. Around April 2007 the Commercial Court at the Central Jakarta District Court declared PT. Skycamping Indonesia bankruptcy. The bankruptcy verdict is granted upon the request of one of the creditors whose bills are due, but the Debtor fails to make the payment.

Against the bankruptcy verdict, the Debtor of PT. Sky camping Indonesia / PT.SCI (in bankruptcy) asks for peace. But PT. Sky camping Indonesia disbanded and did not fulfill its obligations and in April 2008 canceled the agreement with Decision Number 01 / Pdt, Sus-Cancellation of the Peace Agreement / 2008 / PN. Niaga, Central Jakarta. On May 7, 2008, the Curator Team sold the company's assets on the reason of production waste, the sale was surreptitiously done by the Supervisory Judge. The Curator's team on the grounds of plant security costs worth Rp.125.000.000 does the sale of assets, - (one hundred and twenty-five million rupiah). However, from the report of the worker, the goods sold by the Curator team exceed what the Supervisory Judge stipulates, the sales value made by the Curator is around Rp.3.000.000.000 (three billion rupiah). But what is reported to the Supervisory Judge is only Rp.125.000.000.

After the sale, the workers' representatives could not contact the curator team. On December 9, 2008 the Supervisory Judge issued a Decision on the request of the Curator team. Then the Workers' Legal Counsel also questioned the bankruptcy property surreptitiously sold by the Curator's team. After being questioned by the Legal Counsel of the Curator the worker changed the sales report to Rp.375.000.000, - (three hundred seventy-five million rupiah). In fulfilling the Debtor's obligations to the Creditors, the Curator begins to sell the bankruptcy property already set by the Supervisory Judge. After an auction sale of moving goods (production machines) and land and factory buildings located in Gunung Putri Bogor, then the Curator team makes a list of divisions.

Against such a list of workers, the Bank and the Tax Office objected and made a legal action. Because the workers need money to get on with their lives, they are pulling out an appeal. Ironically, the Curator team changed the proceeds of the sale of the bankrupt property to non-bankruptcy, and all proceeds were given to the Bank. Based on the above description, the author is interested to conduct the research Title of Handling and Ordering of Bankruptcy Property Based on Law Number 37 Year 2004 concerning Bankruptcy and Postponement of Obligation of Debt Payment (case study PT. Sky Camping Indonesia).

*Formulation of the problem:*

1. What is the procedure for the sale of bankrupt property?
2. Who is entitled to change the bankruptcy of bankrupt property into non-bankrupt property?

3. Are there any sanctions against curators that harm the bankrupt property?

## 2. Literature review

### *Theory of the State of Law:*

As formulated in Article 1 paragraph (3) of the 1945 Constitution of the State of Indonesia is a state of law, all activities to be performed shall be in accordance with the applicable law. And every Indonesian citizen is obliged to obey all laws applicable in the Republic of Indonesia. Every citizen is also entitled to develop its activities and business, but it must comply with the applicable law Ni'matul Huda (2005).

Concerning Philipus M Hadjon's Law State concept in his library is stated that the concept of rechtsstaat - state law in Continental Europe was originally based on an individualistic liberal philosophy. The individualistic characteristic is very prominent in the thought of the State of law according to the Continental European concept. The concept of rechtsstaat according to Philus M. Hardjon (1987) was born of a struggle against absolutism, so it is revolutionary.

The features of rechtsstaat are as follows:

- (1) The existence of a Constitution or constitution which contains written provisions on the relationship between the ruler and the people;
- (2) The sharing of state power;
- (3) Recognizing and protecting the rights of freedom of the people.

According to Dahlan Thaib (1996), the characteristics of the rechtsstaat are also attached to Indonesia as a State of law. The provision that Indonesia is a State of law can not be separated from the Preamble of the 1945 Constitution as a State of law, then determined in the body and explanation of the 1945 Constitution (before amending). Paragraph I the preamble of the 1945 Constitution contains the word perikeadilan; in paragraph II there is a just word; in paragraph III there is the Indonesian word; in paragraph IV there is a word of social justice and a just human word. All of these terms refer to the notion of the State of law, because one of the goals of the State of law is to achieve justice.

According to Thomas Aquinas (1225-1274), justice is the idea and thought of Thomas Aquinas about the State and the law embodied in his book 'De Reginine Principum' which speaks of the reigns of kings. Similarly, in Summa Theologica which contains the lesson of Godhead. According to Thomas Aquinas justice is the willingness to give to everyone what is his due, besides it must also seek propriety that Aristotle taught. The written law can be regarded as law and justice, and which gains power from the laws of nature Azhary (2003).

Padmono Wahjono also explained that in the 1945 Constitution (before the amendment) there is an explanation that the Indonesian nation also recognizes the

presence or existence of unwritten law (other than written law). Regarding the legal function, Padmo Wahjono emphasized three functions of law viewed from the perspective based on the principle of kinship, that is:

*Bankruptcy Arrangement and Settlement:*

Bankruptcy is the common confiscation of all the wealth of the Bankrupt Debtor whose management and ordering are carried out by the Curator under the supervision of the Supervisory Judge as provided for in this Law. Curator is a Heritage Hall or individual person appointed by the Court to administer and settle the assets of a Bankrupt Debtor under the supervision of a Supervisory Judge in accordance with this Law. And the Supervisory Judge is a judge appointed by the Court in a bankruptcy decision or verdict on the postponement of debt obligations (As defined in Article 1 number 8 of Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Obligations). Furthermore, the Creditor is a person who has receivable due to an agreement or law which is billable before the court.

*Bankruptcy Procedure:*

Bankruptcy may be made by the Debtor or Creditor, as defined in Article 2 of Law Number 37 Year 2004 that: "*A debtor possessing two or more Creditors and failing to pay off at least one debt which has matured and may be collected is declared bankrupt by a decision Court, either on his own request or at the request of one or more of his creditors*". In Article 70 of Law Number 37 Year 2004 concerning Bankruptcy and PKPU it is explained that: "*As referred to in Article 69 of the Curator are: a. Heritage Hall; or b. Other curators. Furthermore, in paragraph (2) it is explained that who can be the Curator are: a. an individual who is domiciled in Indonesia, who has the special expertise required in order to manage and / or settle the bankruptcy property; and b. registered with ministries whose scope of duties and responsibilities are in the field of law and legislation*". It is explained in Article 72 of Law Number 37 Year 2004 that: "*The curator shall be responsible for his mistake or negligence in performing the stewardship and / or order duties which cause the loss to the bankrupt property*". In Article 73 it is explained that: "*When appointed by more than one curator to act legally and binding action, the Curators require the approval of more than 1/2 of the Curators*".

*Management of bankrupt property:*

In the exercise of its authority the Curator shall not take sides, since the Receiver is independent and has no conflict of interest either with the Debtor or the Creditor and is not in charge of bankruptcy proceedings and the postponement of the obligation to repay the debt of more than 3 (three) cases (Law Number 37 Year 2004 concerning Bankruptcy and PKPU).

Upon receipt of the bankruptcy decision the Curator shall immediately perform its duties and authority, as described in Article 15 paragraph (4) that: "*Within not later than 5 (five) days after the date of decision of bankruptcy received by the Curator*



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*and Supervisory Judge, the Curator announces in the News of The Republic of Indonesia and at least 2 (two) daily newspapers stipulated by the Supervisory Judge, concerning the summary of the decision of bankruptcy declaration containing the following matters: a. name, address, and occupation of the Debtor; b. name of Judge of Supervisor; c. the name, address, and work of the curator; d. name, address, and work of a member of the committee of the temporary creditor, if it has been appointed; and e. place and time of the Creditor's first meeting."*

With the decision of bankruptcy by the Commercial Court, the Debtor by law loses his right to control and manage his property which is included in the bankruptcy property, since the date of decision of the bankruptcy statement is pronounced (Article 24 Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Obligations). The Supervisory Judge stipulates: a. billing deadline; b. the tax verification deadline to determine the amount of tax liability in accordance with the laws and regulations in the field of taxation; c. day, date, time and place of the creditor's meeting to make matching receivables. (2) The period of time between the date as referred to in paragraph (1) a and b at least 14 (fourteen) days (Article 113 of Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Obligations). All Creditors are required to submit their receivables to the Curator (Receiver) with other calculations or written statements indicating the nature and number of receivables, accompanied by proofs or copies thereof, and a statement of whether or not the Creditor has a privilege, fiduciary guarantee, mortgages, collateral rights over other properties, or the right to hold objects.

After the Curator has handled all of the bankrupt property, the Curator shall subsequently report to the Supervisory Judge to be designated as a bankruptcy property which may be sold in public, to make payment of all the Debtor's liabilities to the Creditor. The approval given by the Supervisory Judge on the performance of the Receiver shall be given in the form of a determination. For those who disagree / disapprove of the stipulation of a supervisory judge may appeal to the court within 5 five (5) days after the award is made, this is stipulated in Article 68 of Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Obligations.

On the contrary Debtor or Creditor and Committee of Creditor who feel disadvantaged with curator or curator act is not done, Debtor or Creditor can file an objection to Supervisory Judge. In a tense time of 3 (three) days the Supervisory Judge submitted the objection to the Curator for an answer. Within a period of 3 (three) days the Receiver shall notify the Supervisory Judge of any objection made by either the Debtor or the Creditor. Furthermore, within 3 (three) days, the judge shall issue a determination of 3 (three) days after the answer of the Receiver is received (regulated in Article 77 of Law Number 37 Year 2004 concerning Bankruptcy and PKPU). The curator shall be required to carry out all Supervisor Judgment.

*Settlement of Bankrupt Property:*

In the settlement of the bankruptcy property it is necessary to offer a peace plan, but if in a matching meeting of receivables is not offered a peace plan, the proposed peace plan is not accepted, or the endorsement of peace is rejected based on a decision that has obtained permanent legal force, by law the bankrupt property is in the state of insolvency. Subject to the provisions of Article 56, Article 57 and Article 58, the holder of rights as referred to in Article 55 paragraph (1) shall exercise its right within 2 (two) months after the start of the insolvency state as referred to in Article 178 paragraph (1). Subject to the provisions referred to in Article 56, Article 57, and Article 58, any pawnbroker Creditor, fiduciary guarantee, mortgage, mortgage, or collateral right on any other material, may execute his right as if there was no bankruptcy.

If in a matching meeting of receivables is not offered a peace plan or if the proposed peace plan is not accepted, the Curator or Creditor present at the meeting may propose that the Bankruptcy Debtor company should be continued. And for the purposes of securing the bankruptcy property, the Curator may use the services of the Bankrupt Debtor by the remuneration determined by the Supervisory Judge.

The curator is responsible for ordering all the bankruptcy assets for sale and the proceeds of the sale to the creditors. However, in conducting the sale of bankrupt property the curator must go through the procedure as stipulated in the prevailing laws and regulations, that is, bankruptcy property must be sold in public by auction. If the public sale as referred in paragraph (1) is not reached then the sale under the hand may be carried out with the permission of the Supervisory Judge. (3) All objects that are not immediately or completely unresolvable the Curator shall decide the action to be taken against the object with the permission of the Supervisory Judge. (4) The receiver shall be required to pay the receivable of the creditor who has the right to retain an object, so that it shall re-enter and benefit the bankrupt property.

The curator shall be obliged to divide the proceeds from the sale of the bankrupt property, and the Curator shall prepare a list of shares for approval to the Supervisory Judge. The list of divisions as referred to in paragraph (1) shall contain details of receipts and expenses including the Curator's wages, the name of the Creditor, the sums matched from each receivable, and the part which shall be granted to the Creditor. (3) The concurrent creditors shall be given the part as determined by the Supervisory Judge.

Against the list of shares made by the Curator and known by the Supervisory Judge, then sent to the creditors. A list of shares approved by the Supervisory Judge shall be made available at the Court Clerk to be viewable by the Creditor during the period set by the Supervisory Judge at the time the list is approved. (2) The provision of a list of divisions and grace period as referred to in paragraph (1) shall be announced by the Curator in the newspaper as referred to in Article 15 paragraph (4). if the

creditor objected to the list of shares made by the Curator, then the creditor may object.

The objection procedure made by the creditor to the list of divisions made by the Curator is processed in the hearing with the procedural law equal to other courts. And the process can also be appealed to the Supreme Court and Review. If the legal procedure has a permanent legal force. After the expiration of the grace period to see the list of distribution as referred to in Article 192, or in the event of a resistance being raised after the resolution of the case is spoken, the Receiver shall immediately pay the assigned share.

### **3. Methodology**

If in a matching meeting of receivables is not offered a peace plan or if the proposed peace plan is not accepted, the Curator or Creditor present at the meeting may propose that the Bankruptcy Debtor company be continued. And for the purposes of securing the bankruptcy property, the Curator may use the services of the Bankrupt Debtor by the remuneration determined by the Supervisory Judge.

The curator is responsible for ordering all the bankruptcy assets for sale and the proceeds of the sale to the creditors. However, in conducting the sale of bankrupt property must go through the procedure as stipulated in the prevailing laws and regulations, that is, bankruptcy property must be sold in public by auction. In the event that the public sale as referred to in paragraph (1) is not reached then the sale under the hand may be carried out with the permission of the Supervisory Judge. (3) All objects that are not immediately or completely unresolvable the Curator shall decide the action to be taken against the object with the permission of the Supervisory Judge. (4) The receiver shall be required to pay the receivable of the creditor who has the right to retain an object, so that it shall re-enter and benefit the bankrupt property.

This study uses normative and empirical juridical approaches, by collecting applicable legislation on Payments and Postponement of Debt Payment Obligations and conducting interviews with the parties on the procedures for managing and securing bankruptcy property conducted by Curators and Supervisory Judges. The author conducted research on this issue in Gunung Putri Bogor and the Commercial Court at the Jakarta District Court.

### **4. Result and Discussion**

PT.Skycamping Indonesia is located at Jalan Mercedes Band Gunung Putri Bogor, has a workforce of about 3,200 people. Company activities produce disposable for export. The condition of the telecommunication company on the road is strategic enough for anyone who will go to the location of PT. Sky camping Indonesia. Everyday the workforces are overtime, but the company does not pay the right of

workers according to the rule of law applicable, because the wage of workers under the applicable law, there is a lack of normative rights that is the minimum wage that is not imposed by PT. Skycamping Indonesia (in bankruptcy), against the normative problem of the workers has been established by the Head of Labor Social Office of Bogor Regency.

*Process of Bankruptcy:*

In April of 2007 PT. Sky camping Indonesia / PT. SCI was declared bankrupt by the Commercial Court at the Central Jakarta District Court, then it was carried out the peace. But the peace was not implemented, then in April 2008 the Commercial Court of the Central Jakarta District Court canceled the peace agreement with the register of case number 1 / Cancellation of the peace agreement / 2008 / PN.JKT.PST. In the cancellation of the peace agreement the Panel of Judges appoints 3 (three) curators and 1 (one) Superintendent Judge, to administer and defend the bankrupt property.

*Sale of bankrupt property:*

After the peace agreement was canceled in April 2007, ironically in May 2008 the Curator team of 3 (three) persons appointed by the Panel of Judges appealed to the Supervisory Judge to sell the bankrupt property on the reason that the company garbage cost Rp.125.000.000, - (one hundred twenty-five million rupiah). The sale of the bankrupt property is for the reason of paying the cost of securing the plant in which the security of the factory and the production machinery is done by the workers. In this case Philipus M Hadjon's opinion of the State of Law and justice by Thomas Aquinas has not been done.

The sale of bankrupt property by the Curator team in May 2008 is very much in contradiction with Law Number 37 Year 2004 concerning Bankruptcy and Postponement of Obligation of Debt Payment, among others: In Article 185 paragraph (1) of Law Number 37 Year 2004 concerning Postponement of Debt Payment Obligation formulates that: "All items must be sold in public in accordance with the procedures prescribed in the laws and regulations" the property should be sold through the State auction. The application of the Curator team that is not in accordance with the applicable procedures the Supervisory Judge should reject the request made by the PT.SCI Curator team (in bankruptcy) to sell the unpublished bankruptcy treasures.

*Changes of bankrupt property:*

The change of bankrupt property into non-bankruptcy by the team of PT.SCI curators (in bankruptcy) on the sale of land and buildings in Gunung Putri violates Law Number 37 Year 2004 concerning Bankruptcy and PKPU. Because the land and building assets sold by the Curator team have been determined by the Supervisory Judge as a bankruptcy property on the request of the PT.SCI Curator team (in bankruptcy). And sales procedures performed by the team of the Curator upon approval of the Supervisory Judge. Therefore, the Curator Team is not entitled

to change the bankruptcy property, and the right to change is the panel of Judges on the request of Debtor or Creditor.

*Sanctions against Curators/Receivers:*

Article 72 of Law Number 37 Year 2004 concerning Bankruptcy and Suspension of Payment Liability shall be formulated that the Receiver shall be responsible for any errors or omissions in performing the management and / or order duties which cause loss to the bankrupt property. Based on the explanation of Article 72, the law does not work, and justice is not obtained by the people as explained by Thomas Aquinas. Justice can be felt if the rights of people are paid according to the rules.

The determination of the bankruptcy property has been done by the Supervisory Judge on December 8, 2008, if within five days after the stipulation no one filed an objection then the determination is *ingkrah* and has a permanent legal force and must be implemented. If any of the Creditors objected to the Stipulation of the Supervisory Judge within a period of five days after the determination, the Debtor or Creditor may object. In the case of bankruptcy property PT.SCI The Curator Team unilaterally changed the judgment of the supervisor and the property has been sold. The act of the curator violates Law Number 37 Year 2004 and the Receiver is responsible according to Article 72 of Law Number 37 Year 2004 concerning bankruptcy and PKPU /.

## 5. Conclusion

1. Procedure of change of bankrupt property into non-bankrupt property, can only be done by Debtor through application to Judge Council through Supervisory Judge, to be conducted siding process.

2. Procedure for sale of bankrupt property, may be made after it has been stipulated by the Supervisory Judge, the Receiver may conduct the auction process under the supervisory judges. If in auction 1st or 2nd there is no demand, the Curator may sell under the control of the Supervisory Judge's permission.3. Curators who harmed the bankrupt property in accordance with Article 72 of Law Number 337 Year 2004 received sanction, both criminal and civil, and in the Criminal Code of abuse of authority.

*Suggestion:*

1. In order to have the authority to hold the money of the bankrupt property which is given to the District Court.
2. The Article 2 of Law No. 37 should be changed because it causes unemployment.

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\*\*\* - The 1945 Constitution.

\*\*\* - Law Number 37 Year 2004 concerning Bankruptcy and Postponement of Obligation of Debt Payment.

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## The Contribution of International, Exchange Index to Composite Stock Index (Case of Indonesia)

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Wahyu Murti, Ismoerida, Zahera Mega \*)

**Abstract:**

*Composite Stocks are simultaneously influenced by international stock indices namely Dow Jones, Hang Seng, Nikkei simultaneously by R-squared 82,24 %.*

*Partially the international Stock Index namely Dow Jones, Hang Seng, Nikkei influences movement of composite Stock Index. The contribution of the largest international share index is the Hang Seng Stock Index which is geographically close together and also has a great influence on the nearest stock, among others, the Hang Seng index from the regional financial center which is the closest to Indonesia and in which has the greatest influence on the Index volatility of Composite Stocks, later followed by the Nikkei Index, and finally by the Dow Jones Index.*

**Keywords:** *Hang Seng Stock Index, Dow Jones Stock Index, Nikkei index, Composite Stock Index.*

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### 1. Introduction

The stability of the financial system of a State can be broadly divided into two main factors namely external factors and internal factors (Fama and French, 1988). External factors such as the occurrence of external environmental turmoil, can be a liquidity shock of the world which encourages short-term inflows or short-term capital outflows, global imbalances, and contagion effects (Yang and Lim, 2004) While internal factors include interest rate, domestic inflation rate and high reliance on banking (Gavin, 1989).

One globalization process factor of the complex dimension is financial globalization as one of the factors affecting the stability of the financial system of globalization (Jorion, 1991). The influence of the globalization process can no doubt have changed the world's infrastructure, both economic and non-economic (Mougoue, 1996). The impact of financial globalization that is a major change, is the occurrence of cross-border financial flows and payments (Wahyu, 2017), with increasing international risk-sharing through more diversified financial instruments, increased

cross-border of asset ownership, and increasing market profile of international finance, both from the side of the involved market participants or the institution (Rahman and Uddin, 2009).

The changing of global financial structure directly or indirectly has an impact on the domestic financial system of a country, which means that in the event of a global financial turmoil, it brings impacts such as spreading to the global financial system, the shifting of government domination to the market mechanism, bank-centered shifts in market-based financing, although in the different forms in each country which is resulted in declining banking core-business (Afzal and Shahadat, 2011).

The benefits of financial globalization among other things can be obtained from cheaper sources of financing (Wahyu, 2017), wider, more flexible, and as a means for spreading risk, financial openness has an impact on growth, developing countries expect more benefits of the wider access to credit and capital markets, but after a series of financial crises, the costs of an open financial system are large, with uncertain benefits (Alagidede and Panagiotidis, 2010).

The positive or negative impacts of the financial globalization process, the presence of dynamic interactions among regional financial centers, the occurrence or absence of infectious effects, and the impact of financial turmoil on the domestic economy, are of great importance to study and this is what will be the focus of this research. Financial system stability in this paper is reflected through the development of stock price index and rupiah exchange rate.

## **2. Literature review**

A stable financial system is a strong financial system and is resistant to many economic disturbances, resulting in the ability to perform intermediary functions, perform payments and spread risk appropriately (Wahyu, 2017). Financial system stability is a condition in which economic mechanisms in pricing, allocation of funds and risk management function which are well and support economic growth (Apergis and Eleftheriou, 2002; Grima and Caruana, 2017).

Some of the factors that cause financial system instability can be triggered by a variety of causes and turmoil (Thalassinos et al., 2015). Generally, a combination of market forces, both due to structural factors and behavior. The market failure itself can be sourced from the external environment (international) as well as the internal environment (domestic). Risks that often accompany activities in the financial system include credit risk, liquidity risk, market risk and operational risk (Arshad et al., 2012).

Financial System Stability (SSK) is very important, among others, to create trust and a supportive environment for investors to save their funds in financial institutions, can guarantee the interests of the community, especially small customers and



encourage efficient financial intermediation so as to encourage investment and economic growth, encouraging operation market as well as refining the allocation of resources in the economy (Eita, 2012; Thalassinos et al., 2012; 2013). The instability of the financial system can cause harmful consequences such as the amount of fiscal costs that must be spent to save the troubled financial institutions and declining GDP due to currency and banking crises (Farka, 2010; Hantias et al., 2017; Thalassinos and Politis, 2011).

*Composite Stock Index:*

Composite Stock Index Is a stock index issued by the Indonesia Stock Exchange (IDX). Composite Stock Price Index is used. Stock index of all companies listed on the Indonesia Stock Exchange at the end of a certain period and in basis point units by formula  $IHSG_t = (\text{Market Value}) / (\text{Basic Value}) \times 100$  Hang Seng Index

*Hang Seng Index (HSI):*

The Hang Seng Index (HSI) is the cumulative index of 50 blue chip stocks from Hong Kong Stock Market which is one of the reliable stock indices used by investors and fund managers to invest.

Formula Index:  $\text{Current Index} = (\sum [(Pt \times IS \times FAF \times CF)]) / (\sum [(Pt-1] \times IS \times FAF \times CF)) \times \text{Yesterday Close Index}$ .

*Nikkei Index:*

The Nikkei Index is a stock market index in Japan This index is used to record and monitor daily changes from the largest companies in the Japanese stock market and as a leading indicator of market performance in Japan. The Nikkei 225 is comprised of 225 blue chip stocks listed on the Tokyo top exchange as a gauge of stock price movements. Here is the formula for calculating the Nikkei Index [4]:  $\text{Nikkei 225} = (\text{Total number of shares listed in the Nikkei index}) / \text{divisor}$

*Dow Jones Index:*

The stock price index used by the New York Stock Exchange, the Dow Jones Industrial Average (DJIA) presents the average value, not the index value. DJIA uses 30 -specific industry shares which is known as blue chip stocks which have high quality stocks with good earnings and dividend reputation. The formula used is as follows:

$$DJIA_t = \frac{\sum_{i=1}^{30} P_{it}}{n = \text{adjusted}}$$

**3. Methodology**

*Population and Sample:*

In accordance with the research data which are taken are Dow Jones Stock Index, Hang Seng Stock Index, Nikkei Stock Index, Composite Stock Index for 5 Years, Monthly data from 2013,2014, 2015,2016,2017, and processed using Eviews 8.

*Research Variables:*

Variable research will be the research object in which are pointed some differences (variation). There are two variables of this research: dependent variable and independent variable. Dependent Variable or dependent Variable in this research is composite Stock Index while Independent Variables are Dow Jones Stock Index, Hang Seng Stock Index, and Nikkei Stock Index.

*Types and Data Sources:*

Types of data obtained are secondary data from Indonesia Stock Exchange which can be accessed from [www.idx.co.id](http://www.idx.co.id). Sources of data from this study is secondary data in which researchers take the data from the web of Indonesia stock exchange (BEI).

*Data Collection Method:*

The researcher uses secondary data so that data collection technique can be done by documentation method of financial report, annual financial report and report of publication of Dow Jones Stock Index, Hang Seng Stock Index, and Nikkei Stock Index, the data is obtained through BEI website [www.idx.co.id](http://www.idx.co.id) and company website.

*Models:*

To solve the problem as well as to prove whether the hypothesis are accepted or rejected in this study, are used multiple linear regression statistical analysis tools:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + + \varepsilon$$

where:

Y = Composite Stock Price Index;

X1 = Nikkei Index;

X2 = Hangseng Index;

X3 = Dow Jones index;

A = Constants;

$\beta_1 - \beta_5$  = Regression coefficients;

$\varepsilon$  = Error limit / error factor.

#### **4. Result and Discussion**

*Descriptive Analysis:*

From the analysis that has been done above, it can be summarized in the following Table 1:

**Table 1.** Multicollinearity Test Results

	LN_NKI	LN_HSI	LN_DJIA
LN_NKI	1.000000	0.434091	0.691742
LN_HSI	0.434091	1.000000	0.703492
LN_DJIA	0.691742	0.703492	1.000000

**Source:** Secondary data is processed.

Table 1 correlation coefficient between the relatively low variable that is below 0.89. Multicollinearity test results show that the lowest correlation coefficient is 0.434091 while the highest correlation coefficient is 0.703492 which shows that there is no Multicollinearity. in this this research.

**Table 2.** Result of F Test

Dependent Variable: LN\_IHSG

Method: Least Squares

Date: 22/1/18 Time: 06:53

Sample: 2013M01 2017M12

Included observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2,700189	0.666022	13.72874	0.0000
LN_NKI	2.357356	0.059732	8.753333	0.0000
LN_HSI	3.757064	0.093957	4.657071	0.0000
LN_DJIA	2.152706	0.080439	12.13968	0.0000
R-squared	0.822407	Mean dependent var		8.118589
Adjusted R-squared	0.806624	S.D. dependent var		0.328970
S.E. of regression	0.069129	Akaike info criterion		-2.441331
Sum squared resid	0.267617	Schwarz criterion		-2.301708
Log likelihood	77.23994	Hannan-Quinn criter.		-2.386717
F-statistic	426.6985	Durbin-Watson stat		2.183283
Prob(F-statistic)	0.000000			

**Source:** Data processed.

Based on the test results on the independent variables individually on the dependent variable (t-test) with significance level  $\alpha = 5\%$  generated Eviews 8 program output with Sig value, each of 0,000 for the Hang Seng Stock Index variable, 0.00 for the Nikkei Stock Index variables and the Dow Jones 0,000 Stock Index. Significant Value for Hang Seng Stock Index Variables and Nikkei Stock Index is smaller than  $\alpha = 5\%$ , hence it can be interpreted that independent variable of Hang Seng Stock Index and Nikkei Stock Index individually influence the Composite Stock Price Index. Determination correlation test R<sup>2</sup> is used to measure model ability to explain the relationship between independent variable and dependent variable. The coefficient of determination is between zero and one ( $0 \leq R^2 \leq 1$ ). The greater the

R2 value the better the model. Estimated results have an R2 value of 0.8224 or equal to 82.24%. This means that the Hang Seng Stock Index variables, the Nikkei Stock Index and the Dow Jones Stock Index are able to explain the Composite Stock Price Index by 82.24%. While the rest of 17,76% is explained by other variable outside of the research.

## **5. Conclusion**

Composite Stocks are affected by International Stock Index of Dow Jones, Hang Seng, and Nikkei Stock Index simultaneously. Partially the International Stock Index of Dow Jones, Hang Seng, Nikkei influences the movement of the Composite Stock Index.

The largest contributor to the international stock index is the Hang Seng Stock Index which geographically close together as well as has a big influence on the nearest stock, among others, the Hang Seng index from the nearest regional financial center from Indonesia which has the greatest influence on the volatility of the Composite Stock Index, followed later by the Nikkei Stock Index and Dow Jones Stock Index. Estimated results have an R2 value of 0.8224 or equal to 82.24%. This means that the Hang Seng Stock Index variables, the Nikkei Stock Index and the Dow Jones Stock Index can explain the Composite Stock Price Index by 82.24%. While the rest of 17,76% is explained by other variable outside of the research.

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## Strengthening Competency of The Religious Courts as Efforts to Encourage Shari'ah Economics Growth in Indonesia

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### **Abstract:**

*The appreciation of the performance of the Religious Courts continues to develop to realize a clean judiciary to support the economic growth in Indonesia; the community expresses its satisfaction with the performance of the Religious Courts in serving the justice seeker community.*

*This condition contrasts with the situation within the country itself, although de jure has gained additional competency as mandated by Article 49 of Law No. 3 of 2006, but de facto skepticism and pessimistic among some, indirectly weaken and reduce the competence of the Religious Courts. This is often done by a handful of parties, without the support of valid research data.*

*The increased competency of the Religious Courts in the economics field is born from the womb of reformation and the age of a decade still has not gained full trust and adequate support. The greater the expectation of shari'ah economics actors towards Religious court should be accompanied by real strengthening efforts from stakeholders to guard the growth of shari'ah economics in Indonesia.*

**Keywords:** *competency, religious court, shari'ah economics.*

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### **1. Introduction**

In various studies on legal relations and economic development, economic growth will not succeed without the support of reform and legal reinforcement, therefore it is a precondition for economic change. Law is also used as a tool for social change (an agent of social change) (Nevi, 2012). Mochtar Kusumaatmadja refines into law as a tool to build society (Mochtar, 2002). Between the legal system and the economic system there is always interaction and symbiotic mutualistic relationship (Trubek, 1972). This would be positive if the law was firmly enforced but could also turn negative if the legal institutions and all their devices were ignored and reduced to their competence, only to comply in certain interests.

Law has an important role in economic development, as Trubek said "rule of law" is important for economic growth and has a broad impact on the reform of the economic system. An analysis of the European Bank for Reconstruction and Development (EBRD) also concludes that there is a significant correlation between the effectiveness of the legal system and economic growth, indicating that the success of economic reform depends on the well-functioning of the legal system (Kartharina, 1999).

The expansion of competence of the Religious Courts in the field of shari'ah economy is part of the reform of economic law to realize the state ideals of law, namely, to realize social justice in the field of economy and society. This becomes a normative and constitutive belief framework. Legal ideals are normative because they serve as the base and ideal prerequisites underlying every positive law, and constitutive for directing laws and goals to be achieved by the state (Mahfud, 1998).

Based on the thought above, expansion of competence of the Religious Courts must be accompanied by efforts to strengthen its competence. Government support is not only manifested in the form of regulation, but how the commitment and consistency in guarding the rule of the game has been established with various consequences, (Friedman and Friedman, 1990) including strengthening the legal structure, strengthening the legal substance, strengthening the legal culture, strengthening the human resources, strengthening access to justice, strengthening of court infrastructure, and so on. If the competence in all these lines goes well, then the Religious Court institution will be ready to guard the development and growth of shari'ah financial industry in Indonesia (Suryanto and Ridwansyah, 2016).

Within the framework above, the central issue to be raised in this paper is what efforts should be done in order to strengthen the competence of the Religious Courts to encourage the growth rate of shari'ah economy (Yazid and Suryanto, 2016).

## **2. Methodology**

The research was conducted by descriptive analysis with normative juridical to describe how religious court in its activity can support shari'ah economic activity. The materials used is the legislation to analyze legally.

## **3. Result and Discussion**

*Strengthening the Competence of Religious Courts as an Effort to Boost the Growth Rate of Shari'ah Economics:*

Indonesia has the largest Muslim population in the world, with 252 million inhabitants, with a population of 216 million Muslims, Indonesia has huge room for shari'ah economic growth. Unfortunately, the market share of shari'ah industry in Indonesia is still minimal that only 5%. Nevertheless, there is still great potential to increase the growth of shari'ah economics, its potential being of 95%, that can be



developed. Not just encouraging the birth of shari'ah banking law, shari'ah insurance law, but strengthening the competence of the Religious Courts in the field of Islamic economics is not less urgent to guard and support the growth of Islamic economics in Indonesia.

The strengthening of the competence of the Religious Courts is very urgent, because it plays a role in creating stability, predictability, fairness and efficiency in the Islamic finance industry, (Read Burg's in Leonard J. Theberge, 1980) which is a prerequisite for the balance of Indonesia's economic system. The most important thing is how to make this legal institution reliable (reliable judiciary), because it determines for the legal process of business disputes faced by economic actors, (Himawan, 2003) especially shari'ah businessmen. The strengthening includes legal structure, legal substance, legal culture, human resources, infrastructure, and easy access to law and justice.

*Strengthening of Legal Structure:*

Friedman in the theory of three elements law system (Friedman, 1998), states that, effectively and whether law enforcement is determined by the strangeness of the legal structure. According to Friedman, legal structure is like a machine, legal substance is anything done and produced by the machine, while legal culture is anything or anyone who decides how the machine is used. If the machine is weak, then the system will not run properly.

The expansion of the competency of the Religious Courts in the field of shari'ah economics is a political decision born of the demands and desires of the public who crave service improvement in the field of law, it must be followed up by institutional strengthening by reforming the bureaucracy, good court governance, true, strong, independent, fair, secure, effective, efficient, accountable to the public. If one of the elements is not effective, then the rule of law and justice will be difficult to be realized, so that public confidence in law enforcement will fade and society will enter the bad trust society, even in the worst trust society qualification ( Friedman, 1998).

*Strengthening of Legal Substance:*

Strengthening legal substance in the Islamic finance industry is a form of hidden profit (Invisible Interest). This form of Invisible Interest should also be the concern of the people to choose the economic products they want to choose. The tendency for today's society is to underestimate the legal aspect as a form of profit and only consider the forms of economic gain. Whereas, the existence of a strong legal aspect is a great advantage because, with the use of shari'ah law as the basis of transactions, in addition to the fact that the rights of economic actors are protected, there is also guaranteed halal and blessing of their sustenance. Economic actors are also satisfied because it has imposed Islamic norms in their life (Friedman, 1998).

There are a number of challenges that need to be taken into account in encouraging the national shari'ah economy, namely the legal basis of Shari'ah LKM Law No. 1 of 2013 on Microfinance Institutions, and Law No. 17 of 2012 on Cooperative Shari'ah Savings and Loan Cooperatives (Koperasi Simpan Pinjam/KSP) both are still the legal basis which have just reached the stage of recognition and recognition alone, and there are many other shari'ah economics products that are in a condition of a weak legal certainty. Although many new authorities have no umbrella provisions in the form of legislation, but under the provisions of Article 16 of Law No. 4 of 2004 on Judicial Power, the Religious Courts shall not refuse to examine hearing and deciding a filed case with the pretext that the law is absent or less clear, but obligatory to examine and prosecute him.

*Strengthening of Legal Culture:*

Strengthening of legal culture is built through two main streams, namely internal and external. Internal paths are character building and work culture, including strengthening organization and strengthening management system of personnel apparatus of human resources.

While from the external path can be a government Political Economy (Friedman, 1998), the Gerakan Ekonomi Islam (GRES) campaign, who shari'ah Economic Movement proclaimed by President Susilo Bambang Yudoyono is one of the government's efforts in massively mobilizing the Islamic economics power to become part of the culture of Islamic economics transactions, the movement is expected to become the motor of the national shari'ah economics movement. This political economy reinforces the government's position not only as a spectator (in partial spectator), (Caporaso, 1992) but also responsible for empowering legal institutions in guarding the growth of shari'ah financial industry. Through GRES is expected to encourage the penetration of information to the wider community on the benefits of shari'ah economics and encourage the use of shari'ah economics instruments. In the administration of President Joko Widodo was also launched the shari'ah National Financial Committee as a form of government support in the national Islamic finance industry to increase its contribution in accelerating the development of the national economy.

*Strengthening of Human Resources:*

The limitations of the existing material law, encouraging judges as law enforcement through their creativity to actualize the law in the right space and time. Progressive judges can make changes by making creative interpretations of existing or non-existent rules, without having to wait for regulatory changes (changing the law). Poor or lack of legal instrumentation does not become a barrier for progressive judges to bring justice to the justice seekers by doing the right interpretation, thereby fostering optimism and confidence for the actors of the Islamic finance industry in Indonesia.

On that logic the revitalization of the law is done, change is no longer centered on the rules, but on the creativity of the perpetrators of the law. Progressive reasoning seeks to reject the status quo when it leads to decadence and harms the interests of the people. Public interest must take precedence over political interests. Essentially a judge must learn in law and be skilled in law. At the hands of the judge of the law into applied science, or in other words the concretization of shari'ah economics law is through the judge's decision.

*Strengthening of Infrastructure Aspects:*

One of the facilities and infrastructure needed to support the performance improvement of the Religious Courts in handling the shari'ah economics dispute is the building of the prototype and its supporting facilities. There are still many religious courts in both the first and the second level of appeal that are far from ideal performance, some of which are still far away in remote areas and slum locations, thereby reducing the dignity of the courts. Likewise, the minimum budget of the court, causing the national mutation system would have a negative impact on the judge. Judges who are transferred to an area are often not provided with adequate housing and workplace mutation costs. Also, the lack of library facilities in the court environment both the room, internet access facilities as well as a collection of Islamic economic literature. Library is very necessary considering the development of the field of shari'ah economic law is increasingly widespread and increasing. The tools to access information quickly through the internet in the library is a necessity that cannot be ignored.

*Strengthening the Accessibility of Law and Justice:*

Accessible legal systems will create accountable governments, increase trust in the legal system and reduce the risk of conflict. The belief in the court will largely depend on the legal services provided by the court itself, in which the court must be able to fulfill the hope of being the last bastion of justice.

The courts must be able to provide access to justice because it is the right of every citizen protected by law, whereby every citizen is entitled to secure the availability of the means of fulfillment of his or her rights.

#### **4. Conclusion**

Based on the discussion described above, it can be concluded as follows:

1. The development of shari'ah financial industry in Indonesia is significantly growing, this will have implications for the increasing of conflict potential among shari'ah businessmen that culminate in Religious Court. This becomes an opportunity as well as a grave challenge of the Religious Courts to answer people's doubts about the capacity and integrity of the Religious Courts. If the Religious Court is able to become a reliable judiciary capable of answering hesitation and skepticism with good performance through a

- product of judgment that satisfies fairness, predictability and efficiency is not convoluted, then the issue of trust is just waiting time.
2. For the Religious Courts to be a reliable legal institution in handling the shari'ah economics dispute, it is necessary to strengthen the competence efforts that include legal structure, legal substance, legal culture, empowering human resource strengthening, strengthening of infrastructure, and strengthening access to justice. The Religious Courts must be able to make the momentum of birth of Law no. 3 of 2006 as a milestone in the rise of the Religious Courts from family courts into modern courts, as well as eroding trademark divorce court.

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## The Influence of Marketing Mix (8'ps) on Purchasing Decision of Indonesia Life Insurance Company

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**Abstract:**

*Insurance is a financial industry that has a very large income. Unfortunately, there is a phenomenon of income decline in insurance companies from 2011 to 2014. This study aims to know the influence of marketing mix (8P) consisting of product, price, place, promotion, people, process, physical environment, productivity and quality on purchasing decision.*

*This research was conducted at 374 customers selected as respondents through simple random sampling. The data collection is using the questionnaire. A method of analysis is represented by Structural Equation Models (SEM) and the used tool of analysis is Partial Least Square (PLS).*

*The results of this study demonstrate that the product, promotion, people, process, productivity and quality influence on purchasing decisions. While price, place, and the physical environment does not influence on purchasing decisions.*

**Keywords:** *Marketing mix (8ps), purchasing decision, structural equation model.*

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### 1. Introduction

In the midst of slowing growth of the national economy, according to a report of the life insurance Association (AAJI), Indonesia Life Insurance industry registered a positive performance in the second quarter of 2015. It is clearly showed in the increasing growth of premium total income from Rp.53.58 trillion to Rp.67.82 trillion. This is a 26.6% growth coming from the total revenue of new business premiums. This income managed to grow by 28.2%, to 39.19%. This is a positive signal of confidence into Indonesia society against life insurance industry, as a provider of long-term financial protection. Meanwhile, the premium incomes of existing products have also increased to 24.4%. Its mean that the public does better understand the nature of long-term life insurance protection. They committed to maintain ownership of their policy to protect their financial situation when something happened in the future.

Based on data from the insurance Media Research Institute (LRMA), it is showed that there are fifteen best life insurance companies able to master the life insurance market share in Indonesia to 83.6% of total premium income from 50 life insurance company, with a value of Rp 91.4 trillion to 114.4 trillion. Even though, PT. Asuransi Jiwa Sinarmas MSIG was in the Sixth position from the 15 market leaders, the company experienced a drop in premium income obtained from the sale of a life insurance policy.

The data shows that the premium income of the life insurance PT Sinarmas MSIG has decreased from the year 2011 to the year 2014. Premium income decreased due to several factors: increase the intense of competition, due to the rise of new competitors in the world of the life insurance industry. The banking sector is offering a wide range of life insurance products with their respective advantages as well as the price and competitive insurance facilities (Permana, 2017; Amilin, 2017). The competitors also make the best strategy to satisfy their customers from service quality of the policy purchasing process until the disbursement claims, provides the best facilities and the best distribution strategy of marketing products.

In the face of it, the management of PT Asuransi Jiwa Sinarmas is required to have an effective strategy for achieving its strategic competitiveness and produce the maximum profit. The marketing mix is a great tool for marketers that is composed of various elements of a marketing program that needs to be considered in order for the implementation of marketing strategies to run successfully (Lupiyoadi, 2001). Kotler (2008) popularized a classification of the seven elements of the marketing mix instruments, known as 7P i.e. product, price, place/distribution, promotion, people, process, and physical environment. Furthermore, Lovelock (2010) was developed marketing mix instrument into 8P by adding productivity and quality. Factors that exist within the marketing mix were the variables that are expected to create the customer's decision to buy an insurance policy.

According to Wahyudi (2012), that product, price, promotion, and place are the most significant variables affecting consumer satisfaction. This result is reinforced by Sefnedi research (2013), which are Product, Price, Promotion, Place, People, Process, Physical Evidence, partially significant influential against the decision of the selection program bachelor's degree. In the year of 2014, Suardika research showed a significant effect for variable products and prices, while variable location and promotion insignificantly affect the decision of purchasing organic vegetable from CV Golden Leaf Farm. In addition, by the year of 2015, Wahyuningsih said that product, price, place, promotion, people, process and physical environment simultaneously positive effect the purchasing decisions by women workers in The Province of Daerah Istimewa Yogyakarta. The purpose of this research is to know the influence of product, price, place, promotion, people, processes, physical environment, productivity and quality on the purchasing decision of a life insurance policy PT Sinarmas MSIG.

## **2. Methodology**

Jogiyanto (2011), explained that the characteristics of the participants or situations have different values in the study. The variable must be defined operationally, that can describe a variable in terms of operationalizes or the techniques used to measure a concept. Operational variables used in this study are the purchasing decision as a bound variable and product, price, place, promotion, people, processes, physical environment, and productivity and quality as free variables.

The population was combined with all elements form events, things, or people who have similar characteristics that became the center of the universe for the study (Augusty, 2006). In this study the population is composed of the headquarters client of PT. Asuransi Jiwa Sinarmas MSIG who purchased life insurance products in 2016, aiming 5,746 customers. The sample is a subset of a population, whose members are known as the subject and the population is a member of the element. Simple random sampling is being used, randomly done simply regardless of strata in the population (Sugiyono, 2007). Determination of a large number of samples in this research used the Slovin method (Umar, 2009) then obtained the sample of 374 people.

The data used in this research is primary data, i.e. data obtained directly from the original sources (without going through intermediaries) with method survey (Sugiono, 2007). Primary data in this study includes data from the customer questionnaire of PT. Asuransi Jiwa Sinarmas MSIG selected respondents. This research also uses secondary data including the study of the theory of corporate finance, reports, and reports the premium income of the life insurance Association (AAJI) Indonesia. Data retrieval method is the collection of data in this study through the dissemination of the questionnaire (question form) against the client PT. Asuransi Jiwa Sinarmas MSIG.

Methods of data analysis will be done in this study including descriptive analysis and inferential analysis using Structural Equation Models (SEM) which is a statistical technique for testing and estimating causal relationships by integrating analysis of factors and path analysis (Jogiyanto, 2011). Process modeling in the SEM consists of two basic stages, i.e. the measurement model validation and testing model. This method of analysis was chosen because SEM gives priority to the right confirmatory modeling for testing theory (quantitative study) that begins with the development of the hypothesis, model representation, and operational variables using the instrument measurement and testing of the model. In addition, SEM has the ability to measure the latent variables which are not directly measured but through the estimation of indicators or parameters.

Partial Least Square (PLS) is a multivariate statistical technique that does benchmark between multiple dependent variables and multiple independent variables (Jogiyanto, 2011). PLS is one of the statistical methods of SEM based on



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variant that designed to resolve multiple regression when specific problems occur on the data, such as a small sample size, missing research data (the missing value), and multicollinearity (Joginyanto, 2011). The PLS purpose is to predict the influence of the variable X against Y and explain the theoretical relationship between both variables. Therefore, these researches use PLS.

Evaluation model of Partial Least Square (PLS) is done by Jogiyanto (2011), among others, the evaluation of the outer model or models of measurements, including the convergent validity and discriminant validity through cross loading and the root of the average variance extracted as well as composite reliability and evaluation of inner models or structural model, evaluated through  $R^2$  (reliability indicator) for the dependent invalid constructs and value the t-statistic of coefficient test path.

Evaluation of the outer model is done by Convergent Validity test, with reflective indicators assessed based on loading factor (correlation between the scores of items/score components with a score of invalid constructs). Rule of thumb which is usually used to make the initial inspection of the matrix factors are considered  $\pm 30$  meets the minimal level, for loading  $\pm 40$  is considered better, and for loading  $> 0.50$  is considered significant in partial. Thus, the higher the value of the loading factor, the increasingly important role of loading in interpret matrix factors. Rule of thumb used to convergent validity is the outer loading  $> 0.5$ .

Discriminant validity test with reflexive indicators can be assessed based on cross loading between indicators with the construct. If invalid constructs with correlation measurement of items are greater than the size of the other invalid constructs, it will be shown that latent invalid constructs predicting the size of the block are better than another block size. The other way is to look at the value of the AVE. When the value of the AVE of each invalid construct is larger than 0.50 then the model can be said to have a discriminant validity. Test reliability in PLS can use two methods, namely, composite reliability and Cronbach alpha. Invalid constructs are declared reliable if the value of composite reliability nor the Cronbach alpha are above 0.70 (Jogiyanto, 2011). The evaluation of inner models or structural model is done by looking at the R-square for each dependent latent variable. The Change of the R-square can be used to assess the influence of latent independent variables to the latent dependent variable. the value of R-square higher, result in better model predictions (Jogiyanto, 2011).

The decision to accept or reject the hypothesis can be seen by the provisions value of the outer weight of each indicator and the value of their significance. The value of the weight is suggested to be above 0.50 (positive) and T-statistic above the value of T-table for  $p < 0.10$ ;  $p < 0.50$ ; and  $p < 0.01$ . Indicators that have a value under that provision must be dropped from the model and then put under a test. The value of the inner weight of relations between latent variables can be seen by the value of the weight of the relationship which must indicate the positive direction with a value of the T-statistic above T-table for  $p < 0.10$ ;  $p < 0.05$ ; and  $p < 0.01$ . Alternative

hypothesis (Ha) is accepted if the value of the weight of the relationships between latent variables indicates the positive direction as to the value of the T-statistic above T-table to  $p < 0.10$ ;  $p < 0.05$ ; and  $p < 0.01$ . On the contrary, the Ha is rejected if the value of the weight of the relationships between variables indicates the negative direction and value of T-statistic under the T-table for  $p < 0.10$ ;  $p < 0.05$ ; and  $p < 0.01$ . The t-table value specified in this study is of significance to  $1.977 < p < 0.05$ . Next t-table values serve as the values for the cut off for the acceptance or rejection of the proposed hypothesis.

### 3. Results and Discussion

As shown in Figure 1, the relationship of purchasing decision and marketing mix indicate the criterion of very good or very interested is 82 people (21.9%), the criterion of good or interested is 189 people (50.5%), the criterion of enough is 53 people (14.2%), not good or not interested is 33 people (9%), and the criterion of not very good or not very interested is 17 people (4.5%). Pragash & Karunanity (2017) concluded that there is a very large positive relationship between marketing mix and consumer buying decision.

**Figure 1.** Description Buying Decision

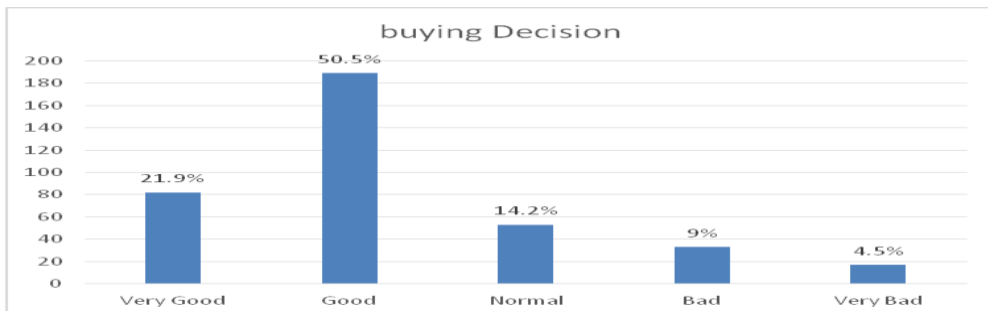


Table 1 demonstrated that Product description indicates the criterion of very good is 87 people (23.3%), the criterion for good is 118 men (31.6%), the criterion of enough is 103 people (27.5%), the criterion of not good is 54 people (14%), and the criterion not very good is 12 people (3.2%). The description of price indicates that the criterion of very good is 39 people (10.4%), criterion for good is 129 people (34.5%), the criterion of enough is 140 people (37.4%), not good only 34 people (9%), and the criterion not very good is 32 people (8.6%).

Place description shows that the criterion of very good is 115 people (30.7%), the criterion for good is 146 people (39%), the criterion of enough is 86 people (23%), the criterion of not good is 16 people (4%), and the criterion of not very good only 11 people (2.9%).

**Table 1.** Description of marketing mix (8'Ps)

	Very Good	Good	Normal	Bad	Very Bad
Product	87	118	103	54	12
	23.30%	31.60%	27.50%	14%	3.20%
Price	39	129	140	34	32
	10.96%	34.50%	37.40%	9%	8%
Place	115	146	86	16	11
	30.70%	39%	23%	4%	2.90%
Promotion	70	148	96	18	42
	18.70%	39.60%	25.70%	5%	11.20%
People	76	170	86	34	8
	20.30%	45.50%	23%	9%	2.10%
Process	82	180	83	23	6
	21.90%	48.10%	22.20%	6%	1.60%
Physical Environment	76	147	111	23	15
	20.90%	39.30%	29.70%	6%	4%
Productivity and service quality	91	129	117	18	19
	24.30%	34.50%	31.30%	5%	5.10%

The description of the Promotion shows that the criterion of very good is 70 people (18.7%), the criterion for good is 148 people (39.6%), the criterion of enough is 96 people (25.7%), the criterion of not good is 18 people (5%), and the criterion of not very Good is 42 people (11.2%). The task force demonstrated that the criterion of very good is 76 people (20.3%), the criterion for good is 170 people (45.5%), the criterion of enough is 86 people (23%), the criterion of not good is 34 people (9%), and the criterion of not very good only 8 people (2.1%). The process criterion that shows the criteria for very good is 82 people (21.9%), criterion for good is 180 people (48.1%), the criterion of enough is 83 people (22.2%), the criterion of not good is 23 people (6%), and the criterion for not very good only 6 people (1.6%). Description of the physical environment indicated that the criterion of very good is 78 people (20.9%), the criteria for good is 147 people (39.3%), the criterion of enough is 111 people (29.7%), not good is 23 people (6%), and the criterion of not very good only 15 people (4%). Productivity and quality criterion indicate that the criterion of very good is 91 people (24.3%), good is 129 people (34.5%), for enough is 117 people (31.3%), not good is 18 people (5%), and for not very good only 19 people (5.1%).

Based on outer loadings there is one indicator that has a value of  $< 0.5$  i.e. PS5 (the ease and speed in recovery policy) with a value of 0.474 which means that the indicator is not valid. So that the indicator must be dropped or deleted. Based on table outer loadings drop after PS5 (invalid indicator) drop or deleted, it can be seen that all the indicators have reflective loading factor above 0.50 which means the entire indicator reflective declared valid. The AVE score above 0.5 indicates the entire indicator is valid. The results of the construct of reliability test is both

composite reliability value and Cronbach alpha, on the whole constructs above 0.70 which mean the entire constructs revealed reliability.

Figure 2. After Loading Factor Drop

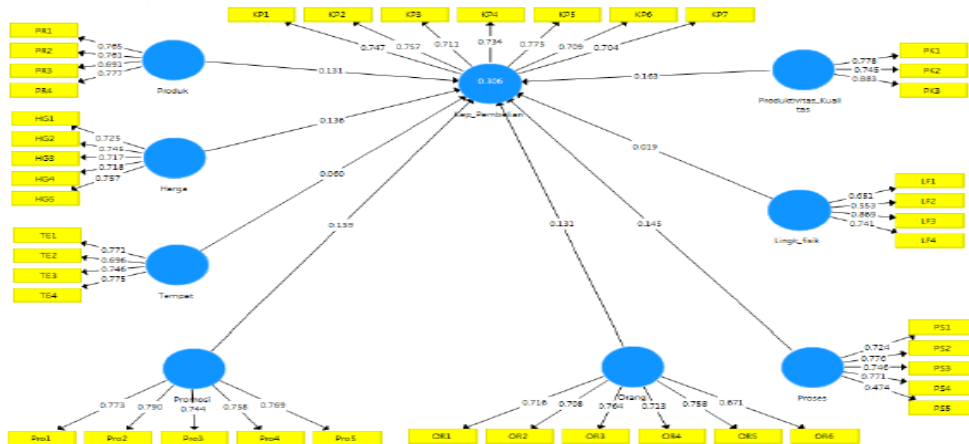
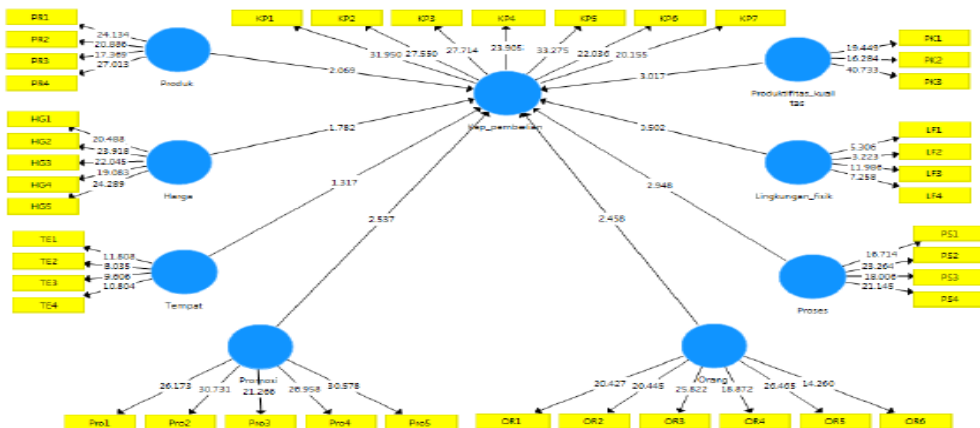


Figure 3. The Results of T-Statistics Test



The Results of testing R-square can be seen in figure 4, that the value of R-square for constructs purchasing decision is 0.308 which means that Purchasing decision variability can be explained by the variability of constructs product, price, place, promotion, people, process, the physical environment, productivity and quality of 30.8% whereas 69.2% explained by other variables outside of the researched. A hypothesis test is performed with the path-coefficients test by looking at the value of t-statistics and the original sample. The value of t-81 statistics indicates the significance constructs, while the original sample demonstrates the nature of the relationship between constructs (positive or negative). The limitation of reject and accept the hypotheses presented above is 1.977 for  $p < 0.05$ .

**Table 2.** Result of Path Coefficients Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Price to buying decision	0.132	0.129	0.074	1.782	0.075
Physical Environment to Buying Decision	0.023	0.043	0.045	0.502	0.616
People to Buying Decision	0.132	0.128	0.054	2.458	0.014
Product to Buying Decision	0.132	0.135	0.064	2.069	0.039
Productivity Quality to Buying Decision	0.163	0.167	0.054	3.017	0.003
Promotion to Buying Decision	0.139	0.139	0.055	2.537	0.011
Process to Buying Decision	0.151	0.149	0.051	2.948	0.003
Place to Buying Decision	0.061	0.070	0.047	1.317	0.188

The results of the testing path-coefficient obtained the value of the t-statistic 2.069 and the value of the original sample is positive 0.132 indicating that products positively and significantly affect the purchasing decision. The first hypothesis (H1) that of the influence on product to purchase decisions, is accepted. This result supported by Indumathi & Dawood (2016) stated that Product Factor is important to consumer buying behavior. Budiwati (2012) demonstrated that the quality of the product can influence the decision of consumer to buy such products. Fajri (2013) research shows that the items of various savings products offered by Bank Muamalat Indonesia gave considerable influence decisions to save the customer. In addition, Suarjana (2014) stated that both good or poor quality of the products sold in Indomart can influence the purchasing decision and Wahyuningsih (2015) explained that the various benefits of the insurance products may affect the customer's purchasing decision.

The results of the testing path-coefficient obtained the value of the t-statistic 1.782 and the value of the original sample is positive of 0.132 indicating that price does not significantly influence the Purchasing Decisions. The second hypothesis (H2) that the price has an effect on the purchasing decisions, is rejected. The results of this study are in accordance with the results of Fajri research (2013), who stated that the client is not affected by the administrative costs and the price in deciding to save on Bank Muamalat. Son (2012) added that the customers of prepaid cards XL feel that the price is not a thing that influenced them to use prepaid cards XL. In addition, Sari Devi (2015) shows that the fees charged to students do not affect their decision of saving and Sari Ockta (2015), also support this result that the cost charged to the customer does not affect the saving decision.

The results of the testing path-coefficient obtained a value of the t-statistic of 1.317 and the value of the original sample is positive i.e. of 0.061 indicating that the place has no significant effect the purchasing decisions. Thus, the third hypothesis (H3) in this study which stated that the place influence on purchase decisions is declined. The result of this research is appropriate with Andreti (2013) who stated that the purchasing decision at the supermarket does not influenced by a place. Fajri (2013) also support this result, stating that the place does not affect the customer's decision for saving in Bank Muamalat, because the customer can do any type of transaction in any banking via internet banking. Ardiansyah (2013) Stated that the location of the hotel has no effect on the consumer's decision. Moreover, Sari Ockta (2015) shows that the location of the Office is not the subject of consideration of students for saving.

The results of the testing path-coefficient obtained a value of the t-statistic, of 2.537 and the value of the original sample is positive 0.139 which suggests promotion has a significant positive effect the purchasing decisions. Thus, the fourth hypothesis (H4) in the study that States that the promotion effect on purchasing decisions is accepted. The results of this study match with the previous research carried out by Jeevarathnam (2017) who shows that the promotion was found to rise awareness and encourage positive Change in the buying decision. Rendy (2017) stated that Advertising is the main factor giving direct & positive impact on the purchasing decision. Furthermore, Andreti (2013) which stated that the promotion effect on consumer purchasing decisions at the supermarket because consumers will be more interested in buying a product in offer having interesting promotions such as the granting of discounts, cash back or reward at the time of purchase of the product. Wahyuningsih (2015) stated that the promotion may affect the prospective customer in determining the purchasing decisions insurance products. Satit (2012) shows that an interesting promotion can influence the consumer's decision to use a travel agent. In addition, Wowor (2013) stated that through the good promotion can attract consumers to buy products of Toyota.

The results of the testing path-coefficient obtained a value of the t-statistic of 2.458 and the value of the original sample is positive 0.132 indicating that people significantly positively affect the purchasing decisions. Thus, the fifth hypothesis (H5) in this study states that "the effect on purchasing decisions is accepted. The results of this study match with the previous research conducted by Wahyuningsih (2015) who states that if an employee has a mastery of product and hospitality in serving the customer, then the customer will be more confident purchasing a product or service. So, in this case, people influence on purchasing decisions. Sefnedi (2013) stated that the quality of teachers can influence the decision of choosing a University. Furthermore, Wowor (2013) shows that the quality of salespeople can affect the consumer's decisions to purchase Toyota. Son (2012) also support this result that employees can influence the purchasing decisions of prepaid XL products.

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The results of the testing path-coefficient obtained a value of the t-statistic of 2.948 and the value of the original sample is positive 0.151, which indicates that the process significantly and positively affects the purchasing decisions. Thus, the sixth (H6) hypothesis in this study who claimed that the process influences on purchase decisions is accepted. The result of this research is appropriate with Wahyuningsih (2015) result which States that the decision of the customer in the purchase of insurance is affected by the processes that exist within an insurance company from the beginning before buying After the purchase process to occur. Fajri (2013) stated that the speed and ease of the saving process could affect the customer in taking a decision to save. This is also supported by Son (2012), who shows that the easy process for purchasing a prepaid product XL can be a consideration of the consumer to buy. Gultom (2014) also stated that the quality of teaching and learning can affect students in choosing a University.

The results of the testing path-coefficient obtained a value of the t-statistic of 0.502 and the value of the original sample is positive amounted to 0.023 indicating that the physical environment has not a significant positive effect of the purchase decisions. Thus, the seventh hypothesis (H7) in this study which stated that the physical environment affect purchasing decision is rejected. The results of this study supports the previous research that has been done by Fajri (2013) stating that the physical environment has no effect on the decision of saving, because of the new era where information technology is so free and also supported by the rising of the middle-class rapidly. Son (2012) stated that the physical environment is not influencing consumers to purchase prepaid XL and Sari Devi (2015) also shows that the physical environment is not the subject of the consideration of the customer in the purchase decision.

The results of the testing path-coefficient obtained a value of the t-statistic of 3.017 and the value of the original sample is positive of 0.163 showing that productivity and quality significantly and positively affect the purchasing decisions. The eighth hypothesis (H8) in this study which stated that the productivity and quality influence on purchase decisions are accepted. The results of this research are appropriate to the research results of Andreti (2013), stating that the productivity and quality influence the purchasing decisions at the supermarket. Good service will make customers feel comfortable when shopping at the supermarket. So, customers strongly consider productivity and service quality to be the determination of the purchasing decision. Gultom (2014) stated that productivity and service quality can affect the decisions of college students in selecting a University.

#### **4. Conclusion**

The study used the eight elements of marketing mix to analysis the influence on purchsing decision of life insurance products. The test results show that the product variable, promotion variable, peolpe variable, process variable dan productivity & service quality variable have significant and positive influence on the purchasing

decision of a life insurance product. While the price variable, place variable and physical environment have no influenced on purchasing decision of life insurance product.

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## **The Hospital Cooperation with the Board of Social Security Administrator (BPJS) from the Business Law Perspectives of Indonesia**

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Siregar Adelina Rospita \*)

**Abstract:**

*Participants of the national social health insurance system (SJSN) receive health services according to BPJS Health regulation number 1 of 2014 on health facilities. The implementation of this BPJS service is based on the laws and regulations, among others: Law number 36 in the year of 2009 on Health, Law 44 of 2009 on hospital, Government Regulation number 101 of 2012 on recipients of health insurance contributions, Presidential Regulation number 12 of 2013 on Health Insurance, Law No. 24 of 2011 on the Social Security Administering Body.*

*Payment of hospital claims refers to the Indonesian Tariff - Case Based Groups hereinafter referred to as INACBG's Tariff in which the amount of the claim payment by BPJS of Health to the Advanced Health Facility for the service package based on the grouping of disease diagnoses or more often is called coding. The results of the survey that assess the satisfaction level of BPJS service are not expected to give hope, the complaints are often delivered, among others: no stock of drugs, low claims of BPJS rates, so hospital has difficulty in operation, the length queue for checking, the service of doctors and paramedic which is somewhat slow.*

*Therefore, it is proposed to the government to immediately review the INA CBG tariff. The topic of discussion is: (1) dynamic and retroactive regulations; (2) health services through the referral system has not gone well; (3) low awareness of hospitals and participants to understand JKN regulations and the high rate of dissatisfaction from the participants.*

**Keywords:** *hospital, BPJS, business services.*

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### **1. Introduction**

The relationship between the hospital and the Social Security Administration Board (BPJS) of Health in Indonesia has been started since 2014, the cooperation here is

the implementation of Law Number 40 of 2004 on National Social Security System (SJSN), Government Policy on National Social Security System (SJSN) applies to all communities in Indonesia, while Law Number 24 Year of 2011 on the Social Security Administering Body stipulates that the National Social Security will be organized by BPJS, which consists of BPJS Health and BPJS Employment. Especially for the National Health Insurance (JKN) will be held by BPJS Health that the implementation begins on January 1, 2014.

National social security system (SJSN) is a procedure for the implementation of social security programs by several social insurance providers. SJSN is a State program that aims to provide protection and social welfare for all Indonesian people. Through this program, every citizen is expected to be able to improve basic living needs more adequately in case something happens that can result in loss or decrease in income, due to illness, accident, loss of employment, entering old age, or retirement. The definition of SJSN as stipulated in the Social Security Law means that social security is a state instrument implemented to transfer individual risks nationally by being managed in accordance with principles in the Social Security Law.

For approximately 4 (four) decades, Indonesia has run several social security programs, but only covers a small part of the society. Most of the people have not been touched and have adequate protection, in addition to the implementation of such social security programs have not been able to provide fair and adequate protection to the participants in accordance to the rights of the participants. In this regard, it seems necessary to prepare a SJSN which can synchronize the various forms of social security implemented by several providers in order to reach wider membership and provide greater benefits for each participant.

The government seeks to improve the quality of health services, through the National Health Insurance (JKN) program to free the people from the financial burden when they are sick, but all people who are able enough must pay when they are healthy. In accordance with Article 23A of the 1945 Constitution which reads "Other taxes and levies that are forcing for state purposes are regulated by law", the National Social Security System Law (SJSN) requires all income earners to pay future contributions in the future, regardless of poor or not poor.

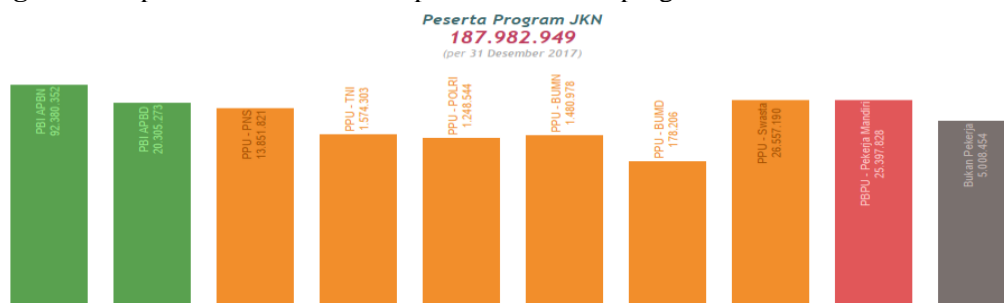
Definition of Health Insurance is a guarantee in the form of health protection so that participants obtain health care benefits and protection in meeting basic health needs given to every person who has paid dues or fees to the government. The Social Security Administering of Health is a legal entity, established to organize a Health Insurance program. BPJS of health is a public legal entity which is the responsibility of the President. The membership of BPJS of health is divided into two groups, namely the Contribution Beneficiaries (PBI) and Non-PBI Participants. Participation of PBI (Presidential Decree No. 101 of 2011).

## 2. Literature Review

Participants of PBI Health Insurance as referred to in Article 4 of Regulation of BPJS of health Number 1 of 2014, letter a consists of: a. People belonging to the poor; and b. People can not afford. Non-PBI Participants of Health Insurance as referred to in Article 4 letter b shall consist of: a. Wage Workers and members of their families including foreign nationals who work in Indonesia for a minimum period of 6 (six) months and members of their families; b. Non-Wage Workers and members of their families including foreign nationals working in Indonesia for a minimum period of 6 (six) months and members of their families; c. Not Workers and members of his family.

The stages of membership pursuant to Presidential Regulation No. 111 of 2013 shall be the membership of Health Insurance shall be mandatory and shall be carried out in stages so as to cover the whole population. The first phase shall begin on 1 January 2014, and the second phase shall cover all residents who have not entered as Participants of BPJS of health not later than 1 January 2019. Based on the picture below, not all of Indonesia's population is a participant, the data submitted by the Minister of Home Affairs of the population of Indonesia as of 30 June 2016 was 257,912,349 inhabitants and in July 2017 the number of Indonesian Population Increased to 262 Million people, then the report from the central body of statistics in September 2016, the number of poor (people with per capita expenditure per month below the Poverty Line) in Indonesia reached 27.76 million people (10.70 percent), decreased by 0.25 million people compared to March 2016 conditions amounted to 28.01 million people (10.86 %). So, it can be concluded that there are as many as 71.37% of the Indonesian population who became participants BPJS and there are 28.63% more who have not become a participant of BPJS. Of the 262 million inhabitants there are 10.70% living below the poverty line, the observations from March 2016 through September 2016 are declining, it can be assumed that once the population below the poverty line becomes a participant of PBI BPJS (according to Article 4 of BPJS Health Regulation No. 1 of 2014, letter a is People belonging to the poor) is currently undergoing change, changing from living below the poverty line to prosperity, in this paper I can not present more complete indicators.

**Figure 1.** Report from BPJS: Participants of the JKN program



The rights of the participants, among others, 1. to obtain the participant card as valid evidence to obtain health services; 2. Obtain benefits and information on the rights and obligations and procedures of health services in accordance with applicable provisions; Obtain health services at health facilities in collaboration with BPJS of Health; 4. Submitting complaints, criticisms and suggestions orally or in writing to the BPJS Health Office. Payment of Health Insurance Contribution is done through Virtual Account number. Virtual Account is a virtual account number provided by BPJS of Health for entities and individuals as the destination account in Health Assurance dues payment.

The obligations of participants are among others, 1. Register themselves as participants and pay dues amount in accordance with applicable provisions; 2. Reporting changes to participant data, whether due to marriage, divorce, death, birth, change of address or move to a first-rate health facility; 3. Maintaining the Participant Card so as not to be damaged, lost or exploited by unauthorized persons; 4. Obey all health service provisions and procedures.

The scope of services is set forth in Presidential Regulation No. 12 Year of 2013 and Regulation of BPJS Health number 1 Year of 2014. In Regulation BPJS Health number 1 Year of 2014 Health Facilities is a health service facility used to conduct individual health service efforts, either promoting, preventive, curative or rehabilitative conducted by the Government, Regional Government, and / or the Community. Indonesian Tariff - Case Based Groups hereinafter referred to as INACBG's Tariff is the amount of claim payment by BPJS Health to Advanced Health Facility for service package based on disease diagnosis grouping.

### **3. Methodology**

The research is literature review where data was collected and compared to facts, gaps are considered a problem, that is between the hospital cooperation with the board of social insurance administrator (BPJS) in view from the perspective of Indonesian business law, causing problems including the level of customer satisfaction, complaints, cost and regulation of BPJS regulations. The most common complaint is the slow service for BPJS participants compared to non BPJS participants, no stock of drugs often delivered by the patient, this situation complicates the condition of the patient and encourages the patient to buy his own medicine outside the BPJS package, while Iur fees are not allowed, the hospital is difficult to predict profit and even threatened of loss due to low cost claims BPJS, another complaint is the long list of waiting queues in the examination room, the atmosphere is constantly boring, to get around sometimes the participants come early impressed slums into the view of the examination room, everyone trying to be served first, inevitable queue of saturation and irritation, especially among the elderly patient group. There are also other complaints of unavailability of supporting facilities such as laboratories and diagnostic tools required, so patients must go to an

external laboratory and have to pay for themselves, the reason that is often heard is the required checks are not included on the watch by the organizers.

My observation is that there is an incompatibility between the Indonesian Tariff - Case Based Groups or INACBG's Tariffs with the patient's disease coding, the funding basis does not refer to the real conditions of a management procedure. One condition that I think is very apprehensive is when the patient is treated, he must be repatriated because the amount of payment claims by BPJS of Health to the hospital for the condition of his disease has been used up, while the disease was not healed. Patient experience as described above encourages dissatisfaction among participants. The problem now, is there any correlation between 28.63% of the population in Indonesia who have not signed up to be a health BPJS participant with the complaints that I have explained above?

According to the research conducted by Lontaan (Lontaan,2014) about patient satisfaction of BPJS health user stated that patient of BPJS health service that exist in Central Public Hospital (RSUP) Kandou Malalayang still feel less well socialized. There are BPJS participants who still do not know about the mechanism of health service of BPJS, about the hospitalization costs and the purchase of medicines which is not covered by BPJS of health at RSUP Kandou Malalayang. The research was also conducted by Munijaya (2012) who expressed that the daily patient dissatisfaction is most often expressed in relation to attitudes and behavior of hospital personnel, among others: the delayed service of doctors and nurses, the doctors difficult to find, duration of admission for patients who will be treated, limited drugs and equipment of availability facilities (toilets, garbage cans) as well as order and cleanliness of hospitals.

#### **4. Result and Discussion**

Tips to integrate business and social functions in the business of the hospital are to follow the government regulation, which are serving the BPJS and Jamkesmas participants. It is expected that developing a model of social function bridge without eliminating the commercial function can carry out the social function. The business is low-cost, but quality and supply are maintained. Low-cost businesses can also generate commercial value of survival. We have Siloam hospital unit for middle to lower class. Receive Health Insurance and Community Health Insurance (Jamkesmas) cards.

In terms of ownership, Hospitals in Indonesia are mostly owned and managed by individuals. Only a few corporations have hospitals. The current hospital should be able to compete, by substituting equipment. In areas where people have a higher level of health awareness, they are required to use the most sophisticated Hospital equipment. When there is already an area that can use equipment, it can be distributed to a new area.

Hospital functions according to the Law of the Republic of Indonesia number 44 of 2009 are: the organizer of medical treatment and recovery services are according to hospital service standards. Conducting personal health maintenance and improvement through the second and third level medical services as needed. According to Zeithaml et al, hospital service should be qualified, and it is formed from quality service dimensions such as reliability, responsiveness, assurance, empathy, physical evidence. By paying attention to these dimensions, health providers can establish quality health services (Rangkuti, 2006). Reliability is the ability to perform services in an immediate, accurate and satisfactory manner. Responsiveness is the ability to help customers and availability to serve customers well. Tangible includes physical facilities, employee equipment and means of communication. Empathy is an individualized attention given to the company by customers, such as the ease of doing good communication, attention and understanding of customer wants and needs.

Hospital functions are inseparable from the profit company, where the Hospital Governing Body is an organized unit responsible for establishing hospital policies and objectives, maintaining good quality patient care, by providing planning and institutional management (Samsi Jacobalis, 2002). The current development has led to the emergence of new hospitals that profit motive and in the form of limited company/ PT, but in principle members of Governing Body whether it is from the hospital profit and non-profit, they consistently carry out the task or mission to implement a fiduciary duty that can be interpreted as the responsibility or trust or trust duties.

As a fiduciary duty bearer, there are two most important tasks: loyalty and responsibility. Loyalty here means that members of the Governing Body shall place the interests of the institution above all personal interests. For example: All members of Governing Body should avoid any conflict of interest, such as joining as a supplier of goods and services in hospitals that benefit themselves or have a negative effect on non-fulfillment of the maximum institutional interest. While Responsibility here means that every member of the Governing Body must give good care, with all skill and diligence according to the situation and condition that exist, in every activity of Governing Body. In other words, it is demanded a selfless devotion with a high sincerity. The term Governing Body itself in Indonesia has been formally listed in the Hospital by laws Guidelines by the Directorate General of Medical Services of the Ministry of Health in 2002, in Chapter II. Governing Body is the highest authority and moral responsibility body in all hospital operations and is responsible for the clinical care provided to the community. In Indonesia the analogy of Governing Body should still be assessed in accordance with the form and ownership of hospitals, because there are still many differences that need to be considered.

Not always hospitals (RS) with legal status can serve the community professionally. Evidently, there are some hospitals with legal entities in accordance with Article 7 paragraph (4) Act Number 44 Yearof 2009 on Hospital has poor governance. For



example, unable to pay health workers and other employees. Other facts are hospitals that incorporate bodies use advantages for the expansion by setting up some more hospitals. Article 7 paragraph (4) of the Hospital Law stipulates that "Hospitals established by the private sector as referred to in paragraph (2) shall be in the form of a legal entity whose business activities only operate in the field of hospitals." The hospital view shall be incorporated as forms of excessive concern and not on strong grounds. Provisions that threaten the Hospital which has been running its functions well also will be disrupted in carrying out its duties.

The observation that so far has not found the Hospital to become bankrupt or not having good governance due to the status of its legal entity, not only manage the Hospital according to the provisions of Article 7 paragraph (4), especially in hospitals that are not-for-profit, and has a high social mission in serving the community. proven by the accredited Hospitals. Therefore, if a person who establishes a hospital that does not have a license under the conditions specified in Article 25 paragraph (1) will be sentenced to a maximum of 2 years in prison and a maximum fine of Rp 5 billion. If it is done by the corporation, the management may be sentenced to three times a fine of fines and revocation of business license or legal entity as regulated in Article 62, Article 63 paragraph (3), (4) and Article 64 paragraph (1). The hospital must have a business charity guaranteed by Article 28D Paragraph (1) and 28I of the 1945 Constitution. Or Article 7 Paragraph (4) of the Hospital Law as long as the phrase "whose business activity is only engaged in the field of hospitals" is contradictory to the 1945 Constitution and does not have binding legal force, it can be concluded that the hospital should not be a mere business.

According to Hughes and Kapoor, business is an organized individual business activity to produce and sell goods and services in order to gain profit in meeting the needs of the community. while the business sense by Brown and Petrello is a business or an institution that produces goods and services needed by the community. The definition of business law is a device or legal rule including enforcement efforts that regulate the procedures for the implementation of affairs or trade, industrial or financial activities associated with the production or exchange of goods or services by placing money from entrepreneurs in certain risks by a particular business with a motive for gain (Fuady, 2005 about business law) in business practice, customer satisfaction can not be ignored, also excellent service becomes a point of success especially in health business.

## **5. Conclusion**

Based on the description above, it is seen that the implementation of a regulation is very important, the Health BPJS number 1 of 2014 as an effort of the Indonesian government to fulfill the rights of the individual health widely, using the health service facilities provided as the form of state responsibility (over utilization), the number of health care users offset by the readiness of available health facilities

(medication is always available, full diagnostic examination, fast and satisfactory inspection process) will avoid the impression of under-utilization that is compared to the inappropriate service standard. will mean that progress has no impact on welfare and equity that is evenly shared by society. The Government ensures that no strong entrepreneurs who oppress by applying corporate, is a group of people united to establish a legal entity. The word corporate comes from the Latin word corporation which means "to establish the body". Legally, this corporation is the same as an ordinary company, but the corporate word is used to describe a well-established company. Corporate commonly used to describe a large company or parent company, where the company is a core company that has various subsidiaries under it. This is where the role of law limits and prevents the existence of economic monopoly practices in accordance with the opinion of Richard Posner. By enacting the law as commander in all legal activities in this country, the vision of Indonesia 2045 is as a country which has social justice.

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## Determinant Customer Loyalty Model of Sharia Banking (Case in Indonesia)

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Dhenok Darwanti \*, Cicih Ratnasih \*)

**Abstract:**

*This study aims to determine the extent to which the influence of service quality, corporate image of customer loyalty through customer satisfaction at Bank Sharia in Indonesia. Data processing method using path analysis method (Path Analysis) with the help of SPSS version 21.0.*

*The statistical test used the significance test of individual parameters (t-test) and simultaneous significance test (F-test). The results showed that simultaneously variable quality of service, corporate image, and customer satisfaction have a significant effect on customer loyalty.*

*Partially shows that analysis (1) service quality variables significantly influence customer loyalty, while analysis (2) corporate image variable significantly influence customer loyalty and on analysis (3) customer satisfaction variable significantly influence customer loyalty performance.*

**Keywords:** Sharia banking, customer loyalty, customer satisfaction, service quality.

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### 1. Introduction

Customer satisfaction will be the guideline to drive the entire organization towards fulfilling customer needs so that it becomes a source of sustainable competitive advantage either in goods or services (Dimitriades, 2006; Suryanto and Ridwansyah, 2016; Setyawati et al., 2017). From a customer perspective, many complaints, and customer rights are ignored over overly high prices, slow and inhospitable service, adverse promotions, inadequate post-sale guarantees, poor quality of products and services. The difference between expectation and reality obtained by this customer, if not well anticipated by the entrepreneur will be booming for the entrepreneur itself.

Customers as users of goods or services require a clear legal protection in obtaining satisfaction and feasibility in consumer goods or services. According to Law No.8 of 1999, article 1 point 1 Protection of customers is "any endeavor that ensures legal certainty to provide protection to customers".

In the long term, customer loyalty becomes the goal for strategic market planning (Kotler, 2007 in Dharmesta, 2009); it also serves as the basis for sustainable competitive development (Dick and Basu, 2007 in Dharmesta, 2008), which are excellence that can be realized through marketing efforts. Customer loyalty positively affects company earnings through the effect of cost reduction and additional revenue per customer (Berry, 2009 in Thureau, 2008; Permana, 2017; Amilin, 2017). Considering the effect of cost reduction reported that while maintaining customer loyalty will cost less than acquire one new customer and the cost to keep customers decreased throughout the lifecycle phase of the relationship.

Companies operating in the service and goods sectors will consider the policy of how important the quality of service is given compared to the satisfaction received by the customers. Quality of service and customer satisfaction are a different concept with the argument that the perceived service quality is a form of attitude, a thorough evaluation in the long run, while the satisfaction shows the size of a particular transaction. Therefore, satisfaction takes place in the short term. The higher the level of service quality perceived, the increased customer satisfaction. The statement confirms the close relationship between service quality and customer satisfaction. (Parasuraman, 2008)

Quality encourages customers to establish a close relationship with the company so as to enable the company to carefully understand the expectations and needs, which ultimately the customer satisfaction can create loyalty to the company. In the long run, customer loyalty becomes the goal for strategic market planning (Kotler, 2007 in Dharmesta, 2006); it also serves as the basis for sustainable competitive development (Dick and Basu, 2004 in Dharmesta, 2009), which are excellence that can be realized through marketing efforts.

Corporate image is a process (MacInnis and Price in Aydin and Ozer, 2005). Starting from the ideas, feelings and experiences of consuming the company derived from memory and converted into mental images (inner) (Yullie and Catchpole in Aydin and Ozer, 2005). Creating a positive or good corporate image is possible by helping customers see the privilege of the product through the best way to do what is possible to display a positive image of the company and services and develop relationships that can make customers feel privileged and personally valued.

Customers assess corporate image not only on the basis of functional quality alone but also based on the psychological attributes that the company reflects. Nguyen and Leblanc explain that there are two basic components of corporate image, that are functional and emotional, where the functional components are related to easily

measured attributes, while the emotional component is related to the psychological dimension, like customer's feelings and attitudes toward the company, based on the customer experience when interacting with the company and attribute information that describes the image of the company (Jamal and Kamal, 2004). In other words, the image is formed based on the experience with customers of the company's products or services, which later can be taken into consideration to make decisions.

## 2. Literature Review

Consumer loyalty, in general, can be interpreted as a person's loyalty to a product, both goods, and services. Consumer loyalty is a continuation of customer satisfaction in using the facilities or services provided by the company, and to remain a consumer of the company (Ahmad, 2005). Loyalty is a proof that consumers are always customers, who have the power and a positive attitude toward the company. From the above explanation can be seen that each customer has a different loyalty base, and this depends on their objectivity.

Regarding customer loyalty according to Tjiptono (2000) is suggested that: *"Loyalty is a situation where 25 consumers are positive to the product or producer (service provider) and are accompanied by consistent repurchase patterns."* While the definition of loyalty by Griffin (2008) is: *"Loyalty is defined as non-random purchase expressed over time by some decision-making unit."*

The above definition shows that loyalty is more shown to a routine purchasing behavior by turning on the decision-making unit. and it can be concluded that loyalty is made up of two components; loyalty as a behavior is a consistent buyback and loyalty as an attitude that is a positive attitude towards a product or manufacturer (service provider).

Each product brand has its own distinction. Consumers in meeting their needs and wants will buy products with a brand. If the consumer's chosen brand can satisfy his needs and wants, then the consumer will have a deep memory of the brand. In these circumstances, customer loyalty will begin to arise and develop. On subsequent purchases, the consumer will choose a product with a brand that has given him satisfaction, so there will be repeated purchases of the brand.

On the contrary, if the brand cannot satisfy the consumer then on the next purchase the brand will be abandoned and not selected again. Therefore, companies must know the needs and desires of consumers to remain loyal to the brand. Farquahar, (2004) states that *"Loyalty is not a percentage of first-time buyers, but repeat purchases Loyalty is the percentage of people who have bought in a given period and made repurchases since the first purchase"*.

Customer satisfaction is understood as the customer's emotion or feeling the reaction to the perceived difference between performance appraisals and expectations

(Oliver, 2000; Rust, Zahorik and Keiningham, 2006; Yi, 2000 in Thurau, 2002). The concept closest to results relating to service quality is described as a customer evaluation of the work of the service provider, based on previous experience and impressions. As in the case of satisfaction, the relevance of quality to long-term success is unnecessary (Parasuraman, and Berry, 2008 in Thurau, 2002). Research conducted by Dabholkar et al. (2000) in Tjitono (2005), states that service quality has a significant effect on customer satisfaction. Other studies also show the relationship between service quality and customer loyalty (Zeithmal, Berry and Parasuraman, 2006 in Thurau, 2002).

Al-Hawari (2008) said that customer satisfaction serves as a guide to direct the entire organization towards meeting customer needs so that it becomes a source of sustainable competitive advantage. From a customer perspective, many complaints and customer rights are ignored regarding over-priced, slow and unfriendly service, harmful promotions, inadequate post-sale guarantees, poor quality of products and services. The difference between expectation and reality obtained by this customer, if not well anticipated by the entrepreneur will be booming for the entrepreneur itself.

Corporate image is a process (MacInnis and Price in Aydin and Ozer, 2005). Starting from the ideas, feelings and experiences of consuming products or services from the company derived from memory and converted into mental images (inner) (Yullie and Catchpole in Aydin and Ozer, 2005). To create a positive or good corporate image can be done by helping customers see the privilege of the product through the best way to do what is possible to display a positive image of the company and services and develop relationships that can make customers feel privileged and valued personally (Ali, F., Khan, U.S., & Rehman, F.A.M.S., 2012).

### **3. Methodology**

The first step in path analysis is to design models based on concepts and theories. Conducting an examination of the assumptions underlying the path analysis i.e. the relationship between variables is linear and additive. The model used is a recursive one-way causal flow system, while a respiratory model or two-way causal flow cannot be analyzed.

The next step in path analysis is parameter estimation or path coefficient calculation. For parameter estimation done by regression analysis through software SPSS 22.0 for windows. The calculation of path coefficient is processed by using SPSS software version 22.0. Path analysis is used to analyze the relationship pattern between variables with the aim to know the direct or indirect effect of a set of exogenous variables on endogen.

$$\text{Structure 1: } Y = \rho_{yx1} X1 + \rho_{yx2} X2 + \rho_{y\epsilon1}$$

$$\text{Structure 2: } Z = \rho_{zx1} X1 + \rho_{zx2} X2 + \rho_{zy} + \rho_{z\epsilon2}$$

where:

$\rho$  = standardized regression coefficient / path coefficient

$\varepsilon$  = influence of other variables not examined or error measurement variable

*Calculation of direct and indirect influence:*

Based on Summary and Sub Line Coefficient of Structure 1, Sub Structure 2 and Sub Structure 3, it can be known the magnitude of direct influence and indirect influence between variables.

**Table 1. Direct Effect**

Effect	Toward	Symbol
Service quality (X1)	Customers satisfaction (Y)	$\rho_{yx1}$
Corporate image (X2)	Customers satisfaction (Y)	$\rho_{yx2}$
Service quality (X1)	Customers loyalty (Z)	$\rho_{zx1}$
Corporate image (X2)	Customers loyalty (Z)	$\rho_{zx2}$
Customers satisfaction (Y)	Customers loyalty (Z)	$\rho_{zy}$

**Table 2. Indirect Effect**

Effect	Toward	Through	Symbol
Service quality (X1)	Customers loyalty (Z)	Customers satisfaction (Y)	$\rho_{yx1} \times \rho_{zy}$
Corporate image (X2)	Customers loyalty (Z)	Customers satisfaction (Y)	$\rho_{yx2} \times \rho_{zy}$

#### 4. Results and Discussion

*Interpretation of sub test result of structure 1:*

The rules of significance testing are:

- If the probability value of 0.05 is less than or equal to the probability value of sig. or  $[0.05 \leq \text{Sig}]$ , then  $H_0$  is accepted and  $H_a$  is rejected, meaning not significant.
- If the probability value of 0.05 is greater than or equal to the probability value of Sig or  $[0.05 \geq \text{Sig}]$ , then  $H_0$  is rejected, and  $H_a$  is accepted, meaning significant.

*Quality of service and corporate image simultaneously affect/together on customer satisfaction:*

It is shown the test together/S test obtained Sig 0,000, where the value of sig. 0.000 is smaller than 0.05 or  $[0,000 < 0.05]$ , then  $H_0$  is rejected and  $H_a$  accepted means the coefficient of path analysis is significant. Thus, the quality of service and the cira of the company influence together towards customer satisfaction.

*Service quality affects customer satisfaction:*

It is shown that the test individually (partial)/t-test obtained sig. 0,000 value, where the value of sig. 0,000 is smaller than 0.05 or  $[0,000 < 0.05]$ , then  $H_0$  is rejected and

Ha accepted means the coefficient of path analysis is significant. Thus, the quality of service significantly influences customer satisfaction.

*Corporate image affects customer satisfaction:*

It is shown the test individually (partial)/t-test obtained sig. 0,000 value, where the value of sig. 0,000 is smaller than 0.05 or [0,000 <0.05], then H<sub>0</sub> is rejected and H<sub>a</sub> accepted means the coefficient of path analysis is significant. Thus, corporate image significantly influences customer satisfaction.

*Interpretation of sub test result structure 2:*

Quality of service and corporate image simultaneously affect together on customer loyalty. It is shown that the test together/test F obtained Sig 0,000, where the value of Sig 0.000 is smaller than 0.05 or [0,000 <0.05], then H<sub>0</sub> is rejected and H<sub>a</sub> accepted means the coefficient of path analysis is significant. Thus, the quality of serving and corporate image affects collectively towards customer loyalty.

*Service quality affects customer loyalty:*

It is shown that the individual test (partial)/t-test obtained Sig 0,000 value, where the value of Sig 0.000 is smaller than 0.05 or [0,000 <0.05], then H<sub>0</sub> is rejected and H<sub>a</sub> accepted means the coefficient of path analysis is significant. Thus, the quality of service significantly influences customer loyalty.

*Corporate image affects customer loyalty:*

In Table 2 is shown the Individual test (partial) / t-test obtained Sig 0,000 value, where the value of Sig 0.000 is smaller than 0.05 or [0,000 <0.05], then H<sub>0</sub> is rejected and H<sub>a</sub> accepted means the coefficient of path analysis is significant. Thus, corporate image significantly influences customer loyalty.

## **5. Conclusion**

- a. The results showed that service quality had the positive and significant effect directly on customer satisfaction. Based on the results of the analysis, obtained the coefficient of variable path (Beta) quality of service to customer satisfaction variable is equal to 0.333 with significance 0.000.
- b. The results showed that corporate image has a positive and significant effect directly on customer satisfaction. Based on the results of the analysis, obtained coefficient path (Beta) variable corporate image to customer satisfaction variable is equal to 0,594 with significance 0.000.
- c. The results showed that service quality had the positive and significant effect directly to customer loyalty. Based on the results of the analysis, obtained coefficient path (Beta) variable quality of service to customer loyalty variable is equal to 0.322 with significance 0.000.
- d. The results showed that corporate image has a positive and significant effect directly on customer loyalty. Based on the results of the analysis, obtained



- coefficient path (Beta) variable corporate image to customer loyalty variable is equal to 0.605 with significance 0.000.
- e. The results showed that customer satisfaction has a positive and significant effect directly on customer acceptance loyalty. Based on the results of the analysis, obtained coefficient path (Beta) variable customer satisfaction to customer loyalty variable is equal to 0.874 with significance 0.000.
  - f. The results showed that indirectly the quality of service has a positive and significant impact on customer loyalty. Based on the results of the analysis, obtained coefficient path (Beta) cultural variables organization to customer loyalty variable is 0.291.
  - g. The results showed that indirectly corporate image has a positive and significant impact on customer loyalty. Based on the results of the analysis, obtained coefficient path (Beta) variable corporate image to customer loyalty variable is equal to 0,519.

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## Determinants Influencing the Intention to Use Mobile Expert System for Diagnosis of Pests and Potatoes Diseases

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### **Abstract:**

*This research aims to examine and analyze technology acceptance model which consist of perceived ease of use (PEOU), perceived usefulness (PU), perceived enjoyment (PE) impact on intention to use (ITU) Mobile Expert System for Diagnosis of Pests and Diseases Potatoes.*

*The research population is farmers who are using Mobile Expert System for Diagnosis of Pests and Diseases Potatoes. Research sample are 275 farmers who are using Expert System for Diagnosis of Pests and Diseases Potatoes once a week at least. Sample determination considers purposive sampling while research data analysis using IBM SPSS Statistic 19.*

*The results of the research indicate perceived ease of use has positive and significant effect on intention to use, perceived usefulness has positive and significant effect on intention to use, and perceived enjoyment has positive and significant effect on intention to use.*

**Keywords:** *Expert System, perceived ease of use, perceived usefulness, perceived enjoyment, intention to use;*

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### **1. Introduction**

Crop pest and disease diagnosis are amongst important issues arising in the agriculture sector since it has significant impacts on the production of agriculture for a nation. The applying of expert system technology for crop pest and disease diagnosis has the potential to quicken and improve advisory matters. However, the development of an expert system in relation to diagnosing pest and disease problems of a certain crop as well as other identical research works remains limited. Mobile phones are nowadays the most popular and widely used means of communication for its compact size, versatility, and ease of handling. Expert systems (ESs) are intelligent software applications that utilize acquired expertise from experts in a specific domain to provide advice to its users through a dialog or a conversation

conducted between the user and the ES application. Mobiles are no doubt the most widely used means of communication for its ease of use, ease of handling, and increasing capabilities. Most of the mobiles nowadays are equipped with top edge technologies that enable the user to communicate data in high rates and provide geospatial services that make the user identify his position on the earth accurately (Patel and Abowd,2003). The diffusion of mobile services in our daily life is due to the flexibility, interaction and efficiency they provide for the users (Balasubramanian & Sirka, 2002; Leung & Wei, 2000). In this electronic environment, companies need to recognize the ways of interacting with their customers and presenting their services. To achieve this, it requires an understanding of the driving forces (determinants) that may affect customers' intention to use these kinds of services and their perception of the high value that results from using them (Anckar & D'Incau, 2002). To date, there is a limited extent of studies that reinforce a well-built theory on the essential aspects of developing mobile commerce (Jih, 2007; Nysven et al., 2005a; Yang, 2005), which mobile phone and its services are considered to be the most important tools of it (Anckar & D'Incau, 2002; Mort & Drennan, 2005). Previous studies have recommended the importance of a deeper vision to get to a better understanding of the determinants that may either compel the user to use mobile services or impede this use (Rao & Troshani, 2007).

## **2. Literature Review**

The technology acceptance model (TAM) originally formulated by Davis (1986) is the preeminent theory that is widely used to explain and predict user acceptance of new information system. Many studies have been conducted concerning users' intentions for adoption of mobile services, most of which have been based on the model of Davis's (1989). However, parsimony has been one of TAM's strengths, but also its major weakness consists in its limited use in explaining users' behavioral intention to adopt complex mobile services (Venkatesh & Davis,2000). That is the reason why the current study sought to extend this model through adding new determinants to fit it well with the characteristics of mobile services (Amin, 2007; Qingfei et al., 2008; Snowden & Spafford, 2006; Wong & Hsu, 2008; Yang, 2005). TAM was rooted in the theory of reasoned actions (TRA), a model suggests that beliefs influence attitudes, attitudes influence intention and this may generate behaviors (Ajzen and Fishbein, 1980). Based on TAM model, the level of technology acceptance by users depends on two main constructs, namely, perceived usefulness and perceived ease of use." The original TAM model is shown in Figure 1. The main idea of TAM model is that the potential user's overall behavioral intention to use an information system is considered as the major factor that determines a person's system usage. The behavioral intention to use the system is influenced by attitudes towards using the system. These attitudes are influenced by two beliefs, namely, perceived usefulness and perceived ease of use that person holds about the use of technology. Perceived ease of use has causal effects on perceived usefulness. External variables can directly influence perceived usefulness

and perceived ease of use. The success or failure of technological innovations depends on the latitude of their users' acceptance (Wong & Hsu, 2008).

*Determinant of the use mobile system expert:*

'Perceived Ease of Use' refers to "the degree to which a person believes that using a particular system would be free of effort" (Davis, 1989, p. 323). In the mobile setting, it represents the degree to which individuals associate freedom of difficulty with the use of mobile technology and its services in everyday usage (Knutsen et al., 2005). Any technology that is not hard to understand will be less threatening to individuals so, the degree of its complexity is certainly a factor that determines the intention to use it (Agarwal & Prasad, 2000; Bhatti, 2007; Moon & Kim, 2001; Venkatesh & Davis, 2000; Venkatesh, 2000). Ease of use is perceived through variables such as the diversity of the modes of insertion and the clarity, understanding and ease of operating, among others. In addition, this determinant affects the attitude towards mobile services in general (Amin, 2007; Nysveen et al., 2005b; Pagani, 2004; Roa & Troshani, 2007), considering the arguments above, we suppose the following hypothesis:

*H1: Perceived ease of use has a significant influence on the intention to use mobile expert system.*

'Perceived Usefulness' is defined as "the degree to which a person believes that using a particular system would enhance his or her job performance" (Davis, 1989). This determinant has been given different names such as utility expectancy or performance expectancy in order to adapt it to the nature of diverse technological applications (Qingfeietal, 2008; Venkatesh et al., 2003). Perceived usefulness of Mobile service is affected by several variables, the most effective of which are both the rapidity and convenience in achieving the dealings compared with other payment methods (Dewan & Chen, 2005). This determinant affects the attitude towards mobile services in general (Amin, 2007; Nysveen et al., 2005b; Pagani, 2004; Rao & Troshani, 2007). According to TAM, there is also a significant impact of perceived usefulness on intention to use resulting from an outside motive, such as achieving a certain goal or gaining a reward (Davis, 1989; Venkatesh & Morris, 2000). An empirical research has also confirmed that users will use mobile expert systems for practical reasons, that is, for the relative advantage those systems provide in financial transactions (Kimet et al., 2010). Considering the arguments above, we suppose the following hypothesis:

*H2.: Perceived usefulness has a significant influence on the intention to use mobile expert system.*

'Perceived Enjoyment' refers to "the extent to which the activity of using the (computer) technology is perceived to be enjoyable in its own rights apart from any performance consequences that may be anticipated" (Davis et al., 1992). Bruner and Kumar (2003) have added this constraint to the original TAM. Perceived enjoyment

is considered as one of the most important motives in accepting and using mobile services (Anckar & D’Incau, 2002; Cyr et al., 2006; Kaufaris, 2002; Leung & Wei, 2000; Novak et al., 2000). This determinant affects the attitude towards the service (Bauer et al., 2005; Nysveen et al., 2005a; Pagani, 2004; Rao & Troshani, 2007), and, as another study asserted it also directly affects the intention to use mobile services (Nysveen et al., 2005a). This determinant has a considerable importance in the field of mobile commerce applications. Since, from a point of view adopted by Qingfei et al. (2008), the term expected performance has been exchanged with expected benefit because of the importance of enjoyment in achieving the benefit from these kinds of applications, which include personal entertainment. However, the availability of enjoyment is not a requisite in all the applications of mobile commerce services, especially those related to financial dealings that require more sensible and practical involvement. Considering the arguments above we suppose the following hypothesis:

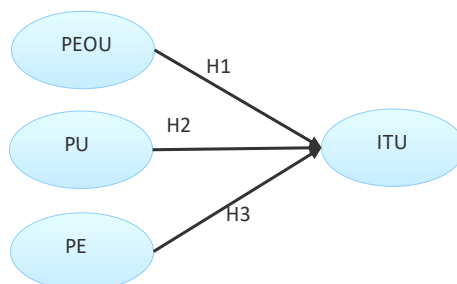
*H3: Perceived enjoyment has a significant influence on the intention to use mobile expert system.*

The above arguments reveal the diversity and multiplicity of the determinants that affect the adoption of mobile service. From the viewpoint of previous studies, the availability of these different determinants, specially perceived usefulness, perceived ease of use, security and privacy of the service is indicative of a sense of optimism among customers about the benefits gained from this new service, which accordingly strengthens the intention to use it (Dewan & Chen, 2005). However, the research at issue tests the extent to which all these previously mentioned determinants affect the attitude towards this service and the intention to use it in the farmer.

### 3. Methodology

The sample consisted of 275farmes in six province Indonesia. Respondents’ ages ranged from 19 to 38, with a mean age of 23.15 years and standard deviation of 2.97 years. Majority of the respondents (99.5 percent) admitted that they have good mobile phone skills.

*Figure 1. The conceptual framework*



For this study, the questionnaire consisted of 18 items assessed four constructs: perceived ease of use (PEOU), perceived usefulness (PU), perceived enjoyment (PE) and intention towards use (ITU) based on the research model. All the 18 items used a five-point Likert scale with 1 representing “strongly disagree” and 5 representing “strongly agree”. The items used to measure PEOU, PU, PE and ITU were adopted from previous research (Davis, 1989; Davis et al., 1989; Moon and Kim, 2001; Venkatesh, 2000) with some modifications to suit the research contexts.

IBM SPSS Statistic 19 was used to analyze the collected data of this study. In order to test the internal reliability of the constructs, reliability test in terms of Cronbach’s  $\alpha$  was computed. The Cronbach’s  $\alpha$  value for the four constructs PEOU, PU, PE and ITU of this study were 0.675, 0.694, 0.783, and 0.676, respectively. As suggested by Cuieford (1965) and Nunnally (1978), the Cronbach’s  $\alpha$  value of all these constructs were above the conventional level of 0.6. Thus, all these constructs were deemed to exhibit adequate reliability.

#### 4. Result and Discussion

Table 1 presents means, and standard deviations computed for various determinants. The scores for the perceived ease of use, perceived usefulness, perceived enjoyment and intention to use were observed to lie in-between.

**Table 1.** Summary of descriptive statistics of the constructs

	Mean	Std. Deviation
Perceived ease of Use	4.1553	.43944
Perceived Usefulness	4.1841	.42929
Perceived Enjoyment	4.1369	.56961
Intention to use	4.1455	.58784

*Hypotheses Testing: H1: Perceived ease of use has a significant influence on the intention to use mobile expert system:*

Figure 2 shows that the perception of ease of use has a positive and significant influence on the intention of use with the coefficient value of the path of 0.16 and p value <0.01 with a fault tolerance (alpha) of 5%. Hypothesis (H1) which states the perception of ease of use has a positive and significant influence on the intentions of the use of mobile expert systems of pests and diseases diagnosed potato plants, so ease of use becomes an important point for users to improve the intent of use. The perception of the ease of use of expert systems of pests and potato disease diagnoses can be the cause of success or failure of use. Perception of ease of use of expert system of potato pest and disease diagnosis, which is one form of development of information technology, can be reviewed from user interface design. Practically the user often feels the interface design of an application difficult. User interface design

should be made easy, so that interaction between users can be done as simply and efficiently as possible.

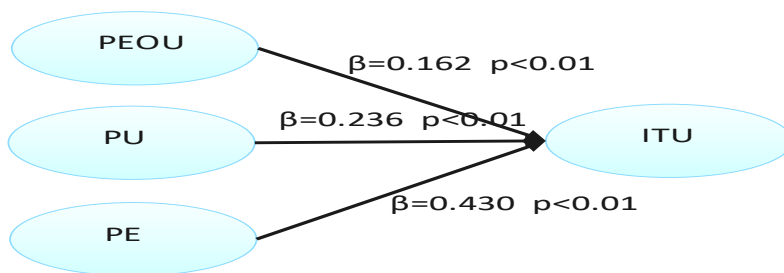
*H2.: Perceived usefulness has a significant influence on the intention to use mobile expert system:*

Figure 2 shows that the perception of benefits has a positive and significant effect on the intention of use with the coefficient value of the path of 0.236 and p value <0.01 with a fault tolerance (alpha) of 5%. Hypothesis (H1), which states the perception of benefits, have a positive and significant influence on the intent of use-supported expert system of pest and potato disease diagnosis.

*H3: Perceived enjoyment has a significant influence on the intention to use mobile expert system:*

Figure 2 shows that the perception of acceptance has a positive and significant influence on the intention of use with the coefficient value of the path of 0.430 and p value <0.01 with a fault tolerance (alpha) of 5%.

**Figure 2.** Results of research model



Hypothesis (H1) which states acceptance perception has a positive and significant influence on the intent of use supported by the appearance of an interesting application, a complete application, in accordance with what is desired and the satisfaction of the use of this application.

The effect of Perceived Enjoyment (PE) ( $\beta=0.430$ ) was relatively higher than that of Perceived Usefulness (PU) ( $\beta=0.236$ ) or Perceived ease of Use (PEOU) ( $\beta=0.162$ ), was found to have a direct effect on intention to use. This result indicates that the expectation confirmation theory model also has a strong explanatory power in predicting users' continuance intention in the context of Mobile Expert System for Diagnosis of Pests and Diseases Potatoes.

The study confirmed that multiple factors influence farmers' intention to use Mobile Expert System for Diagnosis of Pests and Diseases Potatoes. The findings of this study can be useful to better understand the underlying factors of users' continued usage of Mobile Expert System for Diagnosis of Pests and Diseases Potatoes. In addition, this study yields practical implications as to how to promote consistent use



of Mobile Expert System for Diagnosis of Pests and Diseases Potatoes to farmers, as well as implies a new approach to assess Mobile Expert System for Diagnosis of Pests and Diseases Potatoes.

## 5. Conclusion

The purpose of this study was to investigate the intention of using Mobile Expert System for Diagnosis of Pests and Diseases Potatoes. The results of the research indicate perceived ease of use has positive and significant effect on intention to use, perceived usefulness has positive and significant effect on intention to use, and perceived enjoyment has positive and significant effect on intention to use. The effect of Perceived Enjoyment (PE) ( $\beta=0.430$ ) was relatively higher than that of Perceived Usefulness (PU) ( $\beta=0.236$ ) or Perceived ease of Use (PEOU) ( $\beta=0.162$ ), was found to have a direct effect on intention to use.

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## Strategic Return of Shares: An Influence of Value and Stock Assessment

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**Abstract:**

*Companies often experienced various business funding shortfalls. These conditions encourage companies in trying to find outside funding sources on the capital market. The research was a strategic step to overcome faced obstacles by companies in the process of fulfilling the funding needs.*

*Companies were trying to find sources of funding from the capital market. Syariah Bonds, a sharia investment instrument was a trend in the Indonesian capital market. It was concluded that the nominal value and the rating of issuance of sharia bonds have a significant effect on the stock return.*

*The purpose of this study was to describe and analyze what was the influence of par value and rating of issuance of sharia bonds partially or simultaneously to the stock return. The populations of this study were all companies that issue Sharia bonds as well as shares, and listed companies in the Indonesia Stock Exchange of 2009-2013.*

**Keywords:** nominal value, Syariah bond, rating, stock return.

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### 1. Introduction

Meeting the financing needs of the company's operations faces many obstacles. Companies seeks out sources of external funding through the capital market (Afrianti, et al, 2015: 407). The capital market is an organization finding funds for company's operation and investment funds, concerning interest of many parties. Funding needs can be met, among others, by selling securities, long-term securities traded on the capital market. Included in this type of securities are stocks, bonds, certificates, replacement letters or temporary evidence of such letters, proof of profits and warrant letters (Martalena and Malinda, 2011).

Muslims in Indonesia began to examine other transactions in the world of finance, capital markets and money markets. Today the transaction is considered to be something taken for granted, accepted like the untouchable sharia law. One of the shariah-based investment instruments that are trending in the Indonesian capital market is sharia bonds known as Sukuk. Referring to the National Sharia Board Fatwa (DSN) no. 32 / DSN-MUI / IX / 2002, "Sharia bonds are long-term securities based on sharia principles issued to sharia bondholders that require issuers to pay revenues to sharia bondholders in the form of profit/ margin/ fee and repay bond funds at maturity". To issue Sharia bonds, certain requirements must be met, namely the core business (halal business), and not contrary to the substance of the DSN fatwa.

The issuance of Islamic bonds will cause an increase in the corporate leverage. On the one hand, increased leverage will bring profit to the company in the form of tax shield in which the company can reduce the share of earning which is paid for taxes, so that the company can increase the value of the company and provide profit to shareholders. However, at some point the use of debt can decrease the value of shares because of bankruptcy costs and interest costs arising from the use of debt (Afaf, 2008).

Previous research on similar topics has also been done. Spiess and Affleck (1999) examined the long-term stock performance after bond offering. The results show that long-term stock returns are under-performing, both regular and convertible bonds. Contrary, bond repurchase will increase the company's financial leverage, which will be responded by shareholders and investors, so that stock prices will decline around the announcement of outstanding bonds withdrawals. He concludes that the acquisition return realization, in the period before the announcement date of issuance of Islamic bonds, tends in general to decline. The daily return on shares after the announcement of the issuance of Islamic bonds, tends, in general, to increase. This means that the market has positively reacted to the announcement of the issuance of Islamic bonds. Mujahid and Fitrijanti (2010), concluded that the value and rating of Islamic bonds issuance, either simultaneously or partially has no significant effect on the return of realization and return on expectation. On the other hand, Septianingtyas (2012) stated that it has a positive and significant effect on stock returns. The issuance of Islamic bonds is the amount of bond based on the conclusion of the company's cash flow and business performance. If the value is high, then the return to be received by the company will also be high.

Majid, et al. (2011) argued, that there is influence between the ratings of Islamic bonds on stock returns. Sharia bond issuance ratings reflects the feasibility and stability of sharia bonds. By having an annual ranking report by a rating agency, investors will get information contained in a rating, indicating the extent to which the company is able to pay its obligations on invested funds by investors. Investors assess the information and the assessment will affect its investment decision. Sharia

bond issuance information provides a sign as well as a consideration for investors in making investment decisions. The existence of information about the announcement of issuance of Islamic bonds, can be positively or negatively interpreted by investors. Sharia bond issuance announcement information is positive, if the issuance of Islamic bonds contains meaningful information and good news for investors. Good news information means that the issuance of Islamic bonds is in order to increase the value of the company and provide benefits to investors. Sharia bond issuance announcement information is negative if the issuance of Islamic bonds contains information that means bad news for investors (Primadani, 2013).

Ibrahim and Minai (2009) found that the stock market reaction has a positive effect on the issuance of Islamic bonds. Positive results indicate that the issuance of Islamic bonds contains meaningful and good news information for investors, that will provide benefits to investors. In addition, sharia bonds become an instrument considered by investors when making decisions in stock trading. On the other hand, (Godlewski, 2010) found that stock market reactions have a negative effect on the issuance of Islamic bonds. Negative results indicate that the issuance of Islamic bonds contains meaningful, bad news information for investors and is considered to increase the corporate debt, "Sharia bond issuance shows that there is no significant positive effect on stock return" (Nugraha, 2016).

From several theories and differences of research that have been done before, this study has examined the extent to which the influence of issuance of Islamic bonds represented by the value and rating of stock returns on companies, is listed on the Indonesia Stock Exchange.

The problem identification in this study was about what was the impact of issuance of Islamic bonds represented by the nominal value and rating of issuance of Islamic bonds against stock return. The limitations of this paper's issue include the scope of the study of companies issuing sharia bonds and issued shares listed on the Indonesia Stock Exchange between 2009-2013. This study has used the data of companies issuing syariah bonds, the nominal value of the issuance, the rating of the issuance and the stock returns from the data of companies issuing sharia bonds and companies listed in the Stock Exchange of Indonesia.

The formulations of the problem, among others, are "was there any effect on the value of issuance of Shariah bonds to stock returns?", "Was there any effect of Sharia bond issuance rating on stock return?" "How big was the effect of nominal value and rating of issuance of Shariah bonds to stock return simultaneously?"

The purpose of this study was to attest the hypothesis that the value of issuance of Sharia bonds influence stock returns, and, to analyze the effect of sharia bond issuance rating on stock returns. There was also describes and analyzed the influence of the nominal value and rating of issuance of Sharia bonds to stock return

simultaneously. The test results could be considered for the bias of financial managers to develop investment strategies in the future.

The benefits of the research were to deepen the knowledge of capital market in analyzing the influence of financial information company issuers and knowing the effect of issuance of Islamic bonds against stock returns. The results of this study could provide information to investors regarding stock returns of issuers of Islamic bonds to invest in the capital market. The results of this study could be used as empirical evidence to examine the impact of the policy of sharia bond issuers. The results of this study were also useful for the community in analyzing investment decision-making in the capital market, to sharia-based investment instruments that are still not widely known by the public. The output of this paper could be a reference for investors and bondholders to invest and expect the rate of return earned.

## 2. Literature Review

### *Bond Issuance:*

In the issuance of bonds, issuers clearly state the needed amount of funds which are needed through the sale of bonds. The term is known as the amount of bond issuance. If the company needs funds of Rp 400 billion then for the same amount will be issued bonds worth the funds. The determination of the small amount of bond issuance is based on the company's cash flow capability and business performance. The value of issuance of Islamic bonds has a positive and significant impact on return. He concluded that the returns, in the period before the announcement date of the issuance of Islamic bonds, tends, in general to decline. The daily return on shares after the announcement of the issuance of Islamic bonds, tends, in general to increase. This means that the market has positively reacted to the announcement of the issuance of Islamic bonds. Mujahid and Fitrijanti (2010), concluded that the rating of Islamic bond issuance, has either simultaneously or partially no significant effect on return. On the other hand, Septianingtyas (2012), stated that the value of issuance of Islamic bonds have a positive and significant effect on stock returns. The value of issuance of Islamic bonds is the amount of bond issuance based on the conclusion of the company's cash flow and business performance. If the value of issuance of Islamic bonds is high, then the return received by the company (issuer) will also be high.

### *Stock returns:*

The concept of risk is inseparably related to return, because investors always expect a high rate of return in accordance with each investment risk it faces. Understanding that the stock return is "Return from investment security is cash flow and capital gain/ loss". Based on the opinion that has been put forward, it is concluded that the stock return is the profit obtained from the investor's stock ownership of the investment made, which consists of dividends and capital gain/ loss.

*The Effect of Issuance of Sharia Bonds to Stock Return:*

According to Ibrahim and Minai (2009), stock market reactions have a positive influence on the issuance of Islamic bond. Thus, this will affect the stock return. Positive results indicate that the issuance of Islamic bonds contain good news information for investors.

*Rating Issuance of Syariah Bonds:*

In investment, rating is one of the most important things to determine if a company or a country can get funding from bond issuance or not, and how much coupon or yield must be paid to be accepted by the investor. Rating is one of the benchmark investors who decide to buy or not a bond. Rating is one of the variables that are considered by the investor when deciding to invest in a company. The information contained in the rating, indicates the extent to which a company is able to pay its obligations on invested funds by investors. The company's high rating owner, usually preferred by investors compared to companies that have very low rating (Manurung, 2008).

Bonds will usually get a periodic rating issued by a rating agency. Several rating agencies regularly conduct ratings on issued bonds, such as Standard & Poor's (S & P), Moody's, Fitch Ratings, and Pefindo. The rating consists of two parts: rating and outlook. Rating is the ability to pay the debt, while the outlook is the rating of company's assessment in terms of rise, decreases, or remains in the next valuation period. The rating itself consists of two 3-letter characters accompanied by a mark or number depending on the rating company (Amalia, 2013). For example, the order from the highest to the lowest is generally as follows:

*Investment Grade:*

AAA or Aaa

AA+, A, and AA- or Aa1, Aa2, and Aa3

A+, A, and A- or A1, A2, and A3

BBB+, BBB, and BBB- or Baal, Baa2, Baa3

*Non-Investment Grade (Junk Bond):*

BB+, BB and BB- or Ba1, Ba2, dan Ba3

B+, B dan B- or B1, B2, and B3

CCC+, CCC and CCC- or Caal, Caa2, Caa3

CC+, CC and CC- or Ca1, Ca2, and Ca3

C+, C and C- or C1, C2, C3

*Default:*

The investment grade is a category of companies or countries, considered to have enough ability to pay off its debt. So, investors looking for safe investments, generally choose an investment grade rating. Meanwhile non-investment grade is a category of companies, considered to have no ability to fulfill its obligations. Investors who choose this type of bond usually tend to have speculative properties.



Bond ratings from AAA through B can be modified using plus (+) or minus (-) notation to indicate relative strength in the rating category. Majid, et al (2011) suggests, that there is a positive influence between the ratings of Islamic bonds on stock returns. The issuance of sharia bonds has a significant negative effect on stock returns. Sharia bond issuance rating reflects the feasibility and stability of sharia bonds. By having an annual rating agency making a rating report, the investor gets the information contained in the rating indicating the extent to which the company's ability to pay its liabilities.

*The Effect of Bond Rating on Stock Return:*

It is concluded that the effect of Sharia bond issuance rating on return according to Mujahid and Fitrijanti (2010), has simultaneously or partially no significant effect on return. The effect of Shariah bond issuance rating on stock returns stated significant negative effect on the stock return. The Effect of Bond Rating Changes and New Ratings on UK Stock Returns in the UK, the rating of the bond (new rating), does not have a significant effect on stock returns on short or long-term. Market developments are important indicators for the market behavior. Investors consider their decisions in capital market transactions with regard to various information. Information relevant to the stock market is something that investors look for due making investment decisions.

The Spanish Stock Market positively and significantly reacted to the announcement of the bond issuance. Positive and significant market reaction occurs in companies that apply low dividend payout policies. On the other hand, the rating of issuance of Islamic bonds is not significant. The ethics of (Manurung, 2006) which examined the sample of all companies that experienced the change of bond rating between 2004-2008, found that the change of bond rating had no significant effect on the stock return around the announcement of the change of bond rating. Murdiati (2007) stated that the announcement of bond rating has no significant effect to stock return before or after bond rating announcement. The bond rating has no significant effect on stock returns. Based on the above theory, the research hypothesis that has been proposed was: "H1: Rating has a relationship with stock returns."

*Nominal Value of Shares:*

The effect of the nominal value of issuance of Islamic bonds to the realization return, Mujahid and Fitrijanti (2010), concluded that the value of issuance of Islamic bonds, has simultaneously or partially no significant effect on the return realization. Mujahid and Fitrijanti (2010), concluded that the value of issuance of Islamic bonds, has simultaneously or partially no significant effect on return realization. The effect of the nominal value of Sharia bond issuance on stock return has positive and significant effect to stock return. If the value of issuance of Islamic bonds is high, then the return received by the company (issuer) is also high. The effect of Sharia bond issuance on stock return According to Ibrahim and Minai (2009), stock market reaction has a positive influence on the issuance of Islamic bond issuance. Thus, it

will affect the stock return. Positive results indicate that the issuance of Islamic bonds contain meaningful, good news information for investors to provide benefits to investors. Based on the above, the hypothesis that has been proposed in this study was: “H2: There was a relationship between the value of shares with stock returns.”

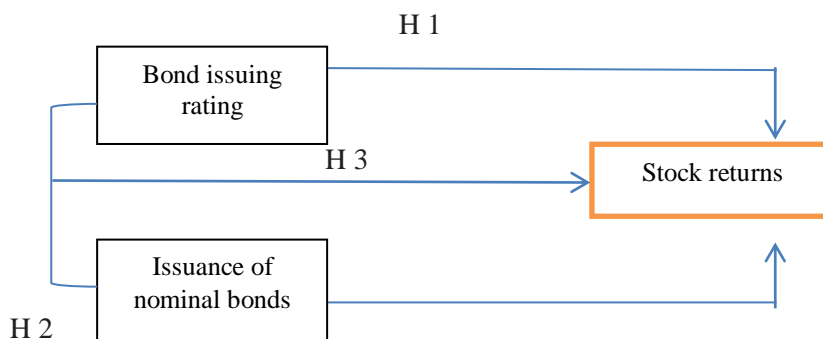
*The Effect of Rating and Nominal Value on Stock Return:*

Septianingtyas (2012) concluded in her research that partially variable of nominal value and rating of issuance of syariah bond have positive and significant effect to stock return.

*The effect of the nominal value of issuance of Sharia bonds against stock returns:*

According to Septianingtyas (2012), the value of issuance of Islamic bonds has a positive and significant effect on stock return. If the value of issuance of Islamic bonds is high, then the return received by the company (issuer) is also high. Issuance of Islamic bonds is one form of corporate policy that impacts changes in the company's capital structure. If the information about the issuance of bonds by the company is meaningful information for the market then the stock price changes generate stock return (Afaf, 2008). Therefore, the impact of the value and rating of the issuance of Islamic bonds refers to the phenomenon of conventional bond issuance, that is currently growing in the market and did not escape the attention of investors, although until now the influence is still not significant and relatively small. The direction of the negative relationship between the value and rating of the issuance of Islamic bonds to the stock return of this company can occur because the stock price of the company decreased. In addition, the low value and rating issuance of Sharia bonds to stock returns, is because there are many external and internal factors of other companies which also influence the stock return of the company. The effect of Sharia bond issuance rating on stock returns has a significant negative effect on stock returns. Based on the above theory, the hypothesis that has been proposed was: “H3: There was a relationship between the value and stock rating to stock return.”

**Figure 1.** Research Framework



### 3. Methodology

This research was based on quantitative data. Based on the function of this research, it has been used a descriptive analysis method. Variables that have been used were the nominal values of issuance of syariah bond and the rating of issuance of syariah bonds. The nominal value of issuance of Islamic bonds was measured in accordance to the amount of emission of Islamic bonds. The value of issuance of Islamic bonds represented by leverage ratio was valued at the ratio of the nominal value of bond issuance with the total equity ratio of the company (equity ratio). This data was obtained using the formula:

$$\text{Sukuk Equity Ratio} = \frac{\text{Total Sukuk}}{\text{Total Ekuitas}}$$

Sharia bond rating was obtained by converting the form letter rating into interval form. The following was the conversion result as reference rating for this research sample from the applicable rating: The dependent variable which has been tested in this study, was the stock return. Returns that have been received by shareholders, was the level of profit earned by investors on the stock investment that has been done. Stock return variables were measured by changes in stock market prices.

$$\text{Stock returns} = \frac{P_t - P_{t-1}}{P_{t-1}} + \frac{D_t}{P_{t-1}}$$

Where:

$P_t$  = Stock prices now

$P_{t-1}$  = Stock price of previous period

$D_t$  = Dividends

The data of this study as historical data that has been published by the Indonesia Stock Exchange on the official website of Indonesia Stock Exchange, the Indonesian Capital Market Institute [www.ticmi.co.id](http://www.ticmi.co.id) for the period 2009-2013. Other supporting resources in the form of required journals were available at [www.scholar.google.com](http://www.scholar.google.com) and other resources.

The population in this study was represented by companies issuing Islamic bonds, which were listed on the Indonesia Stock Exchange Year 2009-2013. Samples have been used through purposive sampling method to obtain representative samples according to predetermined criteria. Criteria that have been imposed were the selection of companies issuing Islamic bonds and companies which have issued the previous shares and have been listed on the Indonesia Stock Exchange period 2009-2013. The object of his research has focused on the effect of the nominal value of the issuance of Islamic bonds and the rating of the issuance of Islamic Sharia bonds to stock returns.

The technique of collecting data, was done through literature study, in order to get various information as much as theory base as also as reference of data processing by reading, studying, and reviewing and previous research literature which related to the researches problem. Hypothesis testing has been designed and done with multiple linear regression model analysis:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Legend:

- Y = stock return
- a = constants
- X1 = the value of issuance of Islamic bonds
- X2 = rating issuance of Islamic bonds
- b1, b2 = regression coefficient
- e = confounding variables

The statistic t test by way of decision: If sig value > 0, 05 or t count < t-table (df) then Ho is accepted. If sig value < 0, 05 or t count > t-table (df) then Ho is rejected. The F test statistic has been used for ANOVA test or Analysis of Variance. Decision-making: If the statistics count (F output) > table (F table) or Sig. < 0.05 then less significant. If compute Statistics (output F) < table (table F) or Sig > 0, 05 then there was no significant. The multiple determinant (R2) test was better aligned with the larger R2 determinant (approaching 1) and the added value.

#### 4. Result and Discussion

Based on the results of the statistical tests, t test of (-1,470) has a significance value of 0.160. Because the value of t test (-1,470) is greater than negative t table (-1,739) then Ho is accepted, based on this value, it was concluded that partially rating of issuance of Islamic bonds have no effect on stock return (Tables 1-2).

**Table 1.** *The effect of share rating to stock return*

Variables	r	n	df	t test	Sig.	Hypothesis
Rating and Return	,611	20	19	-1,470	,160	H0: accepted Ha: rejected

Source: Data Processed (2016).

**Table 2.** *The effect of stock value to stock return*

Variables	r	n	df	t test	Sig.	Hypothesis
Value and Return	,611	20	19	-3,010	,008	H0: rejected Ha: accepted

Source: Data Processed (2016).

Based on the results of the statistical tests, t test of (-3.010) has a significance value of 0.008. Because the value of t test (-3.010) was smaller than the negative t-table (-1,739) then  $H_0$  was rejected, based on the value it was concluded that partially the value of issuance of sharia bonds have a significant negative effect on stock return (Table 3).

**Table 3.** *The simultaneous effect of rating and value to stock return*

Variables	r	n	df	F test	sig.	Adj. R2	Hypothesis
Value Rating and Return	,611	20	19	5,054	,019	,299	$H_0$ : rejected $H_a$ : accepted

**Source:** *Data Processed (2016).*

Based on the calculation of F statistic test, F test by 5.054 and the significance value of  $0.019 < 0.05$ , it was concluded that the issuance of Islamic bonds represented by the nominal value of issuance of sharia bonds and the rating of issuance of sharia bonds, simultaneously has a significant effect on the stock return. The Coefficient of Determination (R<sup>2</sup>), obtained the Adjusted R Square value of  $0.299 = 29.9\%$ . Independent variables as well as nominal value issuance of syariah bonds and rating issuance of syariah bonds could explain the proportion of variation in the dependent variable as in share return of 29.9%, and the rest of 70.1% was explained by other variables outside the tested variable.

Partial testing of sharia bond issuance rating has a significant negative effect on the stock return. The research finding was in contrary to Murdiati (2007) who stated that the announcement of bond rating has no significant effect to stock return. This study showed that the rating of sukuk issuance has enough information on the investor's decision.

Based on the hypothesis testing and the analysis result of issuance of syariah bonds represented by the nominal value of issuance of syariah bonds and rating of issuance of sharia bonds, there is a simultaneously significant effect on stock return. It was showed that F test of 5.054 and the significance value of 0.019 was smaller than 0.05, meaning that the nominal value of the issuance of Islamic bonds and the rating of the issuance of Islamic bonds may affect any changes that occur in the stock return of the company.

Issuance of Islamic bonds was one form of corporate policy impact on changes in the company's capital structure. If the information of issuing corporate bonds was meaningful information for the market it would be reflected in changes in stock prices that generate stock returns. Therefore, the impact of the value and rating of the issuance of Islamic bonds refers to the phenomenon of conventional bond issuance, which was currently growing in the market and did not escape the attention

of investors, although until now the influence was still not significant and relatively small. The nominal value and rating of the issuance of Islamic bonds should still be considered in investment decision making because the value would always change from time to time and is predicted to grow in the future, which would come in line with changes in the sophistication of the financial business process.

## **5. Conclusion**

The nominal value of issuance of Islamic bonds has no effect on stock return. Sharia bond issuance rating has a significant negative effect on stock return. The issuance of Islamic bonds represented by the nominal value of issuance of sharia bonds and rating issuance of sharia bonds, have significant effect on stock return.

Some suggestions that have been given in accordance with the analysis and discussion, as well as some suggestions, include: It was expected that investors always pay attention to the nominal value and rating of issuance of sharia bonds in the investment decision making, to calculate how much return would be obtained. Companies issuing syariah bonds were expected to educate on sharia-based investment instruments particularly on Sukuk and increase socialization to the public, so that people could better understand the sharia-based investment instruments. For further research it is suggested to increase the number of research samples on companies that have been listed on the Indonesia Stock Exchange, so the results can better reflect the state of the capital market in Indonesia, especially regarding Sharia bonds. In addition, it the study period could also be extended and add other potential variables that could contribute to changes in stock returns of the listed companies

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## **Brand Switching in Middle Class Muslim: The Role of Moderating Variable Variety-Seeking Buying Behavior, Perception, and Knowledge on Halal Cosmetics**

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TantyYuanita\*), Sampurno, Djoharsjah M

**Abstract:**

*Sales of Halal certified products are rapidly growing in Indonesia along with the increased number of middle economic class in that world's biggest Muslim populated country. Therefore, studies regarding the sales of Halal certified products in Indonesia have becoming an attractive research subject.*

*In this research it is studied, the perception and knowledge of middle-class Muslim women are influenced and are being motivated to brand switch towards Halal certified products. Through the assessment using Structural Equation Modeling – Partial Least Square (SEM-PLS), it is found that perception and knowledge on Halal cosmetic strongly influence the decision to brand switch.*

*The calculated effect sizes of those variables are 0.137 and 0.122, respectively. Variety-seeking buying behavior has insignificant moderating effects on the influence of perception and knowledge toward decision to brand switch. This study provides an important insight into develop marketing strategy targeting middle class Muslim consumer.*

**Keywords:** Brand switching, variety-seeking buying behavior, consumer perception, knowledge;

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### **1. Introduction**

The sales growth of cosmetics in emerging markets continues rising despite slowdown, so does in Indonesia. In 2015, the export value of cosmetic from reached Rp11 trillion and continues to increase (Euromonitor International, 2015). This phenomenon is mainly supported by the rise of purchasing power of middle-class consumers. The rising incomes have not gone unnoticed and companies have adapted its products to suit this segment (Marketing Management: An Asian Perspective 6th Edition, 2013). The middle-class population reaches 130 million



people (SWA,2013). The Center for Middle Class Consumer Studies (2015) declared a potentially exceptional middle-class Muslim market, supported by the number of Muslim consumers who reached 87 percent of the total population of Indonesia. Based on data of Nielsen (2012) 88% of middle-class consumers like to experiment with different brands. Cosmetics, especially Halal cosmetics are not spared from products that often consumers tend to switch brands. With the majority Muslim population of Indonesia and the more Halal cosmetics on the market, consumers' opportunity for brand switching is increasing.

One of the triggers of decision to brand switch is perception. In marketing, perceptions are more important than the reality, as it is perceptions that will affect consumers' actual behavior (Marketing Management: An Asian Perspective 6th Edition, 2013). Consumers of different segment have different perceptions of a product. So, does middle class Muslim's perception towards Halal cosmetic. Thus, cosmetic marketing strategy should be designed to suit the unique perception of its market.

Furthermore, findings of Munazza Saeed and Ilhaamie Binti Abdul Ghani Azmi (2014) scrutinize the knowledge related to religion significantly influences purchase decision of consumers. Muslims will choose to consume the most preferred item but must be permissible in Islam. Those items, which are not attainable (unlawful item or haram) will not be chosen. Therefore, the consumer's knowledge of Halal cosmetic is also predicted to influence their decision to switch brand.

Apart from the above factors, variety-seeking buying behavior has been observed in many consumer products and it has been identified as a key determinant factor in brand switching. In some purchasing situations, consumers choose a brand without much evaluation. Because of the large number of cosmetic variants and the rising of income of middle-class Muslim, consumers tend to choose other brands for different experiences other than dissatisfaction. Consequently, variety-seeking buying behavior is expected to strengthen middle class Muslim women's decision to brand switch to Halal cosmetics.

Knowing that identifying and satisfying the right market segments is often the key to win target consumers' needs and wants better than the competitors, marketers must have a thorough understanding of how consumers think, feel, and act, and offer a clear value to each and every target consumer. Muslims are conscious and have a very positive attitude towards shari'ah compliance products that positively influences their intention to purchase those products including cosmetics. As the great potential of middle-class Muslim women, it is crucial to have insight of factors notably influencing their behavior, their decision to brand switch to Halal cosmetic and whether their decision is moderated by variety-seeking buying behavior.

## **2. Literature Review**

*Brand Switching:*

Brand switching is the process of choosing to switch from the routine use of one product or brand to steady usage of a different but similar product. Brand switching is most common with products that have no great perceived variation in quality across brands (Munazza Saeed and Ilhaamie Binti Abdul Ghani Azmi, 2014). To develop the best marketing plans, marketers need to understand what makes each segment of the market take a decision to brand switch to another product. Marketing scholars have developed a stage model of buying decision process (Marketing Management: An Asian Perspective 6th Edition, 2013):

- Problem recognition - This step is also known as recognizing an unmet need. A need or a problem impels an individual to act or to switch to another product.
- Information search - By gathering information from relevant sources, the consumer can learn about different products and brands available in the market.
- Evaluation of alternatives - Consumer evaluate competitive brands to judge which one is the best, the most attractive.
- Purchase decision - This is the stage when the consumer takes-action to choose one, the most promising brand.
- Post purchase behavior - Level of the consumer's satisfaction with the product affects his subsequent behavior/action.

*Asia's Middle Class:*

Asian Development Bank in its publication "The Rise of Asia's Middle Class", defines the social class in Asian developing countries based on daily income per person. People with an income below \$ 2 per day are categorized as poor. Meanwhile, the middle class earns an income in the range \$ 2 - \$ 20 per day that could be further classified as the lower middle, \$ 2 - \$ 4 per day; the middle, \$ 4 - \$ 10 per day; and the upper middle, \$ 10 - \$ 20 per day.

*Perception:*

Perception is the process through which an individual select, organizes, and interprets information inputs to create a meaningful picture of the world (Marketing Management: An Asian Perspective 6th Edition, 2013). How the motivated person actually acts is influenced by his or her view or perception of the situation The Perception depends not only on the physical stimuli, but also on the stimuli's relation to the surrounding's field and on conditions within the individual. The perception of middle-class Muslim on Halal cosmetic is the consumer's judgment of a Halal cosmetic product in functional, emotional, and has social benefit dimensions (Yuswohady, 2015).

*Knowledge:*

Consumer's knowledge refers to understanding your consumers, their needs, wants and aims. It is essential if a business is to align its processes, products and services

to build real consumer relationships. Consumer knowledge is an essential part of a business's existence on the market (Sharma, 2013). Hamdan et al., (2013) stated that the knowledge (familiarity) of the product was identified as the most influential factor in determining the purchasing decision among Muslim consumers. Karayanni (2010) also stated that there was a significant relationship between the value and the information searching process (label reading). Knowledge of Halal cosmetic includes understanding the provisions of cosmetics which are declared Halal.

*Variety-Seeking Buying Behavior:*

Some buying situations are characterized by the low involvement but significant brand differences, in which consumers often do a lot of brand switching. The consumer has some beliefs about the product, chooses a brand without much evaluation, and evaluates the product during consumption. Next time the consumer may reach for another brand out of a wish for a different taste. Brand switching occurs for the sake of variety rather than dissatisfaction (Marketing Management: An Asian Perspective 6th Edition, 2013).

Research Hypotheses are based on the objective of the study and review of existing literature, where the following hypotheses were developed:

*H1: Perception will positively influence the brand switching decision.*

*H2: Knowledge will positively influence the brand switching decision.*

*H3: Variety-seeking buying behavior will moderate the influence of perception to the brand switching decision.*

*H4: Variety-seeking buying behavior will moderate the influence of knowledge to the brand switching decision.*

### **3. Methodology**

*Research Instrument:*

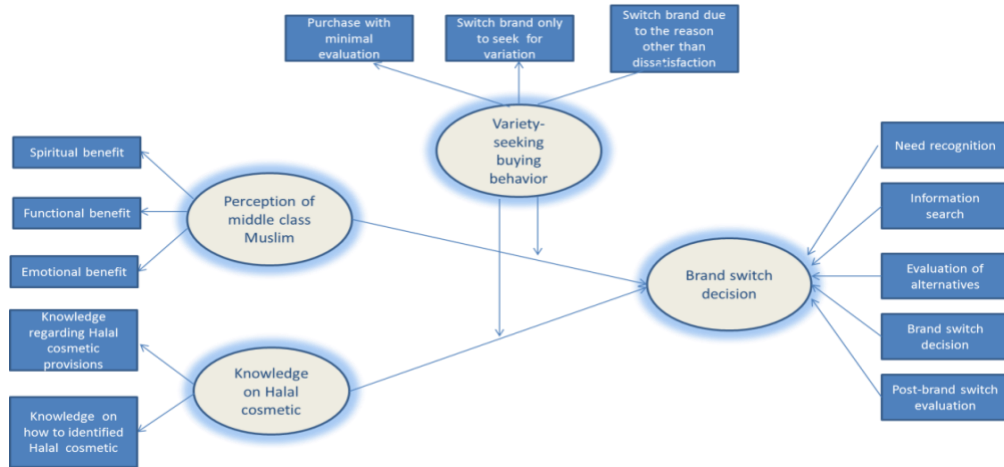
Questionnaires are used as an instrument. Sampling has been done by purposive sampling method. Questionnaires were given to Halal cosmetic consumers in Jakarta in year 2017. Data was analyzed using Structural Equation Modeling -Partial Least Square (SEM-PLS). The used software was the WarpPLS3.0 program. The research variables consist of middle-class Muslim women's perception of Halal cosmetics (X1) and knowledge of Halal cosmetics (X2) as independent variables. The dependent variable used, is the decision to brand switch of Muslim women (Y). Variety-seeking buying behavior is a variable that moderate the relationship between variables X to variable Y. The questionnaire uses Likert scale 1-4, indicating the minimum to maximum value of respondents' assessment.

*The Sample:*

Since this research is a multivariate study using SEM analysis, it takes samples of at least 5 - 10 times the number of the used variables indicator and a good sample requires between 100 - 200 samples (Ferdinand, 2013). To meet the requirements of

the statistical analysis with SEM, the number of samples required is 65-130 samples. The accepted sample for this study is based on the criteria of middle-class Muslim women, who buy cosmetic in Jakarta.

**Figure 1. Conceptual Framework**



#### 4. Result and Discussion

##### *Validity, Reliability, and Structural Model Test:*

Validity basically means measuring what is intended to be measured. While reliability concerns the extent to which a measurement of a phenomenon provides stable and consist result. Reliability is also concerned with repeatability (Taherdoost, 2016).

**Table 1. Validity, Reliability, and Structural Model Test**

Type of Test	Indicator	Critical value of indicator	Calculated Value	Result
Validity	Product moment person	>0.3	0.38-0.8	Valid
Reliability	Cronbach Alpha	>0.6	0.81-0.84	Reliable
Structural Model	Average Path Coefficient	< 0.05	0.172	Goodness-of-fit confirmed
	Average R-Squared	< 0.05	0.309	
	Average Variance Inflation Factor	< 5	1.931	

The result confirmed the goodness-of-fit of this research model. Thus, it can be concluded that the model proposed and analyzed in this study is supported by the obtained data.

*Correlation between Perception and Consumer's Decision to Brand Switch:*

This study results that the path coefficient value of the effect of middle-class Muslim women's perception towards the decision to switch brands is 0.278 with effect size of 0.137 and probability value (p-value) of 0.006. A positive mark on the path coefficient means that the relation between middle-class Muslim women's perception towards the decision to switch brands is proportional, meaning that a better perception will increase brand switching to halal cosmetics, and worse perception will decrease the decision to brand switch. The effect size is an absolute value of the individual contribution of each variable. The effect size of 0.137 shows that the perception of the middle-class Muslim women has a medium-strength contribution to brand switch decision. While the probability value (p-value) of 0.006 indicates that the perception has significant influence on brand switching. Therefore, it is concluded that perception has a significant positive influence toward brand switching.

Moreover, the value of load factor from each indicator was also analyzed. Loading factor shows the level of contribution of these indicators in reflecting / forming a variable. The highest loading factor value is 0.908 for the indicator of 'Halal cosmetic has emotional benefit'. This means that emotional benefit predominantly contributes to reflect middle-class Muslim women's perception of Halal cosmetics. Consumers have the perception that by using Halal cosmetics it reflects a lifestyle that promotes religious values. These findings might be an important insight to build strategies that marketer may use which targets the middle-class Muslim women who engages in this behavior.

*Correlation between Knowledge and Consumer's Decision to Brand Switch:*

Data analysis showed that the value of the path coefficient of the effect of knowledge about halal cosmetics toward the decision to switch brand is 0.225 with an effect size of 0.122 and probability value (p-value) of 0.009. A positive mark on the path coefficient means that the relationship between the knowledge on halal cosmetics and the decision to switch brand is proportional, which means that the better knowledge will push the decision towards switching to halal cosmetics, and the worse level of knowledge will decrease the decision to brand switch.

Effect size of 0.11 indicates that knowledge about halal cosmetics individually possess a medium strength contribution (Kock, 2013) towards brand switch variable. From a practical point of view, knowledge has a medium strength influence on brand switching. Probability value (p-value) of 0.009 meaning that at the significance level of 0.05, knowledge has a significant effect on brand switching. Therefore, the mentioned results indicate the acceptance of the hypothesis that knowledge has a significant positive influence towards brand switching.

*The Effect of Variety-Seeking Buying Behavior as a Moderating Variable:*

The effect of moderating variables was examined to detect whether variety-seeking buying behavior strengthen or weaken the influences of perception and knowledge

on brand switching towards halal cosmetics. Results of statistical analysis show the following moderation effects:

**Table 2.** Pengaruh Moderasi Variabel Variety - Seeking Buying Behavior

Hypotheses	Moderating Effect of Variety-Seeking Buying Behavior	Path Coefficient	Effect Size	P Value
H3	On correlation between Perception and Decision to Brand Switch	0.095	0.033	0.312
H4	On correlation between Knowledge and Decision to Brand Switch	0.061	0.017	0.291

Data analysis shows that the path coefficient value in the relation between perception and brand switching is 0.095 with a 0.033 effect size and a probability value (p-value) of 0.312. A positive mark on path coefficient means that the moderating effect has a positive influence, meaning that the variety-seeking buying behavior variable strengthens the influence of perception towards brand switching. The size effect of 0.033 implies that the strengthening effect on the influence of perception is weak. Moreover, analyzed by probability value (p-value) of 0.312, it is strongly indicated that the variable's moderating effect to strengthen the relation between perception and the decision to switch brand is insignificant.

The moderating effect was also analyzed to examine its effects on the relation between knowledge and the decision to switch brands. Data analysis found that the path coefficient value in the relation between perception and brand switching is 0.061 with an effect size of 0.017 and probability value (p-value) of 0.291. A positive mark in path coefficient means that the moderating relationship is proportional; this in turn means that variety-seeking buying behavior variable strengthens the effect of knowledge towards brand switching. While the effect size of 0.017 indicates that the moderating effect is weak. Judging from the value of the probability (p-value) of 0.291, it is indicated that the effect of moderating variables to strengthen the relationship between knowledge on the decision to do brand switching is insignificant.

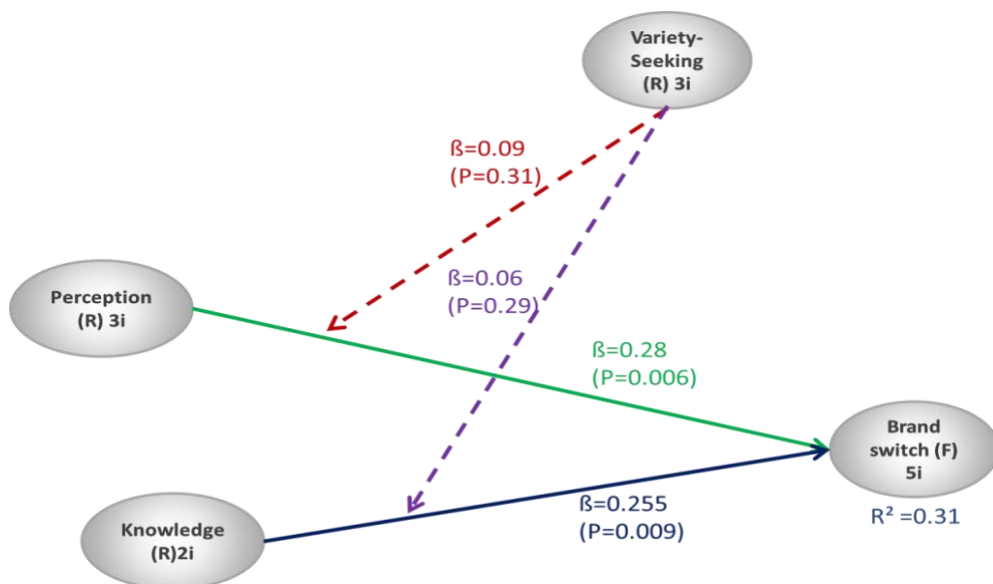
Although the variety-seeking behavior leads to a new product experience and overcomes the boredom of repeated purchase, the behavior is risky because an entirely new product purchase decision may result in dissatisfaction. Previous studies have shown that while consumers pay attention to product innovation and the experience of trying new products, their purchase decisions remain selective (Rajagopal, 2005). The decision on brand switches is influenced by consumers' judgment of brand equity of the cosmetic (this is the dominant factor). New brand will lead to higher risk, so brand equity weakens the variety seeking behavior effect.

The finding of this study also confirms that matter. The results of this study show the high loading value of brand switch indicator 'cosmetic evaluation after brand switch'

of 0.820. Meaning that the cosmetic evaluation greatly contributes in shaping the decision to brand switch. So, it is probable that brand equity will play a role in this research model to influence the variety-seeking buying behavior variable.

This condition can be further analyzed from the loading value of particular indicator of the brand switch variable. The research findings show that high loading value on the indicator 'the need recognition to brand switch to Halal cosmetic' is 0.807. The major contribution in the decision of consumer to brand switch is the fact that the consumer recognizes the need to purchase the Halal cosmetic. This indicates that consumer's level of involvement plays a role in the consumer's decision. The level of involvement reflects how important and interested consumers are about the product and how much information the consumer needs in making a purchase decision. The decision to switch to Halal cosmetics is closely related to consumer involvement to the Halal product. It is known that the level of consumer involvement to a product can be increased when the product is associated with personal values such as religion, so that consumers involve in the decision-making process, one of the moderating variables which also influence the decision to brand switch (Kotler Keller, 2016). From this study, it can be concluded that in order for cosmetic companies to be successful and gain competitive advantage on the Halal market, it is vital that they implement a combination of the studied factors in their marketing strategy so to reach targeted segment.

*Figure 2. Final Framework*



## 5. Conclusion

Study on the influence of perception, knowledge, and variety-seeking buying behavior of middle-class Muslim women in motivating them to brand switch towards Halal certified cosmetic were performed. Perception and knowledge on Halal cosmetic were found to strongly influence the decision to brand switch. Variety-seeking buying behavior has insignificant moderating effect on the influence of perception and knowledge toward the decision to brand switch. It is revealed that the strong attention of consumer to the product evaluation after purchase weakens the effect of variety-seeking buying behavior. Findings in this study provide an important insight to develop marketing strategies, targeting middle-class Muslim consumer.

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## **A Study of Possible Imposition of Piggyback on Personal Income Tax and Payroll Tax for Provincial Government**

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Sidik Machfud, Rianto Djoko \*)

### **Abstract:**

*Indonesia has come a long way in improving its tax system over the last two decades, both in terms of revenue raised and administrative efficiency. This has improved the economy's performance by increasing the funds available for urgently needed public expenditure items and by easing the compliance burden of taxpayers.*

*Simultaneously, the country is also facing a large to extreme lack of local level revenue alternatives, intergovernmental fiscal analysis often begins by focusing on revenue allocation and mobilization alternatives. Sub-National Governments (SNGs) rarely have enough resources to carry out the most basic local level services.*

*Hence, the need for revenue choices at the margin is one argument for SNGs being allowed to design and impose their own additional local taxes. Strengthening SNGs taxing power through applying Piggyback on Personal Income Tax (PIT) and Payroll Tax (Income Tax Article 21) and selected central government taxes or excises are possible solutions to enhance revenue mobilization, a better governance with minimizing economic distortion.*

**Keywords:** *Piggyback, PIT and Payroll Tax, taxing power, governance.*

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### **1. Introduction**

The Indonesian economy marked one year of positive performance in the last viewed years. The macroeconomic stability improved, while the economic growth began to gather momentum. Greater macroeconomic stability was reflected on the achievement of around 4% inflation target for 2017, an amelioration in the current account deficit to a more prudent level, subdued pressure on the rupiah from the fourth quarter of 2017, and continued financial system stability. The onset of the renewed economic growth momentum was marked by economic growth that began improving in the fourth quarter of 2017. Upgrading the tax administration has made

substantial progress in Indonesia since several decades, although there is still scoping to improve the performance of the tax authority, mainly through capacity building and training of tax officers and the administration's audit and litigation capacities, while strengthening internal control systems and enhancing the transparency and accountability of the administrative decisions as well as increasing the taxpayer compliance. The audit system could be further improved by allocating more tax audits on the basis of compliance risks.

The country has come a long way in improving its tax system over the last decade, both in terms of revenues raised and administrative efficiency. This has improved the economy's performance by increasing the funds available for urgently needed public expenditure items and by easing the compliance burden on taxpayers. Going forward, the Indonesian authorities have formulated ambitious development targets, especially for enhancing the nation's infrastructure and expanding the social safety net, which imply significant financing needs. At the same time, the rapidly growing middle class will surely create a political demand for improvements in both social security programs and public goods provision. Moving towards a greener economy will also add to expenditure needs. Financing the measures that will meet these objectives will require more public revenues, and this will be one of the principal challenges for the tax system in the years to come.

Looking forward, the Indonesian economy is predicted to chart steady improvement accompanied by stronger fundamentals. The forecast is higher economic growth alongside prudently managed macroeconomic stability. The progressive easing of global financial markets uncertainties in response to the narrowing monetary policy divergence among advanced countries is expected to reduce the pressure on macroeconomic stability, and in particular on exchange rate stability. Meanwhile, the forecast is higher economic growth driven by government action to accelerate the fiscal stimulus and implementation of structural reforms. It is expected that the sustained momentum for strengthening the economy will bolster optimism for the economic outlook and encourage foreign capital inflows that in turn will ease pressure on macroeconomic stability.

The dynamics of the Indonesian economy in 2017 taught some valuable lessons of effort, to create sustainable economic growth in the future. The first lesson that came to light is about the importance of discipline macroeconomic policies, both fiscal and monetary, in ensuring macroeconomic stability and promoting sustainable economic growth. The outcomes of the economy in 2017 showed that a policy mix of tight bias monetary policy and accommodative macroprudential policies combined with a cautious fiscal stimulus were able to keep the macroeconomic stability on track, without unduly sacrificing economic growth. Second, the efforts to boost the momentum for domestic economic growth are crucial in a time of weakening in the global economy and rising uncertainty on global financial markets. Prolonged slowdown in the economic growth will lead to a build-up of various risks to the economy, including exchange rate risk, corporate risk, and banking risk, that

in turn can jeopardize macroeconomic stability. It was therefore necessary for macroeconomic management to be carefully formulated to generate momentum for economic growth without sacrificing the macroeconomic stability. Third, a timely implementation of a policy mix is necessary to maximize its effectiveness for the domestic economy. The timing of the policy implementation that is consistent with planning, is therefore a key to sustaining the performance of the economy in the face of global challenges. Fourth, the complexity of problems daunting the economy points to the need for strong policy synergies among different policy stakeholders. This includes Bank Indonesia, the central and local governments, and other related authorities. The final lesson is that the dynamics of the global economy, being fraught with uncertainty, reiterates the importance of accelerating structural reforms for strengthening economic foundations and pursuing diversification in order to build a more resilient economy capable of sustainable growth.

Taxation is inevitable, but the specifics of a state's tax structure matter greatly. The measure of total taxes paid is relevant, but other elements of a state tax system can also enhance or harm the competitiveness of a SNG's business environment. Tax competition is an unpleasant reality for SNGs revenue and budget officials, but it is an effective restraint on province and local taxes. When a state imposes higher taxes than a neighboring region, businesses will cross the border to some extent. Therefore, regions with more competitive tax systems score well in the Index, because they are best suited to generate economic growth. To some extent, tax-induced economic distortions are a fact of life, but policymakers should strive to maximize the occasions when businesses and individuals are guided by business principles and minimize those cases where economic decisions are influenced, micromanaged, or even dictated by a tax system. The more riddled a tax system is with politically motivated preferences, the less likely it is that business decisions will be made in response to market forces. The Index rewards those states that minimize tax-induced economic distortions. Simultaneously, SNGs need more revenues to improve the quality of public service delivery.

## **2. Literature Review**

Among the different revenue allocation options, it is important to separate out those methods that give SNGs some policy discretion (i.e., independent local taxation, centrally-assisted local taxation, and surcharges on national taxes), from those that are essentially revenue transfer programs (i.e., tax sharing and revenue sharing grants). The option which grants more discretion to SNGs can be called "local taxes," while the other two options are essentially pure revenue transfers. International experience shows that countries vary in their use of these revenue allocation options. The exact combination depends on the specific historical and institutional environment, the degree of trust between levels of Government, the priority for local autonomy, the degree of acceptable administrative duplication, and the need for equalization among regions. The combination of a rational revenue allocation structure, an effective set of individual revenue instruments, and an

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efficient and equitable transfer system forms the basis for a sustainable intergovernmental fiscal system.

Economists have not always agreed on how individuals and businesses react to taxes. As early as 1956, Tiebout (1956) postulated that if citizens were faced with an array of communities that offered different types or levels of public goods and services at different costs or tax levels, then all citizens would choose the community that best satisfied their particular demands, revealing their preferences by “voting with their feet.” Tiebout’s article is the seminal work on the topic of how taxes affect the location decisions of taxpayers. Tiebout suggested that citizens with high demands for public goods would concentrate in communities with high levels of public services and high taxes, while those with low demands would choose communities with low levels of public services and low taxes. Competition among jurisdictions results in a variety of communities, each with residents who similarly value public services.

However, businesses sort out the costs and benefits of taxes, differently from individuals. For businesses, which can be more mobile and must earn profits to justify their existence, taxes reduce profitability. Theoretically, businesses could be expected to be more responsive than individuals to the lure of low-tax jurisdictions. Research suggests that corporations engage in “yardstick competition,” comparing the costs of government services across jurisdictions. Salmon (2013) extended Shleifer’s work to look at subnational governments. Besley and Case (1995) showed that “yardstick competition” affects the voting behavior, and further confirmed the results found by Besley and Case. Tax changes that are out of sync with neighboring jurisdictions will impact the voting behavior. A sound revenue system for local governments is an essential pre-condition for the success of fiscal decentralization. In addition to raising revenues, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities (Shah 1991; 1994; Oates 1998; Sidik, 2007; Martinez, 2015). However, prescriptions deriving from the theory and from good international practice impose huge constraints on the choice of revenue instruments for SNGs.

Tax systems vary substantially across countries, and there is no clear guidance from the literature as to what constitutes an ideal set of taxes. The challenge is to design a tax system that keeps welfare- and growth-reducing distortions to a minimum, while achieving the desired revenue and social objectives. In this context a number of general lessons have emerged from the experience of countries in the OECD and beyond. Besides assessing the performance of Indonesia’s tax system, one of the objectives of this paper is to draw on these lessons to point to ways in which it can be improved. The following sections will review the achievements of Indonesia’s tax system and view the country’s tax mix in international comparison, before discussing in turn taxes on personal and corporate income, resource sectors, consumption, property and international trade. A final section reviews way to improve the efficiency of the tax administration.

There is no ideal assignment of revenue sources between the central and the lower levels of government. Nevertheless, a set of ‘tax-assignment rules’ has been developed in the traditional fiscal federalism theory (Oates 1972; Musgrave and Musgrave 1989). These principles relate to the respective responsibilities of central and lower tiers of government in macroeconomic stabilization, income redistribution, and resource allocation. Furthermore, in developing countries the administrative capabilities of local governments in revenue design (that is, deciding on revenue bases and setting rates) must be taken into consideration (Bird, Martinez and Benno, 2006 and 2008). Moreover, in large and diverse countries the issue of revenue harmonization between jurisdictions is important when assigning taxing powers.

Promoting fiscal responsibility at sub-national levels calls for implementation of a stable and transparent system of transfers, geared to filling any gap between the assigned spending and revenue-raising responsibilities of lower-level governments (Ter-Minassian 1997, Bahl and Martinez, 2008). The definition of such a system is far from easy, especially given the need to preserve adequate incentives for tax effort and cost effectiveness in spending by the sub-national governments. However, in the process of fiscal decentralization it is important to be aware of the risks for macroeconomic management and fiscal discipline. Mechanisms of fiscal transfers may impose considerably rigidity to the central government budget. Therefore, substantial devolution of revenues and spending responsibilities to sub-national jurisdictions can affect the central government’s ability to carry out stabilization and macroeconomic adjustment through the budget.

The economic literature over the past fifty years has slowly cohered around this hypothesis. Ladd (1999) summarizes the post-World War II empirical tax research literature in an excellent survey article, breaking it down into three distinct periods of differing ideas about taxation: (1) taxes do not change behavior; (2) taxes may or may not change business behavior depending on the circumstances; and (3) taxes definitely change behavior.

Nevertheless, there are also countries that are less suitable for implementing piggybacking schemes such as major countries in Latin America. This is due to the collection of PIT at the national level is still problematic (Shome, 1999). In countries such as these, it is likely to add a local tax surcharge on top of PIT should be explored more about the feasibility of the imposition of piggybacking. Transformation in revenue-sharing scheme of the PIT and Payroll Tax and Base to piggybacking schemes of PIT and Payroll Tax Base will have a positive and negative impact for the central government, provincial government and district / city governments.

Piggybacking scheme of PIT and Payroll Tax Base is an additional collection to local governments’ imposed taxes, duties, as well as non-tax revenue that has been collected by the central government. Countries that successfully implemented

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piggybacking on the basis of national income taxes as the main source of revenue of local government are the countries in the Nordic region. (Bird, Martinez and Torgler, 2008; Bahl and Martinez, 2008). International empirical experience shows that piggybacking on Individual Income is eligible to be a source of local government revenue (Bird 2011). Almost similar results achieved by applying Canadian piggybacking at the provincial level not in the district / city level but in addition to the Central Income Tax. The same approach was also made in many other countries and having evaluated the implementation turned out to be feasible.

Indonesia experiences of decentralization showed that one of the weakest points in the system is the low level of local taxes and levies, in a real sense. Sub-national governments in Indonesia, collect very little revenue either as a share of GDP (about 1.5%) or as share of their own expenditures (about 15% for District and City and around 40% for Provincial Government respectively). This imbalance is inconsistent with the theory and best practices. Much of the imbalance has a long historical background, few provincial and local governments in Indonesia have strong *own revenues* bases. Exceptionally, DKI Jakarta and some local governments have a culture of local taxes and levies raising. In the case of local taxes, the local governments should have a reasonable discretion over tax revenue, and they should have the political responsibility to introduce the tax putting burden on the constituency. The reason for this is that the political “cost” of the local tax has not been compensated by the political benefits. This needs a cooperation between the central and local government to give additional incentives to the introduction of local taxes and levies.

Mark, McGuire and Papke (2000) found that tax differentials among locations may be an important business location factor, concluding that consistently high business taxes can represent a hindrance to the location of industry. Interestingly, they use the same type of after-tax model used by previous public finance economists, who reaches a different conclusion.

Bartik (1989) provides strong evidence that taxes have a negative impact on start-ups business. They found specifically that property taxes, because they are paid regardless of profit, have the strongest negative effect on the business sector. Bartik’s econometric model also predicts tax elasticities of  $-0.1$  to  $-0.5$  that imply a 10 percent cut in tax rates will increase business activity by 1 to 5 percent. Bartik’s findings, as well as those of Mark, McGuire, and Papke (2000), and ample anecdotal evidence of the importance of property taxes, buttress the argument for inclusion of a property index devoted to property-type taxes in the Index.

Mark, McGuire, and Papke (2000) found that taxes are a statistically significant factor in the private sector job growth. Specifically, they found that personal property taxes and sales taxes have economically large negative effects on the annual growth of private employment. Despite the many comprehensive central government tax reforms during the last decade, local government revenue systems in

Indonesia has remained largely unchanged until recently. Generally, a fundamental requirement when redesigning local revenue systems is greater emphasis on the cost-effectiveness of revenue collection, considering not only the direct costs of revenue administration, but also the overall costs to the economy, including the compliance costs to taxpayers. In addition, losses through corruption and evasion need to be reduced. Clearly, improved revenue administration cannot compensate for bad revenue design. Thus, reforming the revenue structure should precede the reform of revenue administration since there is not much merit in making a bad revenue system work somewhat better.

Other economists have found that taxes on specific products can produce behavioral results similar to those that were found in these general studies. For example, Brutus, Fleenor and Manual (1998) looked at the effect of excise tax differentials between states on cross-border shopping and the smuggling of cigarettes. Scott and Warcholik (2003) examined the cross-border effects of beer excises. Their results, supported by the literature in both cases, showed significant cross-border shopping and smuggling between low-tax states and high-tax states.

### **3. Methodology**

This research is classified as a qualitative study, primarily to describe a situation, phenomenon, problem or event of policy and administration of PIT and Payroll Tax in Indonesia and exploring possible implementation of piggyback on PIT and Payroll Tax. The main objective of this research is to describe the variation and diversity in a phenomenon, situation or attitude with a very flexible approach so as to identify as much variation and diversity as possible, interpretive view of PIT and Payroll Tax. This concerns itself with exploring attitudes, behavior and experiences the way for the implementation of piggyback on PIT and Payroll Tax, considering the existing taxing power of SNGs are relatively low in relation with their functions in delivering public service obligations. The research starts out with inductive reasoning on the implementation of PIT and Payroll Tax in Indonesia and then, through a sequential process, employs deductive reasoning. This means that this research first get ideas from collecting and analyzing the data of PIT and Payroll Tax and move inductively from specific data to more general patterns and commonalities and best practice of PIT and Payroll Tax in selected countries.

The research then tests these ideas out by relating them to the literature and to further data collection and analysis. Theory, therefore, emerges primarily out of data collection rather than being generated from the literature and tested out through fieldwork. The literature review at the start of study, therefore, acts to guide the study only. In addition, the approach, the research also conducted a Focus Group Discussion and in-depth interviews with respective academic environments, practitioners, tax officials and selected SNGs officials (15 different relevant participants). From the methodology we come up with the following views from the participants.



The need for revenue choices at the margin is one argument for SNGs being allowed to design and impose their own additional local taxes. However, it is very hard to identify suitable additional taxes and charges which meet sound tax criteria. A far better approach is to assign to SNGs local taxes with substantial potential yields, for which they are allowed a wide degree of discretion in setting their own tariffs. The extent of such tax base and tariff discretion must be sufficient to provide a potentially substantial marginal variation in total budget revenues, thus enabling local choices between better services and lower taxes. In particular, this enhances SNGs accountability, with SNGs needing to justify tariff levels, rather than blaming them on the CG. It also provides incentives for maximizing efficiency and effectiveness in operations, for in that way tariffs can be minimized while maintaining services quality, to the satisfaction of the local electorate. The new Indonesian local taxes and charges system under Law 28 of 2009 on Local Taxes and Levies is based on modifications to the prior system of taxation which was heavily centralized. The tax base of SNGs under the new law remains quite limited.

Strict tax sharing approaches put all revenue policy and administration discretions and controls under the CG, while sharing a portion of the collected revenues with SNGs, based either on point of collection, taxpayer residence, or a specific formula. Tax sharing is quite common among developing and transition countries. Russia and China share a portion of the VAT with the local governments (LGs). Indonesia shares the PIT and Article 21 Income Tax, Property Tax; and Acquisition Duty of Right on Land and Building, Cigarette Excise, and Natural Resource Revenue. The Dominican Republic shares the property tax, Kenya shares the personal income tax, Mexico shares the payroll tax, Peru shares sales taxes, while India shares excise duties. Such sharing options minimize economic, administration and compliance costs by maintaining uniform tax bases, tax administration and tax rates. Tax sharing allows SNGs to access revenues from the more buoyant tax bases normally reserved for the CG. The disadvantage of the approach is that the local authority has no discretion with tax bases, tax rates or administration, so losing the advantages of accountability and economic efficiency in matching expenditures and revenues in the one domain. Sharing options also do not allow for regional equalization unless the revenues are allocated on an equalization formula basis. There can also be disincentives for CG collections where there are differing tax sharing ratios between taxes.

General revenue sharing approaches also consolidate all policy, administration and revenue under CG control, and share collected revenues with SNGs through a grant formula. Such approaches minimize economic, administration and compliance costs by maintaining uniform tax bases, tax administration systems and tax rate structures. SNGs gain access to revenue from the more buoyant CG tax bases. These revenue sharing transfers can be easily distributed based on a formula that allows for regional equalization. The main disadvantage is that local authorities do not have discretion with the tax base, the tax rates, or administration - thus, once again losing advantages of local accountability and economic efficiency. Virtually all countries

have some system of general revenue sharing. The variations depend on the composition of the revenues to be allocated through the grant pool and how those grant pool revenues are distributed to the local authorities. These various allocation methods have advantages and disadvantages based largely on the level of local discretion, economic efficiency and equity.

#### **4. Result and Discussion**

Indonesia generates low levels of revenues from PIT and Article 21 Income Tax, which is to some degree a common feature among emerging-market economies. At 1.4% of GDP, however, Indonesia raises less than a third of the revenues that other ASEAN countries do and less than the 1.9% average of lower-middle income countries. Given these low levels, personal income taxes, though in principle less growth-friendly than consumption taxes, provide scope to enhance tax revenues. To the extent that this can be achieved by broadening the tax base, the distortive effects of additional PIT and Payroll Tax revenues could be limited.

Indonesia operates a PIT and Payroll Tax system with a threshold income level and progressive rates. For a family with two working adults and two children, no taxes are due below an annual income of around IDR 67.50 million (currently around USD 5,000); for families with only one earner the threshold is IDR 58.50 million (currently around USD 4,370). PIT and Payroll Tax rate begin at only 5% for the first IDR 50 million of taxable income and move up progressively to a top rate of 30% for taxable income above IDR 500 million (about USD 37,500). The rate schedule seems broadly appropriate. The high threshold is reasonable as it avoids spending valuable administrative resources on enforcement activities concerning low-income individuals with low taxpaying potential and reduces the tax burden on households with unsatisfied basic needs.

A local surtax to a central government tax (or a piggyback local tax) is usually collected by the central government but local governments can set the rate for this surtax and receive proceeds from the local surtax on a residence basis, that is revenues allocated to the local jurisdiction where a taxpayer resides. A residence-based surtax would comply with the benefit principle by establishing correspondence between the jurisdiction in which a tax is collected and the area in which benefits are received from the local services funded with that revenue source (as education and healthcare are typically consumed in the municipality where a person lives not where he works). However, employees working outside their municipality also benefit from local services in the municipality where they work, its transport infrastructure. Therefore, a benefit principle could also justify a municipal surtax on the payroll of employers located in its territory, sometimes called a “commuter tax.”

The most common type of piggyback taxes is a flat rate local surtax on the national income tax, that is a fixed percentage applied to the taxable income of any size as in

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the following numerical example, assuming considering normal rate (combined CG tax rate and provincial tax rate will be set up un-change, meaning that the existing rate shall be decrease in line with the additional surtax imposed by provincial government. The revenue come from Piggyback on PIT and Payroll Tax should be shared with respective district/city under jurisdiction of the provincial government.

It is important to point out the difference between a local surtax and local retention of some share of the national tax revenue, which is more common in developing countries, former socialist countries. Under revenues sharing, national government taxes are collected by the national tax authorities and then partially (or in some cases, fully) shared (often on a derivation basis) with local governments, as for example currently 20 percent of the PIT and Payroll Tax revenues in Indonesia. While shared revenue sources have some of the same features of local surtaxes, the latter provide greater local revenue autonomy. This is because— unlike revenue sharing—surtaxes allow local governments a certain measure of discretion over the tax rate, and thus the ability to increase or decrease its revenue on the margin. Therefore, whenever consistent with the benefit principle and administratively feasible, a local surtax is a better option than just revenue sharing.

More importantly, in addition to serving as an indirect user charge for roads, vehicle taxes also serve to internalize (price in) negative impacts of vehicles in the form of congestion and air and noise pollution. Since the intensity of congestion and pollution can vary from one municipality to another within same province, the amount of the tax should also vary among municipalities accordingly. Therefore, it would be beneficial to allow municipalities to affect the rate of these taxes through a municipal surtax on provincial taxes on vehicles. In the description below, one can see an example of how the vehicle tax rate varies among different municipalities in Hawaii, where a municipal surtax is allowed on top of the state vehicle tax.

The timing of local tax administration improvement in Indonesia will gain momentum as central government in the current and upcoming years will continue the already started tax administration reform. Existing literature and experience of other countries in sub- national and local tax administration as well as the overall context of local tax policies will need to be assessed in parallel with the practices and problems arising at the sub-national and/or local tax administration. This approach will basically take into-account the differences in terms of context faced by different regions as well as select relevant lessons learnt from international good and bad practices.

It is important to point out the difference between a local surtax and local retention of some share of the national tax revenue, which is more common in developing countries, former socialist countries. Under revenues sharing, national government taxes are collected by the national tax authorities and then partially (or in some cases, fully) shared (often on a derivation basis) with local governments, as for example currently 20 percent of the PIT and Article 21 Income Tax revenue in

Indonesia. While shared revenue sources have some of the same features of local surtaxes, the latter provide greater local revenue autonomy. This is because— unlike revenue sharing—surtaxes allow local governments a certain measure of discretion over the tax rate, and thus the ability to increase or decrease its revenue on the margin. Therefore, whenever consistent with the benefit principle and administratively feasible, a local surtax is a better option than just revenue sharing.

Clearly, piggybacking of PIT and Payroll Tax is an important option that warrants consideration in strengthening SNG's discretionary sources of funds, while simultaneously encouraging economic activity in the regions and enhancing partnerships and mutual benefits between the Central Government and SNG's through increased revenue raising efforts, while minimizing economic distortions and promoting regional growth. While the introduction of new taxes is always difficult, it is always possible to improve the performance of the tax administration and thereby increase revenues by improving the efficiency and effectiveness of the tax administration. Several approaches to improving the efficiency of tax administration are pointed out in the report. Piggybacking on PIT and Payroll Tax could be implemented in ways that would raise the efficiency of tax administration, including through increased administrative responsibilities and by enhanced motivation of SNGs revenue officials.

But it can also create co-ordination problems and may not deliver efficiency gains in activities where small-scale operation increases provision costs or in cases where the benefits and costs of an activity are felt outside the supplying jurisdiction. Moreover, nationwide policy objectives, notably those related to equity and macroeconomic stabilization, may be more difficult to achieve with greater sub-national autonomy.

Personal and corporate income taxes are an important source of sub-national revenue in many countries, particularly the Nordic and Central European countries, Belgium, Canada, Japan, Spain, Switzerland, and the United States, although these taxes are most efficiently managed centrally. Sub-national governments are often allowed to piggyback on the PIT levied by the center, as in the United States, by imposing a surcharge on the federal income tax (or rebates, as in Belgium). Subnational jurisdictions are free to set their own flat personal income tax rates in Denmark and Sweden, with no mechanism in place to deal with the ensuing spillover effects. This autonomy has contributed to high rates of personal income tax, which have distorted labor supply decisions. In the case of the corporate income tax, the mobility and cyclical volatility of the tax base makes it less suitable for local revenue-raising, but largely due to historical reasons, these revenues account for a substantial share of sub-national receipts in some countries (Canada, Czech Republic, Finland, Germany, Japan, Switzerland, Turkey, and the United States).

Sharing revenue on PIT and Payroll Tax is basically a Central Government Transfer and not a Local Tax, because the regional government has no control over the application of the tax base or tariff (tax-rate). Besides the amount received by the

local government is fully determined by the laws of the central government (Laws concerning Income Tax and Fiscal Balance Between Central a Regional Governments), revenue sharing tax base (where the SNGs assessing additional tax or "tax ride" that ride on the tax base of the Central Government), conversely the academic views of Piggyback are a tax and not a transfer. This idea is one argument of transformation Sharing Revenue on Individual Income Tax and Article 21 of Income Tax Base should be a Piggyback on PIT and Payroll Tax. It is recognized that this transformation process in the short and medium term cannot be expected to substantial increase Sub-National Governments Revenues from Piggyback on PIT and Payroll Tax Base. But in the longer term, will result in increased transparency, accountability and democratization process as well as revenue productivity at the local level.

For the case of Indonesia, the local government is highly dependent on Transfer Funds from central government especially General Allocation Grant continued in recent years and is expected to continue at about the same rate over the next decade. Revenue sharing from PIT and income tax Article 21 is basically a transfer and not a local tax, because the regional government has no control over the application of the tax base or tax-rate. Besides the amount received by the local government is fully determined by the laws of the central government. Conversely, profit-sharing tax base (where the Local Government assessing additional tax or "tax ride" that ride on the tax base of the Central Government), the actual academic is a tax and not a transfer area. This idea is one argument of transforming revenue sharing from income tax and income tax article 21 become Piggyback on PIT and Payroll Tax. It is recognized that this transformation process in the short and medium term cannot be expected to increase PIT and Payroll Tax for filling the Regional Government revenue. But in the long term, it will result in increased transparency, accountability and democratization process at the local level.

## **5. Conclusion**

Strengthening SNGs taxing power through applying piggybacking on PIT and Payroll Tax (Income Tax Article 21), and Cigarette Excise as well as introducing non-distortive SNGs taxes is necessary. The revenue come from Piggyback on PIT and Payroll Tax should be shared with respective district/city under jurisdiction of the provincial government. In addition, respective articles in the Law on Financial Balance between Central and Regional Governments (Law No. 33 of 2004) which stipulate sharing revenue of PIT and Article 21 Income Tax Law, shall be revoked.

Systemic local tax reform typically takes time, whereas many individual local tax measures can be implemented in a medium term. Hence continuous review between initial design and its implementation should be adjusted periodically. There is no unique prescription for design of a system of local taxes or even of a local tax. Some broad principle of local tax reform can be developed that apply across the board, but the design and implementation of local taxes are complex, hence need a

periodical and continuous revision is extremely important. More importantly, restructuring of Local Taxing power should be simultaneously followed by reformulation of Transfer Funds especially DAU reformulation.

Piggybacking on the national tax base is administratively simpler for the local government because it can rely on the central government's administration of tax collection. Piggybacking will reduce volatility and widespread personal income tax burden, especially in the current economic conditions, where are more volatile levels of volatility. Implementation of the piggybacking system is not expected to interfere with the national and regional fiscal sustainability, especially in the short term. In the medium and long term, precisely will contribute in improving Tax Ratio for their support and enhancements to the provincial government related Piggybacking rates.

For the provincial government, the benefits are (1) increasing the role of the provincial government as the coordinator of the district/city development, (2) the tax administration will be more open and accountable, (3) improving extension Income Tax Base, (4) increase in income tax revenue due to the increased sense of belonging and local responsibility. Meanwhile, the loss for the provincial government are (1) the possibility of a slowdown in growth in income tax revenue (as well as the growth of revenue-sharing income tax), especially in the first or the first 2 years, (2) add to the burden of local governments mainly related to the revenue sharing between the provincial government district / city, (3) local governments need to find a formulation for ideal results and may need to form a drafting team formulations for results, (4) raises potential conflicts between districts / cities, (5) disruption of the focus of local governments as a result of increased controls or protests from taxpayers to public services in the respective regions.

For the district / city government benefits are (1) increasing fiscal independence (2) The tax administration will be more open and accountable (3) improving extending Income Tax (4) increase in income tax revenue due to the increased sense of ownership and responsibility area, (5) no need to add more manpower and local government structures. Meanwhile, the loss for district / city governments are (1) the possibility of slowing the growth in Tax Receipts (also the growth of revenue-sharing income tax), especially in the first or the first 2 years, (2) the loss of aspects of equalization so as to improve the fiscal discrepancies between districts / cities, (3) the disruption of local governments due to the increased focus control or taxpayer protest against public services in the respective regions.

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## **The Factors Affecting the Performance of Shipping Services Industry and their Impact on Economic Growth in Indonesia**

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Lili Marlinah, Amik Bsi Bekasi \*)

### **Abstract:**

*This research is designed to analyze the factors affecting the performance of shipping services industry, and its impact on the economic growth. The Factors are banking, port infrastructure, business climate of shipping industry, and human resources quality. This research used an explanatory method that described causal relationships among variables through hypothesis testing.*

*Data compiled in the form of time-series during the years 1986-2015. The research model was formulated as Cobb-Douglas's production function model was analyzed, recursively using linear regression through the Ordinary Least Square (OLS) method. The research findings are: (1) Banking, port infrastructure, business climate of shipping industry, and human resource quality significantly influence the performance of shipping service industry. These finding suggests that the integration of the factors play an important role in improving the performance of the shipping service industry.*

*Partially, the performance is more determined by banking, port infrastructure, and business climate of the shipping industry; and (2) the performance of the shipping service industry has no significant positive impact on economic growth. These finding suggests the low level of the performance contribution and inter-sectors integration to boosting economic growth.*

**Keywords:** *Shipping Service Industry, Economic Growth, Performance, Banking, Port Infrastructure, business climate, human resource quality.*

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### **1. Introduction**

Indonesia is the world's largest archipelagic country with 5.8 million km<sup>2</sup> of sea: 0.3 million km<sup>2</sup> territorial waters; 2.8 million km<sup>2</sup> of inland and islands; and 2.7 million km<sup>2</sup> Exclusive Economic Zone (ZEE). Indonesia has a total area of 735,355 mil<sup>2</sup> with 17,504 islands stretching from the west to the east with a long coastline of 81,000 km. Indonesia also lies in a strategic cross position between the Asian and Australian continents with abundant natural resources, energy, mineral, biological



and animal resources. To support the condition of Indonesia that stretches from Sabang to Merauke it is required adequate sea transportation for the economic factors and the results can be equally distributed. The emergence of transportation needs is a derived demand based on an economic and social activity. The shipping service industry is a marine transportation service industry that provides great benefits for the movement of people and goods. The regulation of shipping number 17 of the year 2008 stated that the shipping consisting of sea transport, seaport, shipping safety and security, and maritime environment protection are part of the national transportation system that must be potentially developed and has the role to realize an efficient and effective transportation system, and to help create a steady pattern and a dynamic national distribution. The national shipping industry in Indonesia has good prospects due to the high volume of exports and imports that are increasing every year. Unfortunately, the total cargoes which can be transported by sea transport services through national vessels is currently only at 5.05%; while another 94.95% are transported by foreign vessel.

The Strategic plan of the Directorate General of Sea Transportation for the year 2015-2019 mentioned that the challenges of national marine transportation in the future will be greater. The demand to provide efficient connectivity in the context of reducing national logistics costs has become a national issue. The government is planning to realize the program of sea toll road as the backbone of national connectivity and to makes Indonesia as the maritime axis of the world, this requiring a major change in the pattern of marine transportation, both in terms of port infrastructure provision, network arrangement, and in its business system. Indonesia's geographical condition as an archipelago places the marine transportation sector as the main sector of connecting islands in Indonesia. Based on the Global Competitiveness Report, the position of port competitiveness of Indonesia in the year 2015-2016 still ranks the 82nd, while in the years 2016-2017 it ranked 75th. The performance of the shipping service industry is also having an unfavorable business climate of the shipping industry so that national shipping companies are still needing protection by the government with cabotage.

*Identifying Problems:*

The identified problems are: the difficulty to get loans or capital from banking, Inadequate port infrastructure associated with high logistics costs, Not conducive to shipping industry business climate, especially for local business due to the low protection and development of the national shipping services business. The lack of quality in human resources and low productivity of loading and unloading due to the length of dwelling time indicates the low performance of the shipping service industry which can impact the low contribution of the sectors to economic growth.

*The Limitations of Problems:*

The factors are limited to banking factors, port infrastructure, shipping industry business climate, and human resource quality. In the perspective of industry

performance, these factors are theoretically and practically the important factors determining the performance of economic sectors and economic growth.

*The Formulation:*

The formulation in this research is how does Banking, Port Infrastructure, Business Climate of Shipping Industry, and Human Resource Quality simultaneously and partially influence the Shipping service Services Industry Performance? And which impact has the Shipping Service Industry Performance on Economic Growth?

*The Objectives and Research Purposes:*

The objectives are knowing the influence of Banking, Port Infrastructure, Business Climate of Shipping Industry, and Human Resource Quality simultaneously and partially impact to the Performance of Shipping Services Industry and also impact of Performance of Economic growth.

## **2. Literature Review**

*A. Theoretical:*

The Grand theory which becomes the base of this research is the Economic Growth Theory of Schumpeter and Kuznet. The Industrial Economics Theory of Stimson is a middle-range theory; while Ricardo's Comparative Advantage Theory and Competitive Advantage Theory of Porter is an applied theory. In industrial economics, industry performance is based on Structure-Conduct-Performance (SCP) relationships, where industrial performance is influenced by industry structure and industry behavior (Stimson et al., 2002, Kuncoro, 2007). In this perspective, industry performance is the industry's ability to create efficiency or productivity.

*B. The Position of Research:*

The position of this research is combining the theory of factors affecting the performance of the shipping services industry with theory of economic growth.

*C. The Relationship between Variables:*

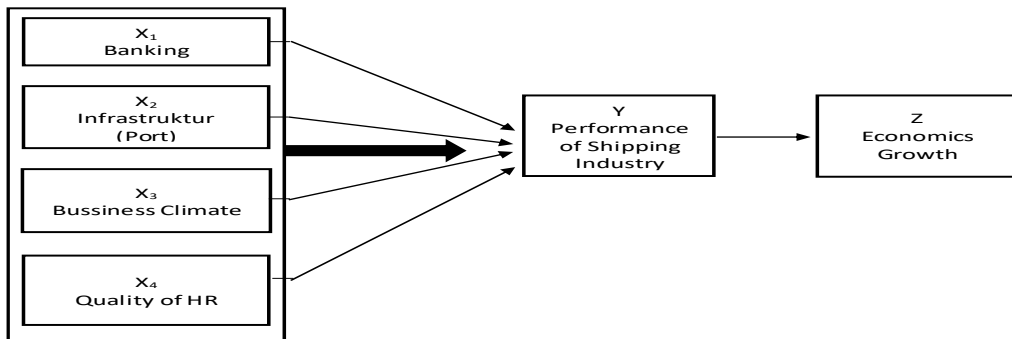
The relevant variable in this research are banking, port infrastructure, the shipping industry's business climate, and the quality of human resources (independent variables), performance of shipping services industry (intervening variables), and economic growth (dependent variable).

*D. The Paradigm of Research:*

The paradigms of research as a functional relationship model among variables are as follows (Figure 1):

*E. The Formulation of Model*

The functional relationship model among variables, as indicated by the above research paradigm, is formulated as a model of the Cobb-Douglas production function.

**Figure 1.** The paradigm of research

Performance of Shipping Services Industry = function (Banking, Port Infrastructure, Business Climate of Shipping Industry, Quality of Human Resources):

$$Y = f(X_1, X_2, X_3, X_4)$$

$$\ln Y = b_{01} + b_{11}\ln X_1 + b_{21}\ln X_2 + b_{31}\ln X_3 + b_{41}\ln X_4 + e_1$$

Economic Growth = function (Performance of Shipping Services Industry)

$$Z = f(Y)$$

$$\ln Z = b_{02} + b_{12}\ln Y + e_2$$

Where:  $b_{ij}$  (regression coefficient)  $> 0$  (direction of positive influence) for  $i \neq 0$

$b_{0j}$  = intercept / constant

$X_1$  = Banking,  $X_2$  = Port Infrastructure,  $X_3$  = Business Climate of the Shipping Industry

$X_4$  = Quality of human resources,  $Y$  = Performance of Shipping Services Industry

$Y^{\wedge}$  = Estimated Performance of the Shipping Service Industry of the function

$Y = f(X_1, X_2, X_3, X_4)$ ,  $Z$  = Economic Growth (Economic Growth),  $e$  = error / residue

#### F. Hypothesis

Based on the formulation and the framework of thought, there can be derived the research hypothesis, which is Banking, Port Infrastructure, Business Climate Shipping Industry, and Quality of Human Resources simultaneously and partially influence the Performance of Shipping Services Industry and Shipping service Services Industry Performance positively influence on Economic Growth.

### 3. Methodology

The research period has started in December 2014 and it lasted until January 2016 in Jakarta. The research was conducted to obtain secondary data from several institutions, such as the Central Bureau of Statistics (BPS), Bank Indonesia, Ministry of Transportation Directorate General of Sea Transportation, Pelindo and INSA

(Indonesia National Ship-owner Association) etc. The samples of population are limited by convenience sampling, according to data availability, in the period 1986-2015 (30 years) in the form of time-series data. The research method used is explanatory which aims to explain the relationship between variables through hypothesis testing.

Based on the analytical method approach used, this research is a quantitative research using statistics as an analytical tool. The data collections techniques used in this research are observation and interview. The data analysis technique used to test the research hypothesis is the Linear Regression Analysis with ordinary least square method. In order to obtain a BLUE (Best Linear Unbiased Estimator) model, prior to hypothesis testing the classical assumption test is performed in the required regression: normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test Hypothesis about influence simultaneously tested by F test, while the hypothesis about partial influence is tested by t test at significance level = 5%, while model feasibility will be analyzed based on the goodness of an econometric model, namely: theoretical plausibility, accuracy of the estimate of the parameter, explanatory ability, forecasting ability, and simplicity.

#### **4. Result and Discussion**

##### *1. Classical Assumptions Testing:*

The result of testing the classical assumption on this model has fulfilled the required classical assumptions. The classical assumptions for both models analyzed are normal distribution and no multicollinearity (relevant only in the first model), autocorrelation, and heteroscedasticity. The Jarque-Bera test for normality test in Models 1 and 2 shows non-significant results. The results of the Variance Inflation Factor (VIF) analysis for the multicollinearity test in the second model shows that all the causal variables in the model have VIF values <10. The Breusch-Godfrey test for the autocorrelation test in Models 1 and 2 shows non-significant results. Similarly, the White test for heteroscedasticity tests in Models 1 and 2 shows non-significant results.

##### *2. Hypothesis Testing:*

*Influence of Banking, Port Infrastructure, Business Climate of Shipping Industry, and Quality of Human Resources to the Performance of Shipping Services Industry:*

The result of Regression Analysis for the influence model of Banking (X1), Port Infrastructure (X2), Business Climate of Shipping Industry (X3), and Quality of Human Resources (X4) on Shipping service Industry Performance (Y) can be seen in the below regression equation:

$$\text{Ln } Y = -59,158 + 2,107 \text{ Ln } X1 + 3,046 \text{ Ln } X2 + 0,221 \text{ Ln } X3 + 1.566 \text{ Ln } X4 + I$$

**Table 1.** *The Analysis of regression for the first model*

Dependent Variable: Y\_KINERJA\_IJP  
 Method: Least Squares  
 Date: 9/26/17 Time: 07:22  
 Sample: 1986 2015  
 Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-59.15813	14.48803	-4.083243	0.0004
X1_PERBANKAN	2.106695	0.576530	3.654093	0.0006
X2_INFRASTRUKTUR				
_P	3.046237	0.862915	3.530172	0.0008
X3_IKLIM_USAHA_IP	0.220922	0.122427	1.804514	0.0416
X4_KUALITAS_SDM	1.566169	3.013858	0.519656	0.3039
R-squared	0.943641	Mean dependent var		12.72387
Adjusted R-squared	0.934624	S.D. dependent var		0.584151
S.E. of regression	0.149360	Akaike info criterion		-0.813900
Sum squared resid	0.557712	Schwarz criterion		-0.580367
Log likelihood	17.20850	Hannan-Quinn criter.		-0.739191
F-statistic	104.6465	Durbin-Watson stat		1.913437
Prob(F-statistic)	0.000000			

The result of the table showed above, is that the analysis obtained a constant of C = -59,158 which can be interpreted if the log of natural Banking, Port Infrastructure, Business Climate of Shipping Industry, and Quality of Human Resources is zero (0) unit, then the value of log natural Performance of Shipping Service Industry (Y) is mathematically equal to -59.158 units.

*Results of Banking Influence Test, Port Infrastructure, Business Climate of Shipping Industry, and Quality of Human Resources Simultaneously to the Performance of Shipping Services Industry:*

The influence of Banking (X1), Port Infrastructure (X2), Business Climate of Shipping Industry (X3), and Human Resource Quality (X4) simultaneously to the Performance of Shipping Service Industry (Y) is  $R^2 = 0.944 = 94.4\%$  the statistical value-F = 104,647. The influence also indicates the variations in the Performance of Shipping Services Industry which can be explained by the Banking, Port Infrastructure, Business Climate of Shipping Industry, and the Quality of Human Resources simultaneously or together with 94.4%. The remaining variations in the Performance of Shipping Services Industry, which is  $1-R^2 = 0.056$  or 5.6% is explained by other factors that are not researched. Referring to the value of multiple correlation coefficient (R<sup>2</sup>) that is equal to  $R = 0,971$  indicates that its simultaneous influence from Banking (X1), Port Infrastructure (X2), Business Climate of Shipping Industry (X3), and Quality of Human Resource (X4) to shipping service industry (Y) is quite strong, i.e. with multiple correlation coefficient between 0.80 - 1.000 (Sugiyono, 2006). The result of the significance test obtained a value of F count = 104,647 which is bigger than F table = 2,759 (F table value at 5% error level and  $db1 = k = 4$ ;  $db2 = nk-1 = 30-4-1 = 25$ ) indicating that Banking (X1), Port

Infrastructure (X2), Business Climate of Shipping Industry (X3), and Human Resource Quality (X4) have a significant effect simultaneously on the performance of shipping services industry (Y) at 5% error level. The significance of F test results is also shown by p-value (Sig.) = 0,000 < (= 0.05).

*Result of Banking Influence, Port Infrastructure, Business Climate of Shipping Industry, and Quality of Human Resources Partially on the Performance of Shipping Services Industry:*

Banking (X1) has a partially effect on the performance of shipping service industry (Y) besides indicated by the regression coefficient  $b_{11} = 2,107$  also shown by partial correlation coefficient  $r_{Y, X1, X2, X3, X4} = 0,590$  with t-statistic value = 3,654. The partial correlation coefficient  $r_{Y, X1, X2, X3, X4}$  shows that the partial influence of Banking (X1) on the Performance of Shipping Services Industry (Y) is quite strong, i.e. with partial correlation coefficient between 0,40 - 0,599 (Sugiyono, 2006: 149). The positive partial correlation coefficient value of  $r_{Y, X1, X2, X3, X4}$  also shows the direction of the positive influence of Banking (X1) partially on the Performance of Shipping Service Industry (Y).

The higher the level of support from Banking, the higher the Performance of Shipping Services Industry. Based on the result of the significance test, t-count value = 3,654 bigger than t-table = 1,708 (t-table value at error level 5% 1-sided test type and degree of  $nk-1 = 30-4-1 = 25$ ) indicating that Banking (X1) have a significant partial positive effect on the Performance of Shipping Services Industry (Y) at 5% error level. The significance of the t test results is also shown by p-value (Sig.) = 0.001 < (= 0.05). The explanation for other variable X2, X3 and X4 will be showed in the below table recapitulation.

*Recapitulation of First Hypothesis Test Results:*

The results of first hypothesis testing can be summarized as shown in the following Table 2.

**Table 2. Results of First Hypothesis Testing**

Banking (X1), Infrastructure(Port) (X2), Business Climate(X3),and Quality human resources(X4)	94,4%	0,971	Very Strong	104,647*
Banking (X1)	2,107	0,590	Strong	3,654*
Infrastructure (port) (X2)	3,046	0,577	Strong	3,530*
Business climate of shipping industry	0,221	0,339	Weak	1,805*

(X3)				
Qualities of human resources (X4)	1,566	0,103	Very weak	0,520ns

*The Impact of Shipping Service Industry Performance on Economic Growth:*

The regression analysis results on the influence model of Shipping Services Industry Performance ( $Y^{\wedge}$ ) on Economic Growth (Z) can be seen in the regression equation below:

$$\ln Z = 0.911 + 0.060 \ln Y^{\wedge} + i^2$$

Where: Z = Economic Growth

$Y^{\wedge}$  = Performance of the Shipping Service Industry (Model estimation 1)

$i^2$  = Residue / error / error (other factors) affecting Z

The impact of Shipping service industry Performance ( $Y^{\wedge}$ ) on Economic Growth (Z) is the coefficient of determination  $R^2 = 0.007 = 0.7\%$  with statistical value-t = 0.428. The influence also shows the variation of the economic growth that can be explained by the Performance of Shipping Services Industry, which is equal to 0.7%. The remaining variation of Economic Growth, which is  $1 - R^2 = 0.993$  or 99.3%, is explained by other factors which are not researched. Referring to the value of correlation coefficient ( $R^2$ ) that is equal to  $R = 0.082$ , is indicated that the influence of the Performance of Shipping Service Industry ( $Y^{\wedge}$ ) on Economic Growth (Z) is very weak, having the correlation coefficient between 0,00 - 0,199 (Sugiyono, 2006). The Effect of Performance of Shipping Service Industry (Y) to Economic Growth (Z) beside indicated by regression coefficient  $b_{11} = 0,060$  is also shown by correlation coefficient  $R = 0.082$  with t-statistic value = 0,428.

**Recapitulation of Second Hypothesis Testing Result**

The results of the second hypothesis testing of the effect of the Shipping service Industry Performance ( $Y^{\wedge}$ ) on Economic Growth (Z) can be summarized as shown in the following Tables 3-4. The results of the second hypothesis testing above shows that the Performance of Shipping Services Industry (Y) has no significant positive effect on Economic Growth (Z). Although the direction of its influence is positive, it is not significant, so though it has an influence, it is still very weak. The best effort which can be done to improve Economic Growth to increase the integration or synchronization between shipping service industry sector with other economic sectors is as follows:

To support banking for the shipping service industry with increasing the value of credit for the national shipping service industry, the total value of credit until of year 2014 is IDR 3,500 trillion, only 2.36% is distributed into the maritime sector.

Meanwhile to decrease an incentive rate of credit (interest rate) for shipping companies.

**Table 3. Results of Regression Analysis for Second Model**

Dependent Variable: Z\_PERTUMBUHAN\_EKONOMI  
 Method: Least Squares  
 Date: 9/26/17 Time: 07:40  
 Sample: 1986 2015  
 Included observations: 29

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.911490	1.780962	0.511796	0.6130
Y_ESTIMASI_KINERJA	0.059759	0.139775	0.427539	0.3362
R-squared	0.006724	Mean dependent var		1.672166
Adjusted R-squared		S.D. dependent var		0.420322
R-squared	0.003006	Akaike info criterion		1.200503
S.E. of regression	0.426594	Schwarz criterion		1.294799
Sum squared resid	4.913521	Hannan-Quinn criter.		1.230035
Log likelihood	-15.40729	Durbin-Watson stat		1.880981
F-statistic	0.182789			
Prob(F-statistic)	0.336189			

**Table 4. The second result of Hypothesis Testing.**

	R <sup>2</sup>	R <sub>2</sub>	Kategori
	0,7%	0,082	
Pengaruh	b <sub>12</sub>	t	
Performance Shipping Service (Y <sup>^</sup> )	0,060	0,428 <sup>ns</sup>	

Improve the business climate of the shipping industry with improves the efficiency of the licensing bureaucracy connected to the National Single Window (NSW) portal and create one stop service and re-evaluate the policy of tax incentive for the shipping company

Improve the port infrastructure, establishing an information technology system infrastructure that enables loading and unloading services at ports online, also modernized loading and unloading equipment. Extend the port to increase the capacity of the kept vessels to lean and unload. This improvement is followed by deepening of the port larger for lean. Improving the quality of human resources by applying rules using certified laborers or seaman according to International Maritime Organization (IMO) and certification of MLC/STCW 2010. Performance shipping service industry could contribute to the economic growth supported by other economy sectors, implementing of Cabotage and being competitive.



## 5. Conclusion

- Banking, Port Infrastructure, Business Climate of Shipping Industry, and Quality of Human Resources have significant effect simultaneously on the Performance of Shipping Services Industry. Meanwhile, variable of Banking, Port Infrastructure, and Business Climate of Shipping Industry have a partially significant positive effect, but the Quality of Human Resources has no partially significant effect for the Performance of Shipping Services Industry. Although it is constructive to the achievement of the Performance of Shipping Services Industry, its contribution is still very weak due to the inadequate commitment of industry in empowering local human resources and we are lacking competence labors specially in shipping industry.
- The performance of the Shipping Services industry has no significant positive effect on Economic Growth. Although it is constructive in achieving the Performance of the Shipping Service Industry, but its contribution is still very weak due to the lack of integration between the shipping service industry and other economic sectors in driving economic growth.

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## Factors Affecting Profitability of Food and Beverage Companies Listed in Indonesia Stock Exchange

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Yolanda, Sumarni \*)

**Abstract:**

*This study aims to build the relationship of current ratio, debt equity ratio, total asset turnover, and sales growth on return on equity in food and beverage companies, which are listed in the Indonesian Stock Exchange (IDX) for nine years (2008-2016). The model, which is used to analyze the relationship between current ratio variables, debt equity ratio, total asset turnover, and growth sales with profitability (ROE), is panel data.*

*The result of the research with the test of correlated random effect -Hausman test model, which has been chosen has fixed effect (Method: Pooled Least Squares). The research findings show that there are positive and significant relationship between CR and TAT with ROE. While DER and sales growth with ROE is also positive but not significant.*

**Keywords:** Food and beverage company listed in Indonesia stock exchange, current ratio, debt equity ratio, total asset turnover, sales growth and return on equity.

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### 1. Introduction

The condition of business competition in today's global market is highly volatile and unpredictable. This is due to the development of the global economy that moves in the same field so as to trigger a fierce competition. In the competition, there are many obstacles faced by business players such as in fighting and defending consumers. In this case the company must be keen in seeing the gap or business prospects which will be undertaken, so it takes proper business planning in making decisions related to income and profits.

Business factors seek to maximize profits with minimal use of resources to survive or win in-market competition, so management is required to improve performance in various aspects, especially financial performance. The most common measure used to analyze financial performance is with the financial ratio. Financial ratio analysis can help business people evaluate the company's financial condition in the past, now

and in the future. The ratios used to assess the company's financial performance are the ratio of liquidity, leverage ratio, activity ratio and profitability ratio.

According to Van Horne and Wachowicz (2005), profitability ratios consist of ratios that show profitability in relation to sales and ratios that indicate profitability in relation to investments. Profitability in relation to investment consists of return on total assets and return on equity. In addition, profitability ratios measure management objectivity as indicated by return on sales, assets and owners' equity. Return on equity (ROE) ratio is able to measure the effectiveness of the company in generating profit by utilizing its own equity. The amount of profitability ratio can be influenced by Current Ratio (CR), debt to equity ratio (DER), net sales growth and total asset turnover (TAT).

Current ratio is a financial ratio that shows the company's ability to pay short-term liabilities or debts that are due at the time of collection. While the debt to equity ratio is one leverage ratio that reflects the capital structure of a company, where this ratio illustrates the extent to which capital can cover the debts to outside parties. Meanwhile total asset turnover is part of the effectiveness ratio. This ratio illustrates the efficiency level of the overall use of company assets in generating sales volume. Sales in a trading company as an element of the Company's revenues, and Kusnadi (2000) states that sales are a sum of money charged to buyers of goods or services sold.

Food and beverage companies are one of the categories of industry sector in Indonesia Stock Exchange (BEI) which have the opportunity to grow and develop. As of 2011, the food and beverage industry recorded a growth rate of 10.98 percent. Then, respectively 19.33 percent in 2012, 4.07 percent in 2013, 9.49 percent in 2014, 7.54 percent in 2015, and 8.46 percent in 2016 and growth of 7.19 percent in the second quarter year of 2017 which looks down from the previous year. This achievement contributes to gross domestic product (GDP) of 34.17% of non-oil and gas industries.

**Table 1.** *Average Current Ratio, Debt to Equity Ratio, Total Assets Turnover and Return on Equity (ROE) Food and Beverage Company Listed on BEI (2007-2016) (%)*

YEAR	Current Ratio (CR)	Debt Equity Ratio (DER)	Total Asset Turnover (TAT)	Return on Equity (ROE)
2008	215	129	140	21
2009	214	178	133	47
2010	226	94	116	22
2011	203	87	119	22
2012	189	106	128	43
2013	197	94	146	29
2014	211	121	146	28

2015	229	104	128	21
2016	283	91	134	29

*Source: Annual Report 2007-2016 (processed).*

The table above describes some of the financial conditions of food and beverage companies listed on the BEI, especially the ability of the company to fulfill its obligations, to create efficiency, the company's capital adequacy in supporting the risks that may occur and the data can be as a reference for investors, financial managers or other interested parties in decision making. To know how the effect of the above ratios can affect profitability as measured by Return On Equity (ROE) , it can be known from the results of the following studies:

According to Abor (2005), there is a positive relationship between short-term debt and total debt to performance, but the negative relationship of long-term debt to return on equity. Assad Naim Nasimi (2016), stated that Debt to Equity Ratio has a positive impact on return on equity ratio. Sorana Vatayu (2015), based on the results of his research, said that total debt and short-term debt has a negative relationship with ROA and ROE. Research results from Lina Warrad and Rania Al Omari show that there is no significant impact of Total Asset Turnover on Return on Equity. Ratna Mappanyuki , and Meipita Sari (20017) stated in the results of his research sales growth significant effect on ROE.

According to Yazdanfar (2013) and Salman and Yazdanfar (2012) Research has tested the growth of the companies which positively affect profitability. Abdulkadir Ali Tifow and Ozlem Sayilir (2015), in their research, shows that short term debt to total assets (STDTA) and long-term debt to total assets (LTDTA) has a negative and significant relationship with ROE. Based on the above issues to be studied in this research is: do the current ratio, debt equity ratio and total asset turnover ratio affect the profitability variables represented by return on Equity?

## 2. Literature Review

### *Return on Equity (ROE):*

ROE (return on equity) can be calculated by Dupont Formula, which is influenced by three factors, profitability (profitability), operational efficiency (efficiency) and debt (leverage). Hansen and Mowen (2012) describe that Return on Equity is the ratio between the net profit after tax and the total equity. ROE illustrates the rate of return earned by its shareholders, giving investors a comparable picture between firms and investment opportunities (Brigham & Ehrhardt, 2005). According to Tandelilin (2002), "ROE (Return On Owners Equity) reflects how many companies have earned returns on funds invested by shareholders (either directly or with retained earnings)".

*Current Ratio:*

Current ratio is one of the liquidity ratios, in which the current ratio is the ratio to measure the firm's ability to pay short-term liabilities or debts that are due soon when collected in full (Kasmir, 2008) and Riccardo (2012) state that the increase in current ratio is inversely proportional with a measure of company profitability. The high level of corporate liquidity caused by operating profit is widely used to make short-term debt payments. According to Munawir (2004), the current ratio is used to analyze the working capital position of the firm and the ratio can show the value of current wealth which can soon be turned into money, for some time from short-term debt.

*Debt Equity Ratio:*

Debt to Equity Ratio (DER) reflects the company's ability to meet all its obligations. If the value of DER ratio is low, then the company's ability to pay all its obligations is high and if the proportion of debt used for the capital structure of an enterprise is greater then the amount of liabilities of the company will be greater. Analysts and investors use DERs to see how much a company's debt is when compared to the equity owned by the company or its shareholders. The higher the DER number is then assumed that the company has a higher risk on the company's liquidity.

*Total Asset Turnover:*

Total assets turn over is a ratio that shows the level of efficiency of the overall use of the company's assets in generating a certain sales volume (Syamsuddin, 2009: 19). The higher the ratio the more efficient the use of assets and the faster the fund in cash and if the ratio is low, it indicates that the company does not operate at a sufficient volume for its investment capacity.

*Sales Growth:*

Growth is an increase in sales from year to year or from time to time (Hansen and Mowen, 2012). Companies that have high sales growth rates require more investment in asset elements, both fixed assets and current assets, by knowing how much sales growth, the company can predict how much profit you will get.

*Hypotheses:*

To answer to the above problems and achieving the objectives of the study, there will be made the following research hypotheses:

*H1: Simultaneously current ratio, debt to equity ratio, and, total asset turnover influences and significant to return on equity.*

*H2: Partially current ratio has negative and significant effect on return on equity.*

*H3: Partially debt to equity has a positive and significant effect on the return on equity.*

*H4: Partially total turnover assets have a positive and significant effect on return on equity.*

*H5: Partially sales growth has a positive and significant effect on return on equity.*

### 3. Methodology

The data used for this study is secondary data obtained from the financial statements of banks listed on the Indonesia Stock Exchange (IDX) between the period of 2007 and 2016 which consists of 5 companies with criteria:

- Food and Beverage Companies listed on the Stock Exchange and consistently present during the study period (2008 to 2016).
- Food and beverage companies that provide financial statement data during the research period (2008 to 2016).
- Food and Beverage Companies that did not generate negative profits during the period 2008 to 2016.
- Food and beverage company with positive sales growth during 2008 to 2016 period.

The main purpose of this research is to examine the influence of current ratio, debt equity ratio and total asset turnover to the profitability represented by return on equity of food and beverage companies listed on BEI between 2008-2016 with analysis technique using Eviews software with descriptive statistic test, classical assumption test, hypothesis test by using f test and t test and chow test / Hausman test. Multiple linear regression (Equation of data panel regression with One Way Model) and the last test of coefficient of determination. Model Specification of this research is:

$$ROE_{it} = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \mu \quad (1)$$

Where:

Variable of Y represents profitability represented by Return on equity / ROE (Y) for food and beverage company listed on BEI at time of t.

Variable of X1 is the current ratio of food and beverage companies listed on the BEI at time of t.

Variable of X2 is a debt equity ratio of food and beverage companies listed on the BEI at time of t.

Variable of X3 is the total asset turnover ratio of food and beverage companies listed on the BEI at time of t.

Variable X4 is the growth sales of food and beverage companies listed on the BEI at time of t.

### 4. Result and Discussion

*Descriptive statistics:*

Show values of mean, median, maximum, minimum and standard deviation of all variables studied are CR, DER, TAT and ROE.

Table 2. Descriptive statistics

	Y?	X1?	X2?	X3?	X4?
Mean	18.35556	204.3333	99.40000	124.6889	24.18940
Median	20.00000	182.0000	106.0000	124.0000	18.44413
Maximum	34.00000	760.0000	223.0000	258.0000	148.5500
Minimum	5.000000	87.00000	18.00000	36.00000	1.120000
Std. Dev.	7.271225	104.3915	48.01013	54.77965	23.39782
Observations	45	45	45	45	45
Cross sections	5	5	5	5	5

Based on Table 2, the mean of the variables studied illustrates:

- The mean of the current ratio is greater than one, then the company is included in the criteria healthy.
- Debt Equity Ratio value describes the existence of a secure company, where the debt is less than the capital.
- The mean of Asset Turnover Ratio shows that net sales are greater than the total assets, which means the company is able to manage its assets well.
- ROE calculation results close to one show the more effective and efficient use of equity to generate income. The results show a value that is close to zero, meaning that the company is inefficiently using equity to generate revenue.

The results of Classical assumption test are obtained;

- The normality test with the Jarque Bera histogram test which describes the normally distributed data ie the probability value obtained by  $0.7549 > \alpha = 5\%$ .
- The multi-co-linearity test used Correlation Matrix test using correlation matrix, where all variables have correlation value below 0.80, which means this regression model does not contain multi-co-linearity problem.
- Hetero-scedasticity test using white test, where the value of Probability Chi-squared of 0.0758 is more than 0,05, that regression model is free from symptoms of hetero-scedasticity.
- Autocorrelation test using Breusch -Godfrey Serial Correlation of LM Test with Probability of Chi-squared value of 0, 1437 which is greater than 0.05 and it is concluded that regression model is free from autocorrelation problem.

The Regression method which is used is with common effect model, fixed effect and random effect. According to Widarjono (2007) to determine the most appropriate technique in estimating panel data parameters, there is to conduct Chow Test and Hausman Test. Based on chow test results it is obtained by probability value of cross section of chi square by  $0,0000 < 0,05$  then test continued with Hausman test. The Hausman test result of the selected method is a fixed effect, caused by the probability cross section value in correlated random effects-Hausman test which is smaller than 0.05.



The result of F-statistic test which is obtained by probability significance value of  $0.0009 < 0,05$  meaning significant influence, and it shows that variable of CR, DER, TAT and Sales Growth, have simultaneous significant influence to ROE. While the partial test is obtained:

▪ *The effect of CR on ROE*

The statistical results show a significant and positive result between CR and ROE at  $\alpha = 10\%$  ( $0.0512 \leq 0.10$ ). This research is different from the research result of Dana-Maria Boldeanu and Irina-Bogdana Pugna (2014) that CR has no significant effect on ROE. CR which is used to measure the settlement of the short-term debt. The extent of short-term creditors' claims can be met by current assets. A current that is too high indicates the surplus cash or other current assets in comparison with what is needed now.

▪ *The effect of DER on ROE*

The statistically calculated results show an insignificant and positive result between DER and ROE, where the probability value is greater than  $\alpha$  ( $0.3876 \leq 0.05$ ). The study contradicts with Dita Novita Sari et al. (2012), in which the effect of DER on ROE is negative and significant. Syed Shah Fluid Rehman (2013) also illustrates the negative relationship. Both of these studies suggest that large debts will lower ROE and are different from the results of research conducted.

▪ *The effect of TAT on ROE*

The TAT ratio reflects the company's efficiency in using its current assets and fixed assets to support sales activities. The results showed TAT with ROE is significant and positive at  $\alpha = 10\%$  ( $0.0506 \leq 0.05$ ). The research results are in line with the research of Haseeb Wadood Bokhari, Muhammad Arif Khan (2013). This shows that the faster the asset changes, the greater the sales gained so that profit growth increases and can affect the value of ROE. If the TAT ratio is high, then the company is said to be able to generate high profits and will ultimately affect the value of ROE. Thus, the relationship between TAT and ROE is positive.

▪ *The influence of Sales Growth on ROE*

The results of statistical calculations are not significant, and relationships that occur positive. The results of this study are in line with research by Isaih Dzingai and Michael Bamidele Fakoya (2017) and Haseeb Wadood Bokhari, Muhammad Arif Khan (2013). While the research results Sana Tauseef et al. (2015) describes growth sales, have a positive and significant impact on ROE. A high sales Growth will have an impact on profit growth, and profit growth will affect the value of ROE.

Based on the determination coefficient test R2 obtained Adjusted R2 value of 0.3819 indicates that 38.19 percent of ROE variation can be explained by its independent variables, they are CR, DER, TAT and Sales Growth. While the rest of 61.81 percent explained by other variables that are not examined.

## **5. Conclusion**

This study seeks to investigate the relationship between CR, DER, TAT and the growth of sales of food and beverage companies that are listed on the Indonesia Stock Exchange on ROE with the provisions of food and beverage companies that publish data on the 2008-2016 financial statements which has positive profit and positive sales growth. This study covers 9 years with a total of 45 observations. The results show that the Current Ratio (CR) and Total assets turn over have a positive and significant impact on Return on Equity (ROE) while Debt Equity Ratio (DER) and sales growth have no significant impact on ROE. A high CR ratio will be rated positively by investors, as it indicates a company's ability to meet its debt, which will make investors believe in the company's ability to pay dividends. High DER value is assumed that the company has a higher risk on the company's liquidity, the greater TAT Value indicates that the assets can be used effectively and spin faster in obtaining profit, while for sales growth, the higher the sales growth the greater the profit which is obtained.

The value increasing of DER, and TAT can be done by using assets and debts owned by the company effectively so that asset turnover and debt usage may provide the possibility of the increase of the company profit which is stated in Return on Equity (ROE). While the increasing of CR and Sales Growth will increase the company's profit growth which is stated in Return on Equity (ROE).

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## Factors Affecting Economic Growth of Tourism Sector and its Implication on Employment Opportunity and Region Own Source Revenue

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**Abstract:**

*This study aims to analyze the influence of Infrastructure, Transportation, Number of Visits, Investment of Tourism Sector on Economic Growth of Tourism Sector, either simultaneously or partially. Furthermore, analyzing the influence of Economic Growth of Tourism Sector on Employment Opportunity and Region Own Source Revenue.*

*The type of data used in this study is secondary data in the district/city of Bangka Belitung Islands Province. The data analyzed in the form of time series in the period 2006-2015 every year. The research data is analyzed by the regression analysis technique, the management is done through Eviews software.*

*The result of the research concludes that: a) there are positive and significant influence simultaneously or partially from the variable of Infrastructure, Transportation, Number of Visits, Investment of Tourism sector to the economic growth of tourism sector. b) There is a positive and significant influence of the economic growth variable of tourism sector on the job opportunity. c) There is a negative and significant influence of the economic growth variable on the tourism sector to Local Revenue.*

**Keywords:** *Economic Growth, Employment Opportunity, Region Own Source Revenue*

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### 1. Introduction

Various international organizations, including the UN, the World Bank and the World Tourism Organization (WTO), have recognized that tourism is an integral part of human life, especially with regard to social and economic activities. Beginning with activities originally enjoyed only by the relatively wealthy people of the early twentieth century, it has now become a part of human rights, as John Naisbitt points out in Frechtling (2007) in his book *Global Paradox* that "where once travel was considered a privilege of the moneyed elite, now it is considered a basic human right". This happens not only in developed countries but also begins to be felt in developing countries including Indonesia. According to IUOTO (International

Union of Official Travel Organization) as pointed out by Abraham Pizam (2007, p12), tourism should be developed by each country for several main reasons as follows: (1) Tourism as a trigger factor for national economic development as well international. (2) The trigger of prosperity through the development of communication, transportation, accommodation, other services. (3) Special attention to cultural preservation, social values for economic value. (4) Equity welfare caused by the consumption of tourists in a destination. (5) Foreign exchange earner. (6) The trigger of international trade. (7) Triggers the growth and development of educational institutions of tourism professions as well as special institutions that form the spirit of entrepreneurship that is reliable and polite, and (8) market share for local products so that the variety of products continues to grow, along with the socio-economic dynamics in the area of a destination.

Antariksa, and Axioma, (2004) suggest that tourism development has grown so rapidly especially in the last two decades, which shows that countries that rely on tourism as their country's foreign exchange earners, the progress and improvement of economic prosperity makes tourism a part of the basic needs of lifestyle. These needs can drive an interconnected economic link and then become a service industry that makes an important contribution to the world's economy. In the next stage of movement and improvement of the economy of various nations, it will affect the welfare of the local communities.

Gilbert and Hudson (2014) released in his journal the rank of increase owned by UNWTO, so far the number of expenditures for travel abroad is still held by China with an increase of 30%, followed by Poland with 22 %, Malaysia 18%, Argentina 16%, Russia 15%, and India 11%. As for the ranking of income earned by a number of countries from the tourism sector held by Japan with 48%. This figure is followed by three other countries, Sweden, Korea, and South Africa, which reached 26%, and Hong Kong has 17%. Currently, Malaysia has the highest growth tourism in Southeast Asia. Growth in the number of foreign tourists (tourists) who came to Malaysia reached 9.6 percent. This figure increased from the number of 20.9 million foreign tourists in 2013 to 22.9 million foreign tourists in 2014.

While Indonesia recorded at Central Bureau of Statistics in 2014 the number of foreign tourists visiting (9.435.411) and the growth (7.2 percent), compared to the year 2013 when there were as many as 8,802,129 foreign tourists. With the growth rate, Indonesia's tourism industry is predicted to continue to grow as Indonesia's growth rate is higher than the world average growth rate of 4.7 percent. The tourism sector is also only able to contribute with US \$ 10 billion of foreign exchange, with the total contribution to Gross Domestic Product (GDP) of 6 percent per year. In fact, the potential of Indonesia is very large to be developed and generates greater acceptance. Based on the problems that the authors pointed out above, it is necessary to make the boundaries of the problem so that the discussion of this study goes more in-depth. The limitations of the problem include:

- The use of variables such as infrastructure, transportation, number of tourist visits and investment in tourism sector, economic growth of tourism sector, employment opportunity and Local Source Own Revenue either simultaneously or partially. The author uses these variables because the data studied is sufficient as a study material taken from the results of the previous researcher and Bangka Belitung documents In Figures, Bappeda Bangka and other documents in the province of Bangka Belitung Islands.
- The study is only in the province of Bangka Belitung Islands because according to BPS (2014) data that tourism has not greatly contributed to employment and regional Local Own Source Revenue especially in the province of Bangka Belitung Islands.
- Data used from 2006 to 2015 infrastructure, transportation, number of tourist visits and investment in the tourism sector, employment opportunities, and Local Source Own Revenue.
- Discusses about the causality relationship between the factors affecting the growth of the tourism sector economy as well as its impact on employment and Local Own Source Revenue in the Bangka Belitung Islands Province.

Based on the above problem limitation, the problem formulation in this research is as follows:

- How is the influence of infrastructure, transportation, number of tourist visits and investment of tourism sector simultaneously to the economic growth of the tourism sector?
- How is the influence of infrastructure, transportation, the number of tourist visits and investment of tourism sector partially to the economic growth of the tourism sector?
- What is the effect of the economic growth of the tourism sector on employment?
- What is the effect of the economic growth of tourism sector on Local Source Own Revenue?

The purpose of this study is as follows: To know and analyze the influence of infrastructure, transportation, number of tourist visits and investment in the tourism sector simultaneously and partially to the economic growth of tourism sector and the impact to job opportunity and Local Source Own Revenue.

## **2. Literature Review**

Economic development is related to economic growth. Economic growth facilitates the process of economic development, while economic development encourages the economic growth. Adisasmita (2005) suggests that economic growth is a process of increasing the production capacity of an economy embodied in the form of an increase in the national income. While economic development aims to improve the competitiveness of the state in accelerating development in all sectors in order to

prosper the community. Therefore, economic development has a wider range compared to economic growth, because it involves changes in output structure and input allocation by sector.

To improve the welfare of the society, it is not only needed to increase the real production, but there must be also changes in institutional, administrative structures, attitude changes and even habits. So, in this case, the term “development” is defined as an increasing change, both in the social field and in the economic field. Kunarjo (2009) states that *"The purpose of the economic development basically covers things as; (a) promoting economic growth; (b) increasing the distribution of public incomes; (c) increasing employment opportunities; (d) increasing equitable regional development"*.

Arsyad (2010) argues that the regional economic development is a process whereby local governments and communities manage existing resources and form a partnership pattern between local governments and the private sector to create new jobs and stimulate the development of activities economic (economic growth) within the region. Jhingan (2000) suggests that the national development, not only focuses on the magnitude of the growth of development alone but needs to pay attention to the extent of distribution of development, in terms of whether development is evenly distributed throughout the region in Indonesia, or only developed in Java and certain provinces. Regional development is an integral part of the national development. Since its inception, development strategy in Indonesia has been emphasized on national development perspective. Kaho, Yosef Riwu (2001) suggests that there is hope that in turn development proceeds will be distributed and allocated to the regional level. However national development planning is not always consistent in supporting regional development.

Yoeti, (2008) argues that the importance of the tourism sector in a country's economic growth can be listened to by the International Union of Official Travel Organization (IUOTO) in the Rome Convention of the United Nations Conference on International Travel and Tourism, as follows : *"Tourism as a factor of economic development role and importance of international tourism, because tourism is not as a source of foreign exchange, but also as a factor in the location of industry and the development of areas in the natural resources"*.

Regional Original Income (PAD) according to Gilbert and Hudson, (2014) is a regional income derived from local taxes, regional retributions, sharing of separated wealth management, etc. legitimate local revenue, which aims to provide local discretion in exploring funding in the implementation of regional autonomy as a manifestation of the principle of decentralization (Elucidation of Law No.33 of 2004). The sources of the local revenue as regulated in Law Number 33 the Year 2004 Article 157, namely:

- 1) Result of local tax:

Tax is the main financial source for the regions besides local retribution. The general definition of tax has been proposed by experts, such as Rochmad Sumitro who formulated "*Local tax or local tax is the tax levied by self-government areas, such as Provinces, Township, District, and so forth*". While Siagian formulated it as, "*state taxes submitted to the region and declared as a local tax based on legislation used to finance regional expenditure as a public legal entity*". Thus, the characteristics that accompany local taxes can be summarized as follows:

- a) Local taxes are derived, and state taxes are transferred to regions as local taxes;
- b) Delivery is done by law;
- c) Local taxes levied by regions based on the power of laws and/or other legal regulations;
- d) The results of local tax levies are used to finance the implementation of regional household affairs or to finance regional expenditure as a public legal entity.

2) Result of regional retribution:

Another important source of local revenue is local levies. The meaning of regional levies may be stamped and the opinions of experts, such as the Nasrun Committee formulating regional retributions, Gilbert and Hudson (2014) are regional levies as payment of usage or by obtaining employment services, businesses or property for the public interest, or for the services provided by the regions, directly or indirectly. From the above opinion, it can be summarized the main features of regional retribution, namely:

- a) Levies levied by regions;
  - b) In the levy there is an achievement given the area which can be directly appointed;
  - c) Levies imposed on anyone who exploits, or receives services provided by the region;
- 3) Results of separated regional wealth management.

Furthermore, Hughes (2005) argues that the separated Area's wealth means the wealth of the released areas and the general mastery that is accountable through the regional budget and is intended to be mastered and accounted for on its own. Hughes (2005) states, in this case, that the results of profits of regional enterprises is one of the regional's revenues whose capital is for the whole or for a part of the separated regional wealth. Therefore, the region can also establish a company specifically intended to supplement the regional income in addition to the main objective to enhance the production, all its business activities being focused on the development of the region in particular and in the general national economic development as well as the peace and pleasure of work in the company towards a just and prosperous society. Therefore, within certain limits the management of the company must be professional and must stick to the principle of economy in general, that is efficiency (Elucidation of Law No.5 Year 1962).



Furthermore, Hughes (2005), based on the above provisions, although the regional company is one component that is expected to contribute to regional income, the main nature of the local company is not profit-oriented (profit), it provide services and organize the public benefit. Or in other words, the regional company performs a dual function which must be ensured its balance, namely social function, and economic function.

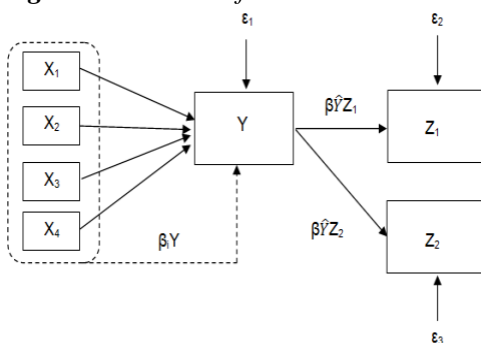
### 3. Methodology

This research was conducted on tourism stakeholders in Bangka Belitung Islands Province, consisting of 6 (six) districts and 1 (one) city with a research period of 24 months, from July 2014 to July 2016. The population, as well as the sample in This research, is a government agency related to the development of tourism sector in all regencies/cities in Bangka Belitung Islands Province, namely: BPS, Tourism Office, Department of Transportation, Public Works Department, and Disnakertrans. The research variables are grouped into 3 (three) variable functions, namely:

- Independent variables, consisting of Infrastructure (X1), Transportation (X2), Number of Visits (X3) and Investment of Tourism Sector (X4).
- Intermediate variable, ie Economic Growth of Tourism Sector (Y).
- The dependent variable, consisting of Employment Opportunity (Z1), and Local Original Revenue (Z2).

From the regression analysis that has been determined in this research will be obtained the causal relationship of the independent variable (X) to the variable (Y) and its impact on the variable (Z1) and variable (Z2) Based on the research framework, the regression analysis model as follows (Figure 1):

**Figure 1.** Research framework



- Y = economic growth of tourism sector
- Z1 = employment opportunities
- Z2 = local revenue
- X1 = infrastructure
- X2 = transport
- X3 = number of tourist visits

X4 = tourism sector investment

$\beta\dot{Y}$  = regression coefficient of variable Y to Z.

#### **4. Result and Discussion**

The above figure paradigm research consists of three sub-structures, namely sub-structures I, II, and III. The results of fixed effect model test for sub-structure I can be formulated in the form of multiple regression equations as follows:

$$\ln Y = 1,197 + 0,101 \ln X1 + 0,384 \ln X2 + 0,315 \ln X3 + 0,414 \ln X4 + \varepsilon 1$$

t-statistics are (1,851), (2,673), (3,881), (2,030), Adjusted R-squared of 0.680962, F-statistics is 7.39381 X1 is infrastructure, X2 is transportation, X3 is Number of Visits, X4 is Tourism Sector Investment, Y is economic growth of the tourism sector The regression equation above can be interpreted as follows:

- The magnitude of the constant of 1,197 has meaning if the independent variable (X) ie infrastructure (X1), transportation (X2), Number of Visits (X3), and Tourism Sector Investment (X4) 0 value (zero) has not changed (ceteris paribus) then the dependent variable (Y) is the economic growth of the tourism sector for the Province of Bangka Belitung Islands increased growth of 1.197 units and the magnitude of these constants significant and vice versa.
- The coefficient  $\beta_1 = 0,101$  has significance if independent variable that is infrastructure (X1) increases by 1 unit where transportation variable X2, Number of Visits (X3) and Investment of Tourism Sector (X4) is considered constant, hence variable of dependent variable (Y ) namely the economic growth of tourism sector for the Province of Bangka Belitung Islands increased growth of 0.101 units and the magnitude of the coefficient is significant and vice versa.
- The coefficient  $\beta_2 = 0,384$  has meaning if independent variable that is transportation (X2) increases by 1 unit where infrastructure variable X1, Number of Visits (X3) and Investment of Tourism Sector (X4) are considered to be constant, hence variable of dependent variable (Y ) namely the economic growth of the tourism sector for the Province of Bangka Belitung Islands increased by 0.384 units and the coefficient is significant and vice versa.
- The coefficient  $\beta_3 = 0.315$  has significance if the independent variable is the number of Visits (X3) increases by 1 unit while the infrastructure variables X1, transportation (X2) and Investment of Tourism Sector (X4) are considered constant, then the dependent variable (Y ) ie the economic growth of the tourism sector for the Bangka Belitung Islands Province increased by 0.315 units and the coefficient is significant and vice versa.
- The coefficient  $\beta_4 = 0,414$  has significance if independent variable that is Investment of Tourism Sector (X4) increases by 1 unit while infrastructure

variable X1, transportation X2 and Number of Visits X3 are constant, hence variable of dependent variable Y) is the economic growth of tourism sector for the Province of Bangka Belitung Islands increased by 0.414 units and the coefficient is significant and vice versa.

- The adjusted coefficient of determination (Adjusted R<sup>2</sup>) is 0.680962 or 68.09 percent. This means that the variable of economic growth of tourism sector in Bangka Belitung Province can be explained or influenced together by the variation of independent variable of infrastructure, transportation, number of tourist visits and tourism sector investment equal to 68,09 percent, while the rest is influenced by other factors which are not included in this research model.

Of the four independent variables studied, the largest coefficient is the variable Investment Sector Tourism ( $\beta_4 = 0.414$ ). The value of this coefficient indicates that the change of tourism sector investment has a significant impact on the growth of tourism sector, while the smallest is the coefficient of infrastructure variable ( $\beta_1 = 0,101$ ), meaning that the change of infrastructure does not have much impact on the change of economic growth of tourism sector in Bangka Belitung Islands. The regression coefficients are all marked positive (+), meaning all coefficients show a direct relationship, if the independent variables ie infrastructure (X1), transportation (X2), Number of Visits (X3), and Investment of Tourism Sector (X4) increase, then variable dependent (Y) also increases.

The intercity of regencies/cities in the province of Bangka Belitung Islands has meaning when the independent variables (X) namely infrastructure (X1), transportation (X2), number of tourist visits (X3), and tourism sector investment (X4) are constant, each district/city has the potential for economic growth of different tourism sectors. Here, the potential each district/city varies. Based on these potentials in the regression equation it is shown that West Bangka regency has the greatest economic growth potential of tourism sector which is 2.017394 percent and followed by East Belitung Regency which is 1.946727 percent. While Central Bangka regency, the smallest economic growth of tourism sector is 0.845536 percent. The result of model test of substructure II with Fixed Effect Model, can be formulated by regression equation as follows:

$$\ln Z1 = 11,035 + 0,885 \ln Y + \varepsilon_2, \text{ t statistic} = 2,523, \text{ R-squared} = 0,832378$$

Z1 = job opportunity, Y = economic growth of tourism sector

The regression equation above can be interpreted as follows:

- The magnitude of constant 11,035 has meaning if the variable of economic growth of tourism sector constant value hence the amount of job opportunity equal to 11,035 unit, the amount of constant is significant.
- The coefficient of  $\beta_1 = 0,885$  has significance if the variable of economic growth of tourism sector increased by 1 unit, hence the amount of job opportunity increased by 1, 885 and the coefficient value is significant.

- The coefficient of determination (R<sup>2</sup>) is 0.832378 or 83.23 percent. This means that the employment variable in Bangka Belitung Province can be explained by the variation of economic growth of the tourism sector by 83.23%. Another meaning that the variable of economic growth of the tourism sector has an impact of 83.23 percent of the employment variables, while the remaining 16.77 percent influenced by other factors not included in the research model.

Based on these potentials in the regression equation it is shown that Bangka Regency has the biggest job opportunity potential that is 11,55751 percent and followed by Pangkalpinang City that is equal to 11,07154 percent. While East Belitung Regency has the smallest potential of employment that is equal to 10,58489 percent. The result of the model test of substructure III with Fixed Effect Model which formulated by regression equation as follows:

$$\ln Z_2 = 9,983 + 0,193 \ln Y + \varepsilon_3, \text{ t statistic} = 5,951, \text{ R-squared} = 0.716995$$

Y = economic growth of the tourism sector, Z<sub>2</sub> = Region Own Source Revenue

The regression equation above can be interpreted as follows:

- The magnitude of constant 9.983 has a meaning if the variable of economic growth of tourism sector (Y.) has a constant value of Local Revenue of 9,983 which means that the magnitude of the constants is significant.
- The coefficient  $\beta_1 = 0,193$  has meaning if the variable of economic growth of tourism sector increased by 1 unit, hence the amount of Original Revenue increase by 0,193 so that become 10,176 unit and the coefficient value is significant.
- The coefficient of determination (R<sup>2</sup>) is 0.716995 or 71.69 percent. This means that the variable of Original Regional Income in Province of Bangka Belitung Islands can be explained by variation of economic growth of tourism sector equal to 71,69% or other meaning that variable of economic growth of tourism sector have an influence equal to 71,69%, variable of Original Regional Revenue, while the rest of 28.31 percent is influenced by other factors not included in the research model.

The intercity of regencies/municipalities in the province of Bangka Belitung Islands has significance when the independent variable (Y) is the constant growth of the tourism sector economy, then each district/city has the potential of the original Revenue of different regions. In the regression equation, it is shown that Belitung Regency has the largest potential of Local Revenue, which is 10.44653 percent and is followed by Pangkalpinang City which is 10,28949 percent. While South Bangka Regency has the smallest potential of Local Revenue that is equal to 9,503296 percent.

## 5. Conclusion

- Infrastructure, transportation, number of tourist visits and investment of tourism sector simultaneously have the positive and significant influence to the economic growth of tourism sector in Bangka Belitung Islands Province.
- Infrastructure, transportation, number of tourist visits and investment of tourism sector partially have a positive and significant effect to the economic growth of tourism sector in Bangka Belitung Islands Province.
- Economic growth of the tourism sector has a positive and significant effect on employment in the province of Bangka Belitung Islands.
- The economic growth of the tourism sector has a positive effect on the original income in the province of Bangka Belitung Islands.

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## Analysis of Factors Affecting Economic Growth and Its Impact on Unemployment and Poverty Rate

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Amri, Sidik Priadana, Hamdan \*)

**Abstract:**

*This study aims to analyze the influence of the primary sector, secondary sector, tertiary sector, investment, and the index of human development on economic growth either simultaneously or partially. Furthermore, it analyzes the effect implications of the Economic Growth on unemployment and the effects of unemployment on poverty. The type of data used in this study is secondary data in the provinces of Bangka Belitung Islands. The data analyzed in the form of the cross section in were every year collected in the period of 2011 - 2015.*

*The research data is analyzed by regression analysis technique. The results conclude that: a) there is positive and significant influence simultaneously or partially from the primary, secondary and tertiary sector, investment and the human development index to economic growth. b) There is a negative influence and there are significant partially variables of economic growth on unemployment. c) There is a positive influence and there are significant partially unemployment variables to poverty.*

**Keywords:** *primary sector, secondary sector, tertiary sector, investment, human development index, economic growth, unemployment, Poverty.*

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### 1. Introduction

Todaro and Smith (2012) argued that the economic development is an attempt to reduce or eliminate poverty, inequality, and unemployment. In this context, it can be explicitly said that the economic development is an important part of the overall development process aimed at improving the welfare of the society. Although it is not the best indicator, the welfare of the people viewed from an economic aspect can be measured by the level of income per capita. In order to increase revenues, economic growth is one of the most important targets to be achieved in the process of economic development. Therefore, according to Van Den Berg (2001) the economic growth will incur very high costs in the form of loss of people's welfare.

High and sustainable economic growth is a key condition of the continuity for economic development. In line with the population growth which means that the economic need is also increased, it needs an additional revenue. This can only be realized by increasing the aggregate output (goods and services) or also the addition of income. In 2011, Indonesia's economic growth rate was of 6.17 percent. It then fell to a range of 6.03 percent in 2012. There many factors affecting it, as reported by Bank of Indonesia (2012), the global economic conditions in 2011 showed uncertain conditions. This may adversely affect the banking conditions in many countries, as well as having an impact on the risks of the future economic conditions. Starting in 2012, some people are still worried by the ongoing economic crisis in Europe and the United States. During this time, the dominance of the economic power of Europe and the United States is the very unusual influence on the global economy. Therefore, it is only natural that many people always look at the economic behavior of Europe and the United States as a measuring tool to save the value of the wealth they have. In 2013 it will continue to decline until 2015, Indonesia's economic growth is only at 4.79 percent. This is very influential to the regional economic growth that is still very dependent on the national economic growth.

*Formulation of the problem:*

Based on the identified problem above, then the author makes the formulation of the problem. The formulation of this research problem is as follows:

- What is the effect of primary sector, secondary sector, tertiary sector, investment, and human development index simultaneously, on the economic growth in Bangka Belitung Islands province?
- What is the effect of the primary sector, secondary sector, tertiary sector, investment, and partial human development index on the economic growth of Kep. Bangka Belitung province?
- What is the effect of economic growth on unemployment in the province of Bangka Belitung Islands?
- What is the effect of unemployment on the level of poverty in the province of Bangka Belitung Islands?

*Research purposes:*

This study is entitled "The analysis of factors affecting economic growth and its implications for the unemployed and poverty level in the province of Bangka Island". Based on the title and the formulation of the problem mentioned above, the purpose of this research is:

- To know and analyze the influence of the primary sector, secondary sector, tertiary sector, investment, and human development index simultaneously, to economic growth in Bangka Belitung Islands province?
- To find out and analyze the effect of primary sector, secondary sector, tertiary sector, investment, and human development index partially to economic growth in Bangka Belitung Islands province?

- To know and analyze the influence of economic growth on unemployment in the province of Bangka Belitung Islands?
- To know and analyze the effect of unemployment on poverty level in the province of Bangka Belitung Islands?

## **2. Literature Review**

Abdul Hakim (2009) argues that the economic development is interchangeably used with economic growth, economic prosperity, economic progress and long-term change. Some economists like Schumpeter and Ursula Hicks, drew a more prevalent distinction between the economic development and the economic growth. Economic development is used in the problem of underdeveloped countries, while economic growth for developed countries (Effendi and Disman, 2017). According to Ursula Hick in Jhingan (2004) the economic development is a spontaneous and intermittent change in a stationary state that constantly changes and replaces the existing equilibrium situation, while economic growth is a long-term, slowly and profoundly increase in savings and population.

Furthermore, Abdul Hakim (2009) admitted that the economic development is an effort to improve the economic welfare of a large scale, namely the scale of a country. To evaluate the large scale is the success of an economic development is not easy because the welfare variable is measured in a qualitative way. In addition, the measure of welfare is not simple, encompassing many things or being multidimensional. To overcome this, development economists, developed several development indicators:

- Gross National Product (GNP) growth. When development economies are very young, the economic development is defined as changing GNP from a static state for a long time, then growing between 5 to 7 percent or higher in a year (Todaro and Smith, 2012). By itself, many countries use GNP growth as an indicator to evaluate the course of economic development.
- GNP growth per capita. GNP per capita is a measure of the national income that already takes the population into account. This measure more reflects the level of community welfare. GNP per capita is the most basic development indicator and is still in use today. Despite these weaknesses, per capita, GNP has at least two advantages: (1) GNP is relatively easy to calculate. All countries have data on GNP or GDP and population, so that per capita GNP can be calculated for all countries, and (ii) it represents the very essence of development, namely the improvement of welfare and the elimination of poverty. Some criticisms of per capita GNP as a development indicator are: (a) The use of GNP to make comparisons between time and between countries. The GNP indicator and the per capita GNP indicator use the primary basis of the GNP variable. GNP variables per capita can be obtained if GNP and the population are known at a certain time; and (b) there also might occur problems in comparing GNP of developed and developing countries. International institutions such as the IMF, World Bank



or UN that issue GNP per capita data between countries, generally do not seek their own data. These institutions only base on statistical data collected by statistical agencies in the country concerned. There are some things about the calculation of GNP, that cannot be simply compared, especially between rich countries and poor countries.

Regional and Urban Economics until now have been much more developed. According to Perroux (1950) in Ijaiya and Gaffar (2011), there are generally three well-known and dominant growth theories. Each theory model uses its own variables and formulations, resulting in different analyzes and conclusions about the determinants of regional economic growth. In practice, the application of these models can be done in whole or in the form of a merger of certain models, depending on the conditions of the region concerned. Of course, policy makers should be able to choose precisely, which model is appropriate to the conditions and problems that exist in their respective regions

Alm, Aten and Bahl (2011) suggest, that based on the experience of developed countries, the magnitude of capital goods and the quality of human resources provide evidence, that the most influential factor is the economic rigidity. So, to increase the economic growth, investment is required in both physical and non-physical form.

Furthermore, Alm, Aten and Bahl (2011) explain that the notion of investment is generally defined as purchases (and means of production), either to physical assets such as building bridges, buildings, roads, etc., and financial assets) such as buying securities or other financial forms or paper assets as well as someone buying stocks or bonds. In macroeconomics itself, the definition of investment is further narrowed as the public expenditure aimed at increasing the stock of physical capital. Meanwhile, Anand, Sudhir and Amartya Sen (2000), mentioned in the calculation of national income and statistics, that the definition of investment is the total value of purchases of entrepreneurs on capital goods and expenditures, to establish the industry and increase the value of the company's stock of goods in the form of raw materials, unprocessed materials, and finished goods.

In his understanding, Asep Suryahadi, Daniel Suryadarma and Sudarmo Sumarto (2008), investment is the business of capital formation to gain profit, especially in the form of income or interest on capital. This explains the investment from the economic side especially in the effort to obtain the benefit. Asep Suryahadi, Daniel Suryadarma and Sudarmo Sumarto (2008) stated that investment is any form of wealth that can be directly or indirectly used in production to increase output. It can be said that investment consists of goods made for the use of the production in the society to come. In the investment, there are covered two main objectives, namely, to replace the share of the provision of the damaged capital (depreciation) and additional provision of existing capital. While other objectives say that the investment expenditure is the purchase of goods that give hope to generate profits in

the future. Blomstorm, Magnus, Robert E. Lipsey and Mario Zejan (1993) suggest that these profit expectations are used as a key factor in investment decision making.

Poverty can be attributed to certain types of consumption such as having poor homes or less nutritious food and poor health. The definition of poverty can be measured by nutrition or literacy (Haughton and Kandker, 2009). While the National Development Planning Agency defines poverty as a condition in which a person or a group of people is unable to fulfill their basic rights to maintain and develop a dignified life. The basic rights that must be fulfilled include: (a) food needs; (b) health, education, employment, housing, clean water, land, natural resources and the environment; (c) a sense of security from the treatment or threat of violence; and (d) the right to participate in the socio-political life. According to the views of some researchers, poverty is defined in a very broad context, as it cannot fulfill the "basic needs". Basic needs related, are physically (food, health, education and housing) and non-physical (participation, identity).

Poverty can also be defined according to the approach of absolute poverty and relative poverty (Abdul Hakim, 2009). Absolute poverty is based on the inability to meet minimum basic needs such as food, clothing, housing, education and health needed to live and work. The minimum basic requirement is translated as a financial measure in the form of money and its value is known as the poverty line. People who have an average monthly per capita income / expenditure below the poverty line are classified as poor.

### **3. Methodology**

Researchers undertook research activities in the Bangka Belitung archipelago province that dealt with primary sectors, secondary sectors, tertiary sectors, investment and human development index simultaneously or partially, economic growth, unemployment and poverty levels, data sources at Central Bureau of Statistics. This research is conducted from 6 October 2015 until 31 December 2016. The research population is all data related to primary sector, secondary sector, tertiary sector, investment, and population simultaneously or partially, economic growth, unemployment and poverty level which is in the province of Bangka Belitung Islands. While the research variables are classified as follows:

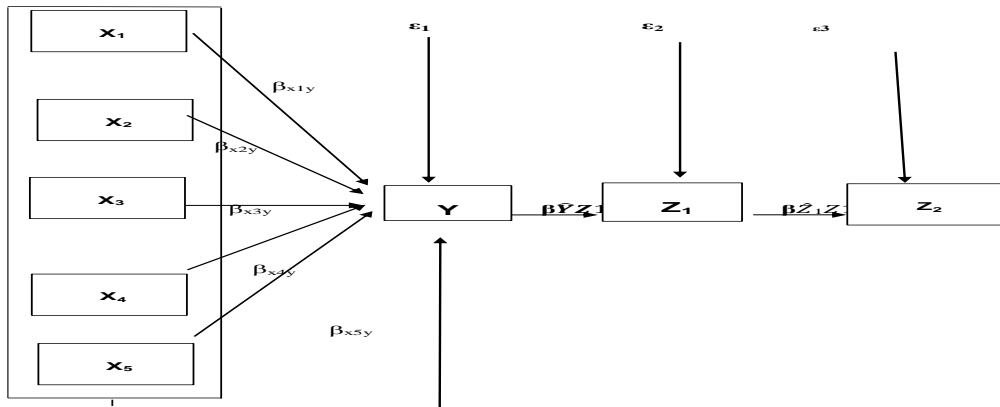
The independent variables in this study include: primary sector (X1), secondary sector (X2), tertiary sector (X3), investment (X4), human development index (X5)

The dependent variable in this research is economic growth (Y), unemployment (Z1), and Poverty Level (Z2).

Regression analysis which has been determined in this research will be obtained as the causal relation of free variable (X) to variable (Y) and its impact on variable (Z).

Based on the research framework, the model of regression analysis is seen in Figure 1.

**Figure 1.** Regression analysis



where:

X1 = primary sector

X2 = secondary sector

X3 = tertiary sector

X4 = investment

X5 = Human development index

Y = economic growth

Z1 = unemployment

Z2 = Poverty rate

$\beta_{x_i y}$  = regression coefficient of variable X against variable Y

$\beta_{y z_i}$  = regression coefficient of variable Y to variable Z

Based on the above Regression Analysis, it can be formulated, some equations as follows:

$$Y = \beta_0 + \beta_{x1y} X1 + \beta_{x2y} X2 + \beta_{x3y} X3 + \beta_{x4y} X4 + \beta_{x5y} X5 + \varepsilon_1 \quad (1)$$

$$Z1 = \beta_{01} + \beta_{Y Z1}^1 Y + \varepsilon_2 \quad (2)$$

$$Z2 = \beta_{02} + \beta_{Z1 Z2}^2 Z1 + \varepsilon_3 \quad (3)$$

#### 4. Result and Discussion

From the analysis result of this research, it is known that the influence of simultaneously between independent variable (X) is primary sector (X1), secondary sector (X2), tertiary sector (X3), Investment (X4) and Human development index (X5) to dependent variable (Y) namely economic growth in the Bangka Belitung Islands Province. Based on the result of the variable characteristic expressed by

multilevel linear regression equation model, which depict the result of research that is “Factors influencing economic growth in Bangka Belitung Islands Province”, that the coefficient of determination ( $R^2$ ) is 65.61 percent and Adjusted R-squared is 68,09 percent.

From the result of the analysis, it is found that the coefficient of  $\beta_1 = 0,202$  has significance if the independent variable that is primary sector ( $X_1$ ) increases by 1 unit where secondary sector variable  $X_2$ , tertiary sector  $X_3$ , investment  $X_4$  and human development index  $X_5$  ) is considered to be constant, then the dependent variable ( $Y$ ) is the economic growth of Bangka Belitung Islands Province, and increased in growth with 0.202 units and the coefficient is significant. The analysis of the relationship of the secondary sector to economic growth, finds that the coefficient  $\beta_2 = 0.413$  has significance if the independent variable ie, the secondary sector ( $X_2$ ) increases by 1 unit where the primary sector variables ( $X_1$ ), tertiary sector ( $X_3$ ), Investment ( $X_4$ ) and Human Development Index ( $X_5$ ) is considered to be constant, then the dependent variable ( $Y$ ) is the economic growth of Bangka Belitung Islands Province increased growth of 0.413 units and the coefficient is significant.

Analyzing the relationship of the tertiary sector to economic growth shows that the coefficient  $\beta_3 = 0,215$  has meaning if the independent variable, that is the tertiary sector ( $X_3$ ) increases by 1 unit where the primary variable ( $X_1$ ), secondary sector ( $X_2$ ), Investment ( $X_4$ ) and Human development index  $X_5$ ) is considered to be constant, then the dependent variable ( $Y$ ) is the economic growth of the tourism sector for the Province of Bangka Belitung Islands increased growth with 0.215 units and the magnitude of the coefficient is significant and otherwise

Analysis of the investment relationship to economic growth shows that the coefficient  $\beta_4 = 0.544$  has significance if independent variable that is Investment ( $X_4$ ) increases by 1 unit where primary sector variable ( $X_1$ ), secondary sector ( $X_2$ ), tertiary sector ( $X_3$ ), and human development index ( $X_5$ ) is considered to be constant, then the dependent variable ( $Y$ ) is the economic growth of Bangka Belitung Islands Province increased growth of 0.54 or otherwise. Relationship analysis of human development index to economic growth shows that the magnitude of coefficient  $\beta_5 = 0,432$  has meaning if the independent variable that is and Human development index ( $X_5$ ) increase by 1 unit where the primary sector variable ( $X_1$ ), secondary ( $X_2$ ), tertiary sector ( $X_3$  ) Investment ( $X_4$ ) and Human development index ( $X_5$ ) are considered constant, then the dependent variable ( $Y$ ) is the economic growth of Bangka Belitung Islands Province increased 0.432 units growth and the coefficient is significant and otherwise. Analysis for model equations Substructure of coefficient value -0.659 has meaning if the economic growth variable increased with 1 percent, then the amount of unemployment variable in Bangka Belitung Islands Province will mean that there is a negative and significant influence of variable  $Y$  to variable  $Z_1$ .

The analysis for the model equation Substructure unemployment effect (Z1) on the variable poverty level (Z2) is positive and significant. The results of the researcher's analysis have a meaning if the unemployment variable increases then the poverty level decreases or otherwise.

## 5. Conclusion

With reference to the results of research and other findings obtained during the study, several things that can be concluded took place, as it follows:

- The primary sector, secondary sector, tertiary sector, investment and human development index simultaneously have a positive and significant impact on economic growth in the province of Bangka Belitung Islands.
- The primary sector, secondary sector, tertiary sector, investment and human development index partially positive and significant impact on economic growth in the province of Bangka Belitung, the composition of the composition of the biggest variable is the investment, human development index, secondary sector, tertiary sector and the smallest is the primary sector.
- Economic growth has a negative and significant effect on unemployment in the province of Bangka Belitung Islands.
- Unemployment has a positive and significant impact on poverty level in the province of Bangka Belitung Islands.

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## Duet or Duel: Monetary Stability Impact on Financial System Stability

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Humaira, R.F., Falianty, A.T. \*)

**Abstract:**

*The link between the monetary and financial stability, is still being debated; whether the monetary policy created for achieving monetary stability promote financial stability or instability. This research aims to study the monetary stability policy instruments impact on affecting financial stability.*

*The methodology used is done through an unbalanced panel data regression, using cross-country data, collected between 1996-2014 by using Financial Stress Index (FSI) as the dependent variable for financial instability measurement. The inflation stability is the proxy for the monetary stability indicator. The result shows that the monetary instability does increase the financial instability and the use of Inflation Targeting Framework has a significant role in reducing financial stress.*

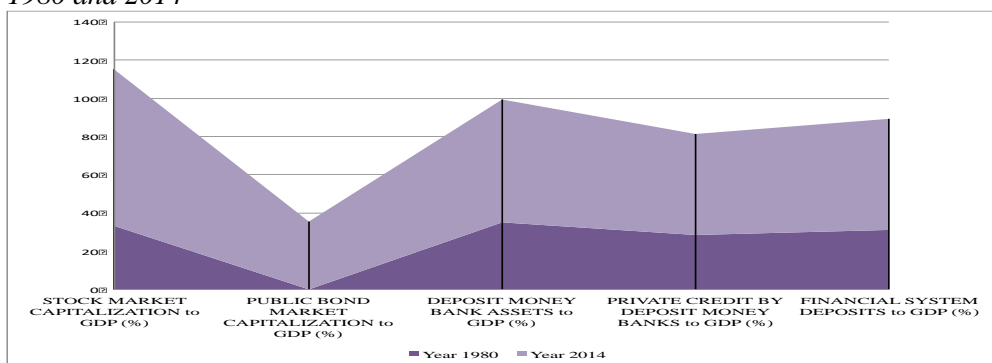
**Keywords:** *financial stability, monetary policy, monetary instruments, central bank, financial stress.*

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### 1. Introduction

The financial stability is perceived to have the power of efficiently allocating resources, managing risks, keeping the unemployment into the natural rate and eliminating assets price volatility that might disturb monetary and macroeconomic objectives. The nature of Financial System Stability is that it is a kind of public good emitting externalities. Park and Mercado (2013) showed that the financial instability has high contagion level among countries, so that every country is linked in pursuing financial stability at a global level. In average, one country's stock market capitalization in 2014 has exceeded 110% of the country's Gross Domestic Product. Back in 1980, the worlds primarily concern on banking, is its main source of financial service; but now the market has developed, and it has raised policymakers concern in controlling the financial system, as the system is vulnerable to moral hazard, adverse selection, asymmetric information and principal-agent problems as sources of imbalances. Because of unmanaged risks in the financial system, financial crisis occurred.

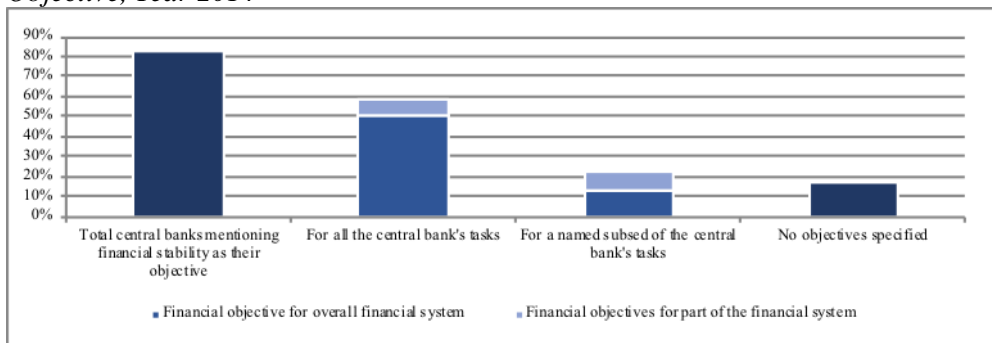
**Figure 1.** Global Average of Financial Assets Development (in % of GDP) , Year 1980 and 2014



*Source: World Bank Financial Structure Database (2015), processed.*

However, such crises are costly. Laeven and Valencia (2012) calculated the fiscal cost of the crises around 4-5% of GDP. During crises, the economic growth significantly falls, and unemployment rises. Habermeier et al. (2015) stated that the costs of cleaning up after crisis is proved to be very high. Crises frequency data obtained from Laeven and Valencia (2012) showed that approximately 10,33 crises happened every year in average, and the average country has gone through 2,68 crises within 42 years. The role of macroprudential policymakers, though, is to prevent those future crises from happening – shown by 82% of Central Banks around the world, they have already mentioned financial stability as their objective by the year 2014.

**Figure 2.** Percentage of Central Banks that Mention "Financial Stability" as Their Objective, Year 2014



*Source: Jeanneau (2014).*

As more central banks around the world are increasing their concerns on the debate on financial stability, it arises the need of a cross country study in financial stability; and as Central Banks are responsible for these issues, the ability of putting monetary stability policy into use should be done by them, for managing financial stability –



also to test whether those abilities differ by each country's development stage and monetary environment.

## 2. Literature Review

### *Employee performance:*

Performance is the result of work in quality and quantity achieved by an employee in performing its duties in accordance with the given responsibilities (Jyothibabu and Farooq, 2010).

### *Job satisfaction:*

Job satisfaction is an individual's general attitude towards his job. Each individual has a different level of satisfaction in accordance with the value system prevailing in him. The more aspects that are in accordance with the individual's desire the higher the job satisfaction.

### *Motivation:*

Motivation is a set of attitudes and values to influence the individual to achieve the specific in accordance with the individual goals.

### *Leadership:*

Leadership is to direct, nurture or organize, guide and also indicate or influence the person.

## 3. Methodology

### *Research Instruments:*

Measurements with the Likert Scale have advantages in diversity of scores so that respondents in this case can express their level of opinion to be close to the actual reality. The Likert scales used in this study are as follows:

- Strongly Agree (SS): Given weight / score 5
- Agree (S): Given weight / score 4
- Less Agree (KS): Given weight / score 3
- Disagree (TS): Given weight / score 2
- Strongly Disagree (STS): Given weight / score 1

### *The Normality of Data Test:*

The Method of decision-making using criteria:

The Data is normally distributed if probability > 0.05

The Data is not normally distributed if the probability is <0.05

### *Multicollinearity Test:*

According to Yudiaatmaja in Waridin and Masrukin (2006), to identify the presence or absence of multicollinearity is needed the Variance Inflation Factor (VIF) value.

*Heteroscedasticity Test:*

To detect the presence or absence of heteroscedasticity, the authors used rho Spearman's test method. Testing the hypotheses:

***F Test:***

Ho:  $\beta_i = 0$  (regression coefficient is not significant)

Ha:  $\beta_i \neq 0$  (significant regression coefficient)

Where the value of F can be calculated as follows:

If  $F_{hit} > F_{tab}$  with a certain significant level (eg 5%) then Ho is rejected, and Ha accepted. If  $F_{hit} < F_{tab}$  with a certain level of significance (eg 5%) then Ho accepted, and Ha rejected.

***Partial Test / T Test:***

The t-test is used to determine the influence of each independent variable on the dependent variable. The t-test is done by comparing t-count with t-table. To determine the t-value of the table, it is determined by the 5% significance level with degrees of freedom  $df = (n-k-1)$  where n is the number of respondents and k is the number of variables.

*Coefficient of Determination:*

Testing the significant variables then found, the value of R<sup>2</sup> (R-Square) is determined. If the coefficient of determination is zero, it means that the independent variable has no effect on the dependent variable. If the value of coefficient of determination is closer to one, then it can be said that the independent variables affect the dependent variable.

*Path Analysis:*

The calculation of the path coefficient is processed by using the SPSS software version 22.0. The path analysis is used to analyze the relationship pattern between variables with the aim to know the direct or indirect effect of a set of exogenous variables on endogen.

#### **4. Result and Discussion**

*Descriptive Analysis:*

The data collected for analysis is in form of employee questionnaire data in Private Universities. The results of the data processing in the form of information determines the effect of motivation and leadership on job satisfaction and its impact on employee performance. In the path analysis model which is used in this study, there are four input variables, namely employee performance as the dependent variable which is denoted by Z, while the independent variable of motivation is denoted by X1, the leadership is denoted by X2 and the job satisfaction is denoted by Y.

**Hypothesis testing:**

**Table 1. Simultaneously of F-Test: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	698,692	3	296,296	59,847	,000b
	Residual	399,477	111	5,006		
	Total	984,958	114			

Dependent Variable: Performance.

Predictors: (Constant), Satisfaction, Leadership, Motivation

**Table 2. Partial T-Test: Coefficients**

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Collinearity Statistics	
	B	Std. Error	Beta	t		Tolerance	VIF
1 (Constant)	22,939	2,408		7,228	,000		
Motivasion	,578	,280	,672	4,444	,000	,274	7,299
Leadership	,758	,227	,064	3,903	,000	,377	4,874
Satisfaction	,357	,249	,540	1,771	,000	,280	8,248

Dependent Variable: Performance.

**Table 3. Determination Test Coefficient of Sub Structure**

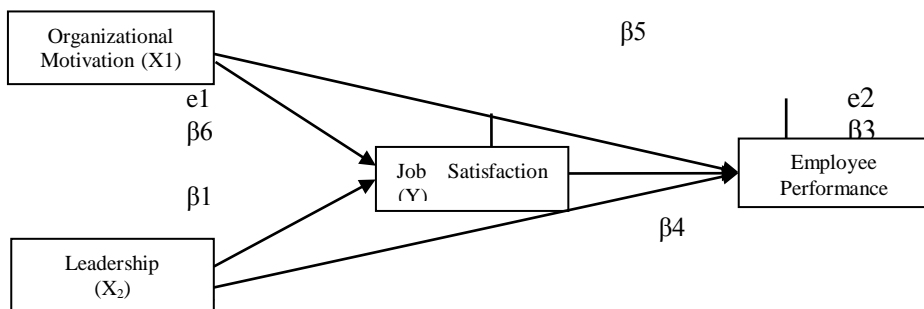
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,839a	,790	,777	2,20238

a. Predictors: (Constant), Satisfaction, Leadership, Motivation

b. Dependent Variable: Performance

Source: Processed data (2016).

**Figure 1. Path Analysis Model**



**Table 4. Model Summary b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,948	,880	,877	1,8968

a. Predictors: (Constant), Leadership, Motivation  
 b. Dependent Variable: Satisfaction

**Table 5. Analysis Result Summary of Sub-Structures I Path**

Influence	Coefficient	Direction	Result	Result	Coefficient	Coefficient
Inter Variable	Path (Beta)	Relation	F Test	T Test	Determination	Rest
X1 to Y	0,778	Positive	Significant	Significant	0,880	0,260
X2 to Y	0,628	Positive	Significant	Significant	0,880	0,650

**Table 6. Analysis Results of Determination Coefficient of sub structure II**

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,869 <sup>a</sup>	,790	,777	2,20248

a. Predictors: (Constant), Satisfaction, Leadership, Motivation  
 b. Dependent Variable: Performance

*Determination Coefficient Results of Sub Structure II:*

Direct, Indirect Influence and Total Influence of Independent Variables Against dependent variable. The results of the path analysis can be described as a whole that explains the influence of motivation and leadership on job satisfaction and its impact on employee performance, it can be concluded in table below:

**Table 7. Path Coefficient, Direct & Indirect Effect**

Variable Influence	Clausal Influence		
	Direct	Indirect Through Y	Total
X1 thd Y	0,869	-	0,869
X2 thd Y	0,708	-	0,708
X1 thd Z	0,772	0,869	0,1416
X2 thd Z	0,564	0,708	0,1212
Y thd Z	0,840	-	0,840
e1	0,894	-	-
e2	0,903	-	-

## 5. Conclusion

The results showed that leadership has positive and is directly significant to job satisfaction, motivation has a positive and significant directly effect on job satisfaction. Leadership positively and directly affects employee's performance, motivation and has positive and significant effect directly on employee's performance. Job satisfaction has a positive and significant effect directly on employee's performance, leadership has positive and significant effect indirectly on employee's performance through job satisfaction. Motivational leadership has an indirect positive and significant impact on employee's performance through job satisfaction.

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## The Impact of Auditor Competence and Independence Towards Auditor Professionalism and the Implication to Audit Quality in the Ministry of Agriculture Inspectorate Republic Indonesia

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Pandoyo \*)

### **Abstract:**

*This research aimed to analyze and explain: (1) the direct impact of the auditor competence and the independence towards auditor professionalism; (2) The direct and indirect impact of auditor competence and independence to audit quality; (3) The direct impact of auditor professionalism to audit quality.*

*The research method is an explorative method of conducting a survey in the Inspectorate General Ministry of Agriculture. The research tool is the Structural Equation Modeling (SEM) by using Software Smart-PLS. The sample of this research is of 99 respondents. The outcome of this research is showing that auditor professionalism is directly and significantly affected by the auditor competence variable, equal to 27.7% and auditor independence equal to 64.2%. The audit quality is directly and significantly affected by the auditor's competence variable equal to 42.8% and the auditor independence equals 36.4%.*

*The auditor professionalism directly affects audit quality insignificantly. It equals 12.7%. In spite of theoretical implication, the auditor professionalism can directly affect the audit quality.*

**Keywords:** Auditor competence, auditor independence, auditor professionalism, audit quality;

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### **1. Introduction**

The Internal Government Supervision officiated to supervise the state finance. Extend to that, Ari Soelandro further explained that the Internal Government Supervision optimizes its function as good governance executives, by conducting counseling to auditors (Ulum, 2008). The supervision function aimed to provide reasonable assurance and early warning of irregularities and fraud potential. However, in fact the internal investigation implementation faced issues, the audit

quality and the auditor professionalism. This affects the audit report target. Thus, it is still not in accordance with the auditing standards and yet still not economically effective and efficient. The investigation of the government budget expenditures—to measure the efficiency, effectivity, economy, and compliance towards prevailing laws and regulations; and disclosure adequacy—has not succeeded. The result of the investigation should be able to provide feedback to prevent irregularities of budget expenditures and be able to improve the performance of the Ministry of Agriculture.

According to the state finance law—act number 17 of 2003 regarding the State Finance, act number 1 of 2004 regarding the State Treasury, and act number 15 of 2004 regarding the Audit Management and State Finance Responsibility—Internal Auditor officiated to enhance accountability and good governance implementation. There is still frivolous expenditure in budget, and the professionalism, the transparency, the accountability, and value for money are still weak amidst of increasing public demands towards central and local government budget implementation.

In the fact of investigation implementation, the auditor competencies are different, the auditor independencies have not been actualized, the auditor experiences are different and those affect the audit quality, the leadership of audit implementation is not optimal, the audit reports are not supported by the Audit Working Paper, there is still a lack of professionalisms, and the audit report quality has not been in accordance to the standard set quality.

The audit performance of the budget expenditures needs to be accountable in accordance to prevailing laws and regulations. It also needs to be efficient, effective, and economic. The audit performance must be supported by its auditor professionalism, so that it will produce audit at the expected quality. To obtain the audit quality, the auditors should have competence, independence, audit experiences, and should be supported by organizational culture, leadership, and auditor professionalism (Suryanto and Ridwansyah, 2016; Suryanto, 2016).

The Apparatus of Internal Government Supervision has the responsibility to support the implementation of governance through effective, efficient, transparent, and accountable supervision, therefore Internal Government Supervision needs professionalism ability, which is auditor competence that closely related with audit report quantity. According to the above explanation, the aims of this research are:

- To analyze and explain the direct impact of the auditor competence and independence towards auditor professionalism.
- To analyze and explain the direct and indirect impact of auditor competence and independence towards audit quality.
- To analyze and explain the direct impact of auditor professionalism towards audit quality.



## 2. Literature Review

### *Auditing:*

According to Arens and Kawan<sup>9</sup> (2010), auditing is an integrated approach, which has been translated by Amir Abadi Jusuf as, Auditing is a process of collecting and evaluating evidence of measurable information regarding to an economic entity that is conducted by a competent and independent individual, to be able to determine and report the compatibility of information in accordance to the predefined criteria. Auditing should be conducted by an independent and a competent individual.

According to Agoes (2012), auditing can provide additional value for corporate financial reports, since a public accountant is considered to be an expert and an independent party and being able to provide judgement concerning the fairness of financial position, results of operations, changes in equity, and cash outflow statements. Auditing is one of the attestations, which is the communication of an expert, regarding the re-ability of an individual's statement. The understanding of auditing is an investigation that has been critically and systematically conducted by an independent party towards financial statement prepared by management, accounting records, and along with evidences. It is aimed to provide judgement of the fairness of a financial report (Suryanto and Thalassinos, 2017).

### *Auditor Competence:*

The auditor's Competence is the required qualification to properly conduct audit (Rai, 2008). In conducting audit, an auditor should have a good personal quality, adequate knowledge, and specific skills in the field. The competence is related with professional skills owned by the auditor as a result of formal education, professional exams, as well as participation in trainings, seminars, and symposiums (Suraida, 2005; Hapsoro and Suryanto, 2017).

### *Auditor Independence:*

The auditor's Independence is related to the auditor's ethical behaviors. It means that more independent auditors will tend to act more ethically derived from the investigation (Purnamasari, 2006). Putri (2011) stated that ethical and independence rules affect the internal auditor's performance satisfaction by using professionalism as an intervening variable. Lubis (2009) stated that the comply with ethic code affects the auditor's quality. Sukriah (2009) stated that working experience, independence, objectivity, integrity, and competence affect the investigation result's quality (Yazid and Suryanto, 2016; Suryanto, 2014).

### *Auditor Professionalism:*

The commitment of professionalism is defined as the identification intensity and individual engagement with their profession. This identification needs some degree of agreement between individuals with goals and values, included moral values and ethic code in terms of their profession. An Internal Auditor has its own ethic code that has been set by consortium of internal auditor profession organization in 2004.

*Audit Quality:*

The quality of investigation result is the probability of an auditor to find and report irregularities in their client accounting system. Big Public Accountant Firms will provide a better audit quality than small public accountant firms (De Angelo, 1981, in Alim, 2007).

The audit quality is determined by at least the dimension of technical quality, service quality, relation between auditor and auditee, and objectivity. In this term, an auditor who has a good reputation will provide a qualified audit report. A good auditor who has technical object knowledge of auditee will also provide a qualified audit report. In this case, the technical quality of an auditor would be better because of the confidence in conducting the audit. The technical audit quality is also determined by how much empathy that auditor has towards the auditee as well as the auditor's ability to answer and discuss auditee's questions. Audit quality is also determined by how well the relationship between auditors and auditees is.

*Research Design:*

In accordance with the concept and the definition that has been stated in Cooper and Schindler (2003:34) and Sekaran (2009:118), this research will devise the research design that explained integrated activity and plans based on time, research question, source and type of information which will be examined, analysis reference of relationship study between variable and procedure on each research, as well as design structure which based on process and output design which is valid, objective, efficient, and effective as expected. This research is classified as a cross-sectional study. It means that this study has been conducted by one time collecting data, in this case taking place in the period between May and September 2015.

The model of this research is formulated by using theoretical concepts or constructs that cannot be measured and observed directly. According to Joreskog and Sorborm (1989) in Wijanto (2008), this condition can cause two basic issues (1) measurement issue and (2) causal relation issue between variables. This issue can be handled by Structural Equation Modeling.

The data is collected by questionnaires. The questionnaire consists of 43 positive statements. While the method is face-to-face mode. Considering that the data collection has been conducted by using the questionnaire method, the seriousness of the respondents answering the question is the important factor in this research. The target respondents of this research are internal auditors in Inspectorate General Ministry of Agriculture which is located in Jakarta.

### **3. Result and Discussion**

In figure 1 we present the path diagram of the research and in Table 1 the summary of the tests conducted in this study.

Figure 1. Output Path Diagram with Smart-PLS

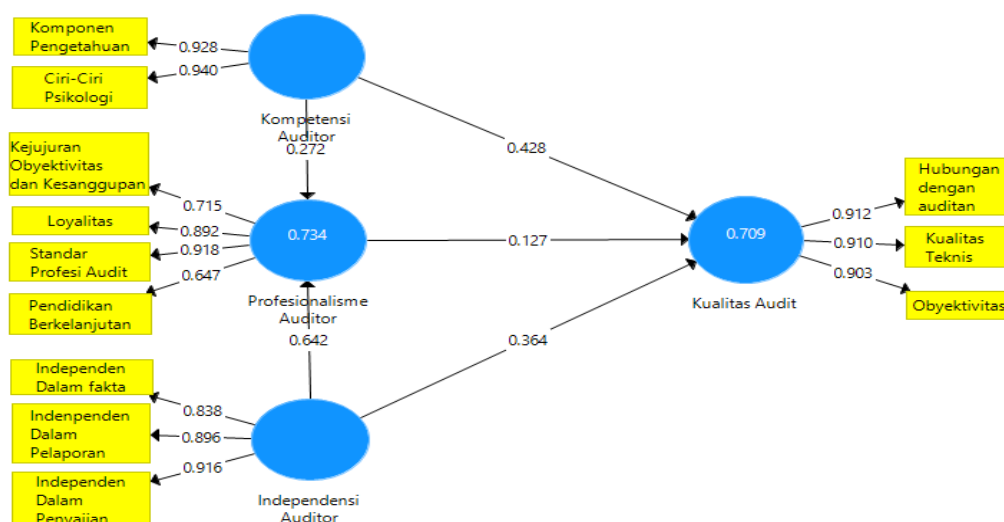


Table 1. Summary of T-Test Result, Effect of Exogenous Variables on Endogenous Variables Directly, Indirectly and Total

No	The Effect each Variable	t-Statistics	Directly	Indirectly	Total
1	Auditor Professionalism Competence->Auditor Professionalism	3.974	0.272	-	0.272
2	Auditor Independence -> Auditor Professionalism	10.474	0.642	-	0.642
3	Auditor Competence -> Audit Quality	4.035	0.428	0.035	0.463
4	Auditor Independence -> Audit Quality	3.144	0.364	0.082	0.446
5	Auditor Professionalism -> Audit Quality	1.085	0.127	-	0.127

The Direct impact of Auditor Competence and Independence towards Auditor Professionalism:

The direct impact of the auditor’s competence and independence towards auditor professionalism. This research findings indicate that all exogenous variables have direct impacts towards the auditor’s professionalisms.

The equation which is derived from the auditor’s professionalism model is the auditor professionalism=0.272\*competence+0.642\*independence, r<sup>2</sup>=0.734. The Coefficient of determination equals to 0.734 and indicates that the auditor’s professionalism variation can be defined by the auditor’s competence and auditor’s independence, equal to 73.4%. Coefficient value standard is the recommended value

especially if the researcher would like to compare the dominant contribution among explanatory variables in a model (Ghozali and Fuad, 2008). Between two exogenous variables, the auditor's independence variable has dominant impact equal to 64,2%, whereas auditor competence equal to 27,2%.

Both auditor competence and auditor independence variable have an impact towards the auditor's professionalism improvement on audit profession standard equal to 91.8%, loyalty equal to 89.2%, honesty, objectivity, and ability equal to 71.5%, and further education equal to 64.7%. Partially, the direct impact of the auditor's competence variable and auditor's independence towards auditor's professionalism are as followed:

- The Impact of Auditor Competence towards Auditor Professionalism.
- The auditor's competence directly and significantly (t-value 3.974 > t-statistic 1.96) affects the auditor's professionalism, equal to 27.2%. This indicates that the auditor's competence is able to positively affect the auditor's professionalism variation, the higher of auditor's competence the higher of auditor professionalism.

The implication of this research findings is to improve the auditor's professionalism through psychological characteristics indicator and knowledge component. This research findings provide some insights for related variables which is related to auditor's professionalism. In a management aspect, auditor's professionalism can be improved through the competence improvement, whereas psychological characteristic indicator (94.0%) and knowledge component (92.8%) can be used to improve the internal auditor competence.

*The Impact of Auditor Independence towards Professionalism;*

Auditor's independence has direct and significant impact (t-value) which indicates that auditor's independence is able to directly affect the auditor's professionalism variation, or the higher auditor's independence the higher the auditor's professionalism. The implication of this findings is to improve the auditor's professionalism by considering this—improvement of independence in audit presentation (91.6%); independence in audit report (89.6%); independence in facts (83.8%)—as a major concern.

*The Direct and Indirect Impact of Auditor Competence and Auditor Independence towards Audit Quality:*

The equation which is obtained from audit quality model is  $\text{audit quality} = 0.127 * \text{professionalism} + 0.428 * \text{competence} + 0.364 * \text{independence}$ ,  $r^2 = 0.709$ . The coefficient of determination equal to 0.709 indicates that audit quality variation can be defined by auditor's competence, auditor's independence, and auditor's professionalism equal to 70.9%. Auditor competence variable, auditor's independence, audit experience, and auditor professionalism have an impact on the audit quality improvement in relation with auditee equal to 91.2% and objectivity

equal to 90.3%. The partial impact of the auditor's competence variable, auditor's independence, and auditor's professionalism towards the audit quality are as followed:

- The Impact of Auditor's Competence towards Audit Quality.
- The auditor competence has direct and indirect impact towards the audit quality, but it is insignificant ( $t$ -hitting  $4.035 < t$ -statistic 1.96). The direct impact equal to 0.428% while indirect impact equal to 0.035%, with the result of auditor competence total impact towards audit quality equal to 0.463%. This case indicates that the auditor's competence is able to positively affect the audit quality variable equal to 46.3%, or the higher of auditor's competence the higher the audit quality.
- The audit quality is a probability where an auditor finds and reports regarding to irregularity in the client's accounting system. This research agrees with Alim dkk. 's finding (2007) which stated that the audit quality can be achieved if the auditors have good competence and their investigation finding can find that the auditor competence has an impact on audit quality. Auditors as the spearhead of audit role implementation should always improve their knowledge which they already have, so that the implementation of auditor's knowledge can be maximum in practicality. According to Christiawan (2002) and Alim; Hapsari and Purwanti (2007), audit quality is affected by competence and independence. The competence is related with adequate education and experience that public accountants have in auditing and accounting.

The indirect impact equal to 0.035% shows that the auditor's competence only directly affects the audit quality and it is not proven to indirectly affect through the auditor's professionalism. This research findings provide the theoretical implication that the impact of competence towards audit quality is the direct impact.

*The Impact of Auditor Independence towards Audit Quality:*

Auditor independence has direct and indirect impact towards audit quality, but it is not significant ( $t$ -value  $3.144 < t$ -statistic 1.96). The direct impact equal to 0.364%, indirect impact equal to 0.082%, so that the impact of the auditor's independence towards the audit quality in total of 0.446%. This case indicates that the auditor's independence can directly affect the audit quality variation equal to 44.6%, or the higher auditor independence the higher audit quality.

This research supports Mayangsari's (2003) findings which examine the impact of the auditor's independence and audit quality towards financial report integrity. This research findings support the hypothesis which stated that the auditor's specialization has a positive impact for financial report integrity, as well as the auditor's independence has a negative impact on the financial report integrity. In addition, the corporate governance mechanism has statically significant impact on the financial report integrity, though it is not in accordance with the proposed signs

in hypothesis. The direct impact which equals to 0.082% shows that the auditor's independence only directly affects the audit's quality. This finding provides theoretical implication that the impact of audit quality is the direct impact.

The independence means that someone's ability to act with integrity, objective, and professional skepticism. Therefore, the independence is very important to promote ethical behavior and reliable financial reports. In accordance to that, Sunarto (2003) stated that integrity can accept unintentional mistakes and truthful dissent but cannot accept unfairness principle. Having high integrity, auditors are able to improve their audit report quality (Pusdiklatwas BPKP, 2005).

The auditor independence can be stated as a conflicts of interest consideration which is proceeded when auditor's conflicts of interest affects the audit report. The implication of this finding is to improve audit report quality, the important aspects that should be improved are free from conflicts of interest, free from interference to determine and eliminate the specific examined parts, free to determine required audit evidence as well as the examined object, and free to collect required audit evidences.

#### *The Direct Impact of Auditor Professionalism towards Audit Quality Professionalism auditor:*

Professionalism has direct impact towards audit quality 12.7% but it is insignificant (t-hitting  $1.085 < t\text{-statistic } 1.96$ ). This indicates that professionalism has not been able to positively affect audit quality variation.

#### **4. Conclusion**

The auditor's competence and auditor's independence have impact towards the auditor's professionalism. This case is caused by professionalism which is categorized as variable to determine the audit quality, by having higher professionalism ability, it will have an impact towards auditor's audit quality. The auditor professionalism is directly and significantly affected by auditor competence equal to 27.2%, and the auditor independence equal to 64.2%. The overall impact of the auditor's competence and auditor's independence equal to 73.4%, and the rest is 26.6% which is affected by other variable outside this research.

The auditor's competence and auditor's independence have impact on audit quality. It is caused by audit quality which is categorized as a variable for the audit report, through higher audit report quality, it will have auditee performance. Audit quality is directly and significantly affected by the auditor's competence equal to 42.8% and auditor's independence equal to 36.4%. The overall impact of the auditor's competence, auditor independence, experience, and auditor's professionalism towards audit quality is equal to 70.9, the rest is 29.1% which is affected by other variable outside this research.

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Auditor professionalism has direct impact on audit quality equal to 12.7%, but it is insignificant. This case indicates that professionalism is still not able to positively affect the audit quality variation. Suggestions for Academic Development:

- This research has been successful to prove the theories which explain the impact of auditor's competence and auditor's independence towards auditor's professionalism, as well as the implication on audit quality.
- This research has not been successful to prove the theories which explain the auditor's professionalism towards audit quality.
- This research findings provide the sources of information which are useful in the government sector specifically, so that it can give insight and literature regarding to professionalism and audit quality.

For future research:

- This research has not been successful to prove the direct impact of auditor 's professionalism on audit quality. The next research is suggested to re-examine the relationship between professionalism and audit quality.
- In order to develop building block research, the next researcher is able to conduct further research to choose other variable that can be examined, they are : religiosity variable, education variable, professional ethic code variable, assignment time variable, emotional quotient variable, family environment variable, life experience variable, legal compliance variable, as well as other variables which are hypothesized being able to affect the professionalism implication and audit quality.

Technical suggestions for auditors:

- In the effort to improve the audit quality, internal auditors need to prioritize the professionalism aspect. Practical suggestion which based on these findings is the necessity to conduct auditor's professionalism development program plan which can be encouraged through controlling management, as well as leadership behaviors which can provide good examples (in term of a good audit), opportunity to innovate, developing innovative manners, giving motivations through vision and mission, providing means for channeling the ideas, and auditor's professionalism development purposes.
- The independence is the dominant aspect which affects professionalism. The effort to improve the audit quality can be prioritized on professionalism improvement, especially on audit profession standard, continuous education, honesty, objectives, and ability, as well as loyalty.
- The results showed that leadership has positive and significant directly to job satisfaction, motivation has a positive and significant effect directly to job satisfaction. Leadership positively and directly affects the employee's performance, motivation has positive and significant effect directly to employee's performance. Job satisfaction has a positive and significant effect directly on employee's performance, leadership has positive and

significant effect indirectly on employee's performance through job satisfaction. Motivational leadership has an indirect positive and significant impact on employee's performance through job satisfaction.

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## **The Effect of Leadership, Competence, Compensation on Work Motivation and its Implication on Private Lecturer's Performance in Palembang**

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**Abstract:**

*The purpose of this study is to figure out the performance of the private lecturers in Palembang South Sumatera by the factor of leadership, competence, and compensation on work motivation and its implication on lecturer performance.*

*This study uses confirmatory research method with 250 lecturers as respondents. Structural Equation Modeling (SEM) is used in analyzing data. The result shows that exogenous variable significantly affects endogenous variable both partially and simultaneously. The simultaneous test performed on leadership, competence, and compensation variable positively and significantly affect the lecturer's performance. Next, leadership, competence, compensation, and motivation also variable positively and significantly affect the lecturer's performance.*

*Another finding shows that partially compensation doesn't affect the lecturer performance. It is figured out from each exogenous variable studied that the improvement of the lecturer performance on research dimension and followed by work motivation on power need dimension is necessary to improve the performance of private lecturers in South Sumatera. This study concludes that leadership, competence, compensation, and motivation are very necessary for improving performance by noticing the work motivation factor as the intervening variable.*

**Keywords:** Leadership, Competence, Compensation, Motivation and Lecturer performance;

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### **1. Introduction**

Higher Education as one of the globally competitive platforms in transforming science, is supported by various parties in order to be realized. The support is necessary as an effort in improving the performance of a higher education in teaching, research and community service. Performance (Masa'deh, Shannak, Maqableh, & Tarhini, 2017) and the quality of higher education nowadays is easily seen through various media. The effort to improve performance, both structural and

lecturer's performance, needs to be enhanced so that the quality of higher education increases. The ability to improve performance of higher education, lecturers need leaders involved, where nowadays is usually being used a behavioral approach (Taruno, 2011), besides behavioral approach motivation and compensation are also needed in improving lecturer performance (Singh, Negin, Otim, Orach, & Cumming, 2015) (Sumantri & Whardani, 2017) which is adequate.

Lecturer are as one of the resources that are expected to generate qualified students according to the standard. The standard of graduate's quality refers to PP No. 19 2005 about National Standard of Education, on article 2, stated that the organization of each educational unit should refer to eight quality standards of education, which are: content, process, competence of graduate, teacher and educational staff, facilities and infrastructure, standard of management, financing, and educational assessment standard. The grade and quality of human resources are very determined by the result of education and training which take place now and that's why, the bigger capability of a higher education in managing available resources, the bigger that higher education's sustainability.

Next in article 28 stated that "teacher must have academic qualification and competence as learning agent, healthy physically and spiritually, and has the ability to realize the purpose of national education". The article above indicates that in improving the quality of education, we need a standard that should be followed so that the quality of graduates will correspond with the national standard.

National standard was in line with the effort of improving lecturer performance (Nadarajah, Kadiresan, Kumar, Nurul Nissa Ahmad Kamil, & Yusliza Mohd. Yusoff, 2012; Cucu & Udin, 2015; Dirwan, 2015) we needed support in resources such as leader, academic senate, and academic executive. Lecturer in teaching, doing research and service to community needed management in the effort of enhancing graduate quality. Dirwan (2015) in the context of human resources management stated that the assessment of performance could be made as the basis for achieving the success purpose of lecturer performance.

Aside from enhancing the competence of lecturer, compensation should also be noticed. Low competence (Dikti, 2015) and compensation (Singh et al., 2015) will cause motivation (Maryadi, 2012) low and disturbed and lecturer performance wouldn't be achieved (Lotunani, Idrus, Afnan, & Setiawan, 2014). Porter and Lawyer's model notice that someone will do his/her job well if they know that he/she gets the reward from what he/she is doing. Working performance is determined by someone perception of their ability to carry out his/her assignment. Therefore, the performance should be seen from two sides. They are intrinsic motivation (the feeling to succeed and self-actualization) and extrinsic motivation (working condition and status). Many Porter and Lawyer's models have been developed by many researches.

Starting from the phenomenon above, this study aims to investigate leadership, competences, and the compensation on motivation and its implication on lecturer performance with two purposes. The first one is to test the effect of leadership, competence, and compensation on work motivation as the intervening variable. The second one is to investigate the effect of motivation on the performance of private higher education lecturer.

## **2. Literature Review**

### *Leadership:*

Leadership can be broadly defined as the relationship between an individual and a group built around common interest wherein the group behaves in a directed manner or determined by the leader. The leader thus becomes the interpreter of the interests and objectives of the group, as the group, in turn, recognizes and accepts the interpreter as its spokesperson (Aquino, 1985; John & Taylor, 2017; Gerhart, 1995). The employee compensation plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Employees typically depend on wages, salaries, and so forth to provide a large share of their income and on benefits to provide income and health security.

Besides the opinion above, leadership is according to (Italiani, 2013) that what is done by a leader (Rusydi, 2017). The role of leadership in an organization be a key, because leadership is a source of strength, inspiration, an activator and strategic decision making. That is the reason why, without a good leadership, the organization will not run normally. Luthans (2002), Roeleejanto, Brasit, Payangan, & Pahlevi, (2015), for instance, argued that the characteristics of the leader of the twentieth century are those creating innovation, concern on originality, being able to develop, it focuses on people, is inspiring trust, long-term perspective, asks what and why, eyes on the horizon, has authenticity, is against the status quo, is responsible, and do the right thing. In addition, every leader has a different style of leadership. Leadership behavior usually has two tendencies, the relation between subordinate and initiation structure or is result oriented. The leadership tendency illustrates the existence of a close relation between a leader and a subordinate. The tendency of a leader gives limitation between the roles of leader and subordinate in achieving the purpose. That's why in his activity, the leader can illustrate how the leadership style is orientated on work or lecturer and the subordinate.

### *Compensation:*

Armstrong (2005) Odunlami & Matthew (2014) stated that compensation management is an integral part of the human resource management approach to productivity improvement in the organization. According to Juliningrum & Ahmad Sudiro (2013) compensation is formulated as an adequate feedback to the employee for their contribution to the organization. According to Dessler (1998) Idris, Hamzah, Sudirman, & Hamid (2017) there is a direct payment in the form of salaries, wages, incentives, commissions, and bonuses, and there is also an indirect



payment in the form of financial benefits such as insurance and vacation money. According to Gerhart, (1995) employee compensation plays such a key role because it is at the heart of the employment relationship, being of critical importance to both employees and employers. Employees typically depend on wages, salaries, and so forth to provide a large share of their income and on benefits to provide income and health security. So, the compensation activity is a feedback given by one party to another for a performed work. Compensation is a right obtained by the individual because they have voluntarily sacrificed time, energy and mind to perform the mandate of the organization. Compensation becomes one of the dominant factors in encouraging someone to improve performance (Zain, Tri, & Dina, 2017a).

*Competence:*

Robbins (2015) competence is the individual capacity to perform various tasks in a job. Meanwhile, according to Aziz, Akhtar & Rauf (2014) competence is defined as the ability to fruitfully meet multifaceted demands in a particular context through the mobilization of psychosocial prerequisites. Therefore, competence can be defined as an ability owned by someone in performing a job or task based on knowledge, skills and work attitude needed for that particular job. Overall ability is essentially established by two sets of factors, intellectual and physical. Intellectual ability is an ability needed to perform a mental-thinking activity, reasoning and problem-solving. Meanwhile, physical ability is an ability to perform the intellectual ability. Besides the opinions above, according to Sedarmayanti (2007) competence is a basic characteristic of someone which directly influences or can predict a very well performance. Spencers in Edi (2014) defined that competence is a characteristic which underlies someone and related to the effectivity of individual performance in his/her job. Based on the definition, competence is a part of the deep inherent personality of someone and a behavior which can be predicted in various situations and jobs. According to Robbins (2015) there are three (3) main factors in measuring the work abilities, which are: intellectual ability, which is the ability needed to perform the mental-thinking activity, reasoning and problem-solving.

According to PP 19/2005, lecturer competence consists of: pedagogic, professional, personality, and social competence. Pedagogic competence is lecturer's ability to design, perform, test, assess learning processes and utilize the findings of the study for the interest of teaching. Professional competence is the mastery of subject matter broadly and profoundly, designing, performing and doing research and community service. Personality competence is an empathy, being just to others, positive perspective and purpose oriented. Social competence is an ability to appreciate others' opinion and establish harmonious atmosphere and the involvement ability of society.

*Motivation:*

Motivation means moving or stirring (Robert & Kinicki, 2014). Therefore, motivation means a condition to stir or become a cause of someone doing an action/activity, which takes place consciously, also as a power of resources which

drives and controls the human behavior. Motivation is an effort which can give encouragement to someone to take the desired action, and a reason as the driving force of someone to act because the behavior of someone tends to orient on purpose and encourage by the interest to achieve the particular purpose.

According to Luthans (2011) Sumantri & Whardani, (2017), motivation is a basic psychological process. Motivation is the willingness of the individuals, in doing the high effort to achieve the purpose of the organization. Motivation, as a condition which drives human to the direction of a purpose. People usually act for a reason: to achieve the purpose. That's why motivation can be defined as an encouragement which is regulated by purpose and seldom appears in emptiness. Motivation is a complex problem in the organization, because the needs and interests of each of the organization members are different ones to another. It's different because every member of an organization is biologically and psychologically unique and develops a different learning process.

The success of an organization nowadays is very dependent on its employees. No job, whatever form and design it has, and regardless of how big the payment is, can encourage the interest of employee and prospective employee, without motivation. Motivation is the driving force to work and be outstanding, and what becomes the basis so that employee wants to do the task.

*Performance:*

Performance is the result of work in quality and quantity which is achieved by human resource in performing the task according to the given responsibility. Performance is an accomplishment or achievement of work, which is achieved by the employee based on the standard and measurement of assessment which has already set. The concept of performance explained by experts, (Robbin 2015 in Nur'ani, 2011) is explained that "*employee performance is the interaction of ability, motivation, and opportunity*". Performance is the function required from a person, the performance is an act, an expression, or what is shown through the skill of a real person (Idris et al., 2017).

There are (3) aspects on work activity which influence the activity of a performance (Smith 1976 in Maryadi, 2012) which are; (a) behavior (b) result and (c) organizational effectivity. Behavior refers to the activity in achieving the purpose, effectivity is stepped in consideration, organizational work result emphasizes on the aspect of the working process. Performance is an illustration of the success of the organization, then it can be clearer by measuring the characteristic of an employee.

### **3. Methodology**

The method used in this study is an explanatory research method. The reason of using an explanatory research method in this study is to empirically prove and explain leadership, competence, and compensation on motivation and performance.

Independent variables in this study are leadership, lecturer competence and compensation, meanwhile independent variables are work motivation and lecturer performance. This study uses nonprobability sampling with total population of 10 universities with a sample of 205 persons. The distribution of this study is done proportionally on 10 universities in Palembang. In this study, the survey is performed to obtain primary data and secondary data. Survey data is cross-section. The management of data uses Structural Equation Model (EM) Lisrel analysis method as the analysis tool to test. The hypotheses established in this study to figure out: Is there any effect of leadership, competence and compensation both partially and simultaneously on work motivation and Is there any effect of leadership, competence, compensation, and motivation both partially and simultaneously on lecturer performance?

#### 4. Result and Discussion

*The result of Structural Equation Modeling (SEM):*

Competence Variable consists of 4 dimensions as the observed variable. Leadership Variable consists of 3 dimensions as observed variable, Compensation Variable consists of 6 dimensions as the observed variable, Motivation Variable consists of 3 dimensions as the observed variable. Motivation and Performance variable consist of 3 dimension as observed variable. Structural Equation Modeling (SEM) model which is used is an approach model with First Order. The findings of data management for Structural Equation Modeling (SEM) model are illustrated in Figure 1 and 2 as follows:

**Figure 1. Structural Model (Standardized Model)**

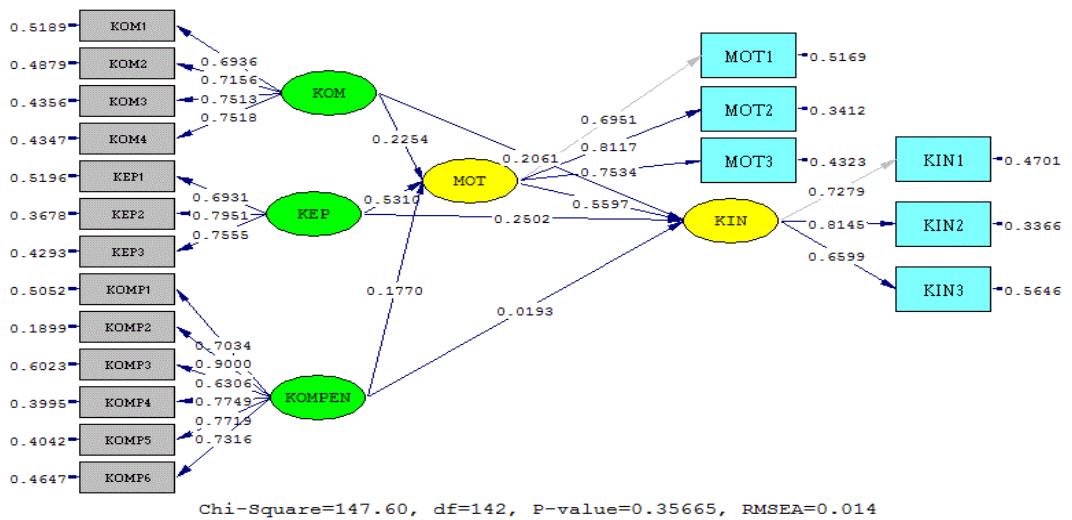
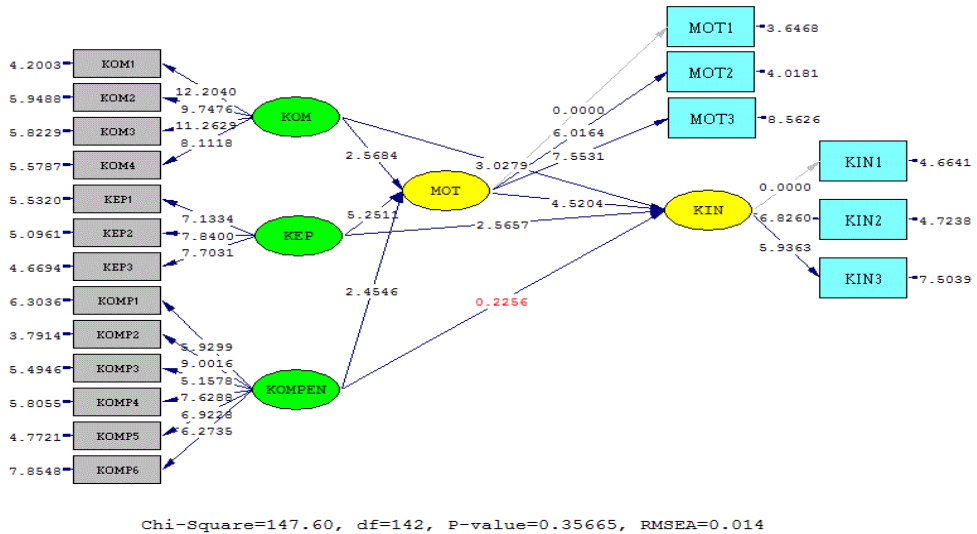


Figure 2. Structural Model (t-value Model)



*The Effect of Competence, Leadership, and Compensation on Motivation:*

From the result of calculation for hypotheses of competence, leadership, and compensation on motivation, it is obtained structural equation hypothesized as follows:

$$MOT = 0.2254 * KOM + 0.5310 * KEP + 0.1770 * KOMPEN,$$

2.5684                      5.2511                      2.4546

Error var.= 0.4850 , R<sup>2</sup> = 0.5150

Based on the obtained result of calculation, it can be seen that the effect coefficient of Competence (ξ1) on Motivation (η1) is 0.2254 with the value of t-count for statistics test is 2.5684, effect coefficient of leadership (ξ2) on Motivation (η1) is 0,5310 with the value of t-count for statistics test is 5.2511 and the effect coefficient of Compensation (ξ3) on Motivation (η1) is 0,1770 with the value of t-count for statistics test is 2.4546. The effect results of Competence, Leadership and Compensation on Motivation (Total Determination / R2) is obtained 0,5150 or 51,50%.

Based on the result of calculation, the value of t-count for Competence is 2.5684. The statistics value of t test obtained stays in the area of rejection H0 which is t-count is bigger than t-critics = 1.96. (t-count = 2.5684 > 1.96) then it can be concluded to reject H0. From the calculation result, the direct effect of Competence on Motivation is 5,08%. Thus, it is figured out that Competence gives direct effect if there is no another noticeable variable 5.08% on Motivation.

Meanwhile, the Effect of Competence on Motivation because of the relation with Leadership is 2.45%. Then it is known that the effect of Competence on Motivation because of the relation with Compensation is 1.24%. Total Effect of Competence on Motivation is 8.78%. It can be concluded that the result of statistics test shows that Competence gives effect on Motivation. This result which states that competence gives effect on motivation is in line with previous studies performed by Simatupang, (2014) Nur'aini, (2011) and Atikah & Saud (2015).

The result of leadership is 5.2511. The statistics value of t test obtained stays in the area of rejection  $H_0$  which is t-count is bigger than t-critics = 1.96. (t-count = 5.2511 > 1.96) then it can be concluded to reject  $H_0$ . Thus, it can be concluded that the statistics test shows that Leadership gives effect on Motivation. The direct effect of Competence on Motivation first partially is 28.20%. Then, the Effect of Leadership on Motivation because of the relation with Competence is 2.45%. The effect of Leadership on Motivation because of the relation with Compensation is 3.85%. So, the total effect of Leadership on Motivation is 34.50%. The result which states that leadership gives positive and significant effect on motivation is in line with previous studies performed by Muizu, (2014), Taruno, (2011), Atikah & Saud, (2015)

Based on the result of calculation, the value of t-count for Compensation is 2.4546. The statistics value of t test obtained stays in the area of rejection  $H_0$  which is t-count is bigger than t-critics = 1.96. (t-count = 2.4546 > 1.96) then it can be concluded to reject  $H_0$ . Thus, it can be concluded that the statistics test shows that Compensation gives effect on Motivation.

The direct effect of Compensation on Motivation first partially is 3.13%. It is figured out that Compensation gives direct effect if there is no another noticeable variable 3.13% on Motivation. Then, the Effect of Compensation on Motivation because of the relation with Competence 1.24%. The effect of Compensation on Motivation because of the relation with Leadership is 3.85%. So, the total effect of Leadership on Motivation is 8.22 %. The result which states that compensation gives positive and significant effect on motivation is in line with previous studies performed by Zain et al., (2017a), Zulkifli, (2016) and Idris et al., (2017).

#### *The Effect of Competence, leadership on Lecturer Performance:*

Based on the calculation result, the value of t-count for Competence is 3.0279. The statistics value of t test obtained stays in the area of rejection  $H_0$  where t-count is bigger than t-critics = 1.96 (t-count = 3.0279 > 1.96) then it can be concluded to reject  $H_0$ . Thus, it can be concluded that the statistics test result shows that Competence gives direct effect on Lecturer Performance. The direct effect of Competence on Lecturer Performance on Lecturer Performance is  $(0.2061 \times 0.2061 \times 100\%) = 4.25\%$ . So, Competence gives direct effect 4.25% on Lecturer Performance. The result of this study which stated that competence gives

positive and significant effect on lecturer performance is in line with previous studies performed by Nur'aini, (2011), Maryadi, (2012) and Basriani, (2016).

Leadership is hypothesized to influence the performance of lecturer. Based on the obtained result of calculation, the value of t-count for Leadership is 2.5657. The statistics value of t test obtained stays in the area of rejection H<sub>0</sub> which is t-count is bigger than t-critics = 1.96. (t-count = 2.5657 > 1.96) then it can be decided to reject H<sub>0</sub>.

Thus, it can be concluded that the result of the statistic test shows that Leadership gives direct effect on Lecturer Performance. The direct effect of Leadership on Lecturer Performance is 6.26%. The result of this test which states that leadership gives direct effect on lecturer's performance is in line with the findings of Apriani, (2009), Dhermawan, Sudibya, Wayan Mudiarta Utama, (2012) and Muizu, (2014).

*The Effect of Compensation, Motivation on Lecturer Performance:*

Compensation is hypothesized to influence the performance of lecturer. Based on the obtained result of calculation, the value of t-count for Compensation is 0.2256. The statistics value of t-test obtained stays in the area of acceptance H<sub>0</sub> which is t-count is smaller than t-critics = 1.96 (t-count = 0.2256 < 1.96) then it can be decided to accept H<sub>0</sub>. Thus, it can be concluded that the result of statistics test shows that Compensation doesn't give significant and direct effect on Lecturer Performance. The direct effect of Compensation on Lecturer Performance is  $(0.0193 \times 0.0193 \times 100\%) = 0.04\%$ .

Motivation is hypothesized to influence Lecturer Performance. From the calculation of effect model hypothesized obtained using Software Lisrel 8.8, it is obtained that the value of t-count for motivation is 4.5204. The statistics value of the obtained t-test stays in the area of rejection H<sub>0</sub> where t-count is bigger than t-critics = 1.96 (t-count = 4.5204 > 1.96) then it can be decided to reject H<sub>0</sub>. Therefore, it can be concluded that Motivation gives effect on Performance where the direct effect of Motivation on Performance is 31.33%.

The result of this test which states that compensation doesn't give direct effect on lecturer performance is in line with the findings performed by Nur'aini (2011) that compensation doesn't give contribution on performance and the result of motivation of this test is in line with the research of Nur'aini, (2011).

*The Effect of Competence, Leadership, and Compensation through Motivation on Lecturer Performance:*

From the calculation result for the effect of Competence, Leadership, and Compensation through Motivation on Lecturer Performance, a structural equation is obtained which is hypothesized as follows:

$$\text{KIN} = 0.5597 * \text{MOT} + 0.2061 * \text{KOM} + 0.2502 * \text{KEP} + 0.01927 * \text{KOMPEN},$$

4.5204	3.0279	2.5657	0.2256
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Error var.= 0.2718, R<sup>2</sup> = 0.7282

Based on the result of calculation obtained, it can be seen that effect coefficient of Competence ( $\xi_1$ ) on Lecturer Performance ( $\eta_2$ ) is 0.2061 with the value of t-count for statistics test of 3.0279, effect coefficient of Leadership ( $\xi_2$ ) on Lecturer Performance ( $\eta_2$ ) is 0.2502 with the value of t-count for statistics test is 2.5657, effect coefficient of Compensation ( $\xi_3$ ) on Lecturer Performance ( $\eta_2$ ) is 0.0193 with the value of t-count for statistics test is 0.2256, and effect coefficient of Motivation ( $\eta_1$ ) on Lecturer Performance ( $\eta_2$ ) is 0.5597 with the value of t-count for statistics test is 4.5204. The result of the effect of Competence, Leadership, Compensation and Motivation on Lecturer Performance (Total determination coefficient/R<sup>2</sup>) is 0.7282 or 72.82%. It can be concluded that Competence, Leadership, and Compensation through Motivation simultaneously give effect on Lecturer Performance. The result of this test were also figured out by previous researchers Periansya, (2016), Riyadi, (2016), and Zain, Tri, & Dina, (2017b).

## 5. Conclusion

This study figures out that Leadership of Private Higher Education in Palembang is proven to give positive and significant effect on Work motivation. The most dominant dimension of leadership in this variable is self-esteem. Meanwhile, the competence of the private higher education lecturer in Palembang is proven to give positive and significant effect on work motivation where the most dominant dimension of competence is personality. Compensation for lecturer is also proven to give positive and significant effect on work motivation with incentive as the most dominant dimension.

The result of this study also figures out that direct compensation to the performance of lecturer doesn't give effect on the lecturer's performance, but Leadership is dominant built by the dimension of self-esteem, competence is dominant built by dimension of personality, compensation is dominant built by dimension of incentive, and work motivation is dominant built by power motivation are proven both partially and simultaneously give positive and significant effect on lecturer performance. That's why, to improve the lecturer performance we need to enhance research and lecturer motivation on the dimension of lecturer strength.

Based on the conclusion of the test, it is shown that the managerial implication of this study is that the performance of private higher education lecturer, dominantly is influenced by Leadership, competence, and compensation when they are combined with work motivation. It gives the implication that the improvement and enhancement of the lecturer's performance in private higher education in Palembang will be more successful if Leadership, competence, compensation is performed well

when work motivation element is involved. It is proven that work motivation can give more strength by mediating three variables to give effect on lecturer performance. The improvement of lecturer performance effect can be improved by noticing leadership, competence, compensation, and work motivation so it truly gives positive effect on lecturer performance particularly the improvement on research and community service.

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## Application of Digital Signature to Increase Investment in Indonesia

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Fatria Khairo,\* Faisal Santiago,\* Zudan Arif Fakrulloh \*)

### **Abstract:**

*One of the investment problems in Indonesia is the procedure established for investing which is still too complicated, having the obligation of filing a considerable investment thick and requires many signatures by the authorities and must be done in person or face-to-face. Of course, legality process in the administration is very slow. These conditions rise a problem of trust. While policy packages and deregulation efforts are a big deal, if information on the implementation of policies in the field is still weak, it remains difficult to accelerate investments. Regarding the regulation, investment should be optimized in order to increase in Indonesia. The authors are interested in creating a regulation that must be followed by a world increasingly emphasized patterns of software technology, such as e-commerce and digital signatures. In developed countries, such as in the United States of America, some states already apply the rules on digital signatures. There are some states that have a very comprehensive regulation, but they also have a very quick reaction. Even countries as Malaysia incorporate the regulation on the Internet and multimedia information. Moreover, the actual digital signature regulations already exist in Indonesia, namely Law No. 11/2008 on information and electronic transactions. However, because of the limited budget to support the infrastructure of the digital signature, this is not optimal in practice, especially in supporting the investment climate in Indonesia. Based on the illustration above-mentioned, the authors are keen to lift the problems associated with how to perform "the application of the digital signature in improving the investment climate in Indonesia"*

**Keywords:** Digital signatures, investment law.

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### **1. Introduction**

Indonesia as a developing country is known for the fertile land and can be used as an investment destination. Therefore, the assets owned by this country alone are enough to welcome foreign investors. Moreover, are construction expected to be better in terms of bureaucracy? Initially built as a country with good bureaucracy governance, supported by government policy which is open to owners of foreign capital (FDI), it is not impossible that Indonesia will be invaded by a high number of foreign

investors who intend to multiply their capital by investing their shares in companies in Indonesia.

Head of the Investment Coordinating Board (BKPM) Thomas Trikasih Lembong revealed five main complaints of investors to invest in Indonesia. The main complaint of investors is frequently changing regulations. Nevertheless, Thomas Trikasih Lembong was worrying about the software aspects such as regulation and human resources which must also be supported by the investment interests of investors. It is also important to develop a region which can grow up a class so that it can still attract investment.

Related to the regulations that must be optimized to increase investment in Indonesia, the authors are interested in creating a regulation that could be able to follow the pattern of the world by prioritizing the device technology software, such as e-commerce, digital signatures. The authors are keen to lift the problems associated with how to "Optimizing the digital signature in improving the investment climate in Indonesia". Based on the above illustration the issues to be discussed is: What is the Role of Digital Signature, to increase investment in Indonesia?

## **2. Literature Review**

### *Digital Signature:*

Based on history, the use of digital signatures is originated from the use of cryptographic techniques used to secure information in order to be transmitted / communicated to others and it has been used already since hundreds of years ago. In cryptography an encrypted messages (encrypted) a key (key) is being used. The results of this encryption are a form of ciphered text, which is then transmitted / submitted to destination places. The cipher text is then opened / decrypted (decrypted) with a key to getting the information that has been encrypted. There are two ways of doing encryption by using symmetric cryptography (symetric cryptography / cryptography secret key) and asymmetric cryptography (asymmetric cryptography), which later became known as a public key in Cryptography. Cryptography or the secret key, also known as symmetric cryptography, uses the same key to encrypt and decrypt on a message (message), here the sender and receiver use the same key, so they must keep the secret.

Cryptography public key, otherwise known as asymmetric cryptography, uses two keys (key): one key is used for encrypting a message (messages) and the other one is used to decrypt the message. Two keys have a mathematical relationship so that a message encrypted with one key can only be decrypted with a same key partner. A user has two keys, a private key (private key) and a public key (public key). The user (user) then distributes / disseminates his public key. Because there is a relationship between the two keys, the user and someone who accepts the public key will be confident that the data it receives and has successfully decrypted only be

derived from users that have a private key. Certainty / confidence is only there for the private key not to be known by others. The second key is derived or created by the user. One of the best-known algorithms for this, is RSA.

When two people want to communicate or exchange data / messages securely, each of them sends one key namely the public key. Because the data / message can only be encrypted and decrypted by using a key partner, this data can be securely transmitted over a relatively insecure network (via the internet). Digital signature in a data / messages will be encrypted using the symmetric key that is randomly created (randomly generated symmetric key). This key is then encrypted using the public key of the prospective recipient of the message.

The results of this encryption are referred to as a "digital envelope" which will then be sent as a message / data that has been encrypted. After receiving the digital envelope recipient will then open / decrypt with the lock key, by using the private key. The results he got from the decryption is a symmetric key that can be used to unlock the data / messages.

The combination of a digital signature with the message digest, causes the fact that a user can "digitally sign" (digitally sign) a data / messages. The purpose of digitally signing is giving a characteristic to a message.

Recipient of the digital signature will be able to believe that the data / messages from the sender is true. As changes in a data / messages will change the message digest in a way that cannot be predicted, (in unpredictable way) the recipient will be confident that the data / messages never changed after the message digest was created.

Before both parties (sender / receiver) want to perform communication, such as by using public key cryptography, each party must feel confident of their trust. They will then be authenticated on the existence of each party, then they appoint a third party that will provide public key authentication against them. These third parties are known as the Certification Authority. This authority Certification will then provide a certificate (certificate) containing the identity of the user (e.g., Alice), this certificate is digitally signed by the certification authority. The contents of the certificate in addition to the identity, also contains a public key of the owner. Note: A digital signature (digital signature) will cause the electronic data that is sent via the open network to be guaranteed:

*Authenticity:*

By providing digital signatures on electronic data that is sent, it will be possible to show where electronic data is coming from. Ensuring the integrity of the message could be possible, thanks to the existence of a Digital Certificate. A Digital Certificate is obtained based on an application to the Authority by the user / subscriber. Digital certificate contains information about the user such as: identity, authority, no legal status, and the status of the user.

A Digital Certificate has different levels, to determine how much authority is possessed by the user. So, if a company wishes to perform an act of law, the Digital certificate that was used is the digital certificate owned by the directors of the company. In the presence of this digital certificate, the third party associated with the digital certificate holders can be confident that a message / messages truly comes from the user.

*Integrity:*

Integrity relates to the issue of the integrity of the data submitted. A recipient of the message / data can assure whether the message received is equal to the message that was sent. One can be confident that the data is never being modified or changed during the shipping process or storage.

*Confidentiality:*

Messages in the form of electronic data that are confidentially sent, therefore not everyone can know the contents of electronic data that has been digitally signed and included in envelope. The existence of the digital envelope includes integral parts of the digital signature, so an encrypted message can only be opened by the person who is entitled. The level of confidentiality of a message which has been encrypted, depending on the length of the key used for encryption.

Data security in e-commerce with these methods is technically acceptable and applied, but when discussed from the standpoint of the law, is still not getting the full attention. The lack of attention from the science of law is understandable since, particularly in Indonesia, the use of computers as a mean of communication via the new internet network is known since 1994. Thus, internet network security with digital signature method in Indonesia, is still a new thing for computer users, especially in terms of speed and ease of transactions in the global interaction without limitation of place and time. In this regard, the need of information confidentiality and custody of the authenticity of the information is increasing, so that the Government of the Republic of Indonesia issued the Law No. 11/ 2008 on Information and Electronic Technology (referred to as Law 11/2008).

One point to note in the electronic transactions is the implementation of digital signatures (digital signatures) that aims to legalize documents / results in an electronic transaction. Related to that, the Law 11/2008 regulates the rights and obligations authentication in an electronic document that is digitally signed (digital signature).

*Electronic Signatures (Digital Signature), according to Law 11/2008:*

Pursuant to Article 1 Paragraph (12) of Law 11/2008, the Electronic Signatures is a signature consisting of electronic information attached, associated or linked with other electronic information that is used as a verification tool and authentication.

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Further provisions on Electronic Signatures regulated by Government Regulation No. 82 Year 2012 on the Implementation System and Electronic Transactions (hereinafter referred to as PP 82/2012).

Article 52 Paragraph (2) PP 82/2012 states Electronic Signatures in Electronic Transactions constitute approval Hands Markers on Electronic Information and / or Electronic Document signed with the Electronic Signature. Pursuant to Article 54 Paragraph (1) PP 82/2012 Electronic Signatures are divided into two, namely:

- the Electronic Signatures certified, which is made using electronic certification service providers, and is evidenced by the Electronic Certificate;
- the Electronic Signatures are not certified, which is made without the use of electronic certification service providers.

Making the Electronic Signatures:

- Referring to Article 55 Paragraph (3) PP 82/2012, the manufacture of electronic signatures must meet the following requirements;
- The whole process of security and confidentiality is guaranteed.

Electronic Signature Creation Data, which uses cryptographic codes, should not be easily seen from the Electronic Signature verification data through a specific calculation, within a certain time, and with a reasonable tool. Electronic Signature Creation Data stored in an electronic medium that is in the possession of the Hand Markers.

The Data related to the mandatory Hand Bookmarks stored in place or data storage device, which uses a reliable system which can detect the change and meet the following requirements:

- Only the person authorized to enter new data, alter, exchange, or replace the data;
- Hands Markers identity information can be checked for authenticity; and
- other technical changes that violate security requirements can be detected or known.

Everyone involved in the Electronic Signatures is obliged to provide safeguards for the use of the Electronic Signatures. Electronic Signature Security is at least including (Article 12 Paragraph (1) of Law 11/2008):

- The system cannot be accessed by other people who are not entitled;
- Markers Hands should apply the precautionary principle to avoid unauthorized use of the data related to the making Electronic Signature;

- Markers Hands should without delay, using a method that is recommended or otherwise worthy and duly shall immediately notify the person by marker hand deemed trust Electronic signatures or to the service support Electronic signatures if:
- Markers hand knowing that Electronic Signature creation data has been compromised;
- circumstances known to the Hands Markers may pose a significant risk, the possibility of breakdown due to Electronic Signature creation data;

In the case of Electronic Certificate used to support Electronic Signatures, Marker Hands should ensure the correctness and integrity of all information related to the Electronic Certificate.

Prior to use the Electronic Signatures, Electronic Signatures Operator shall ensure early identification of markers Hands manner (Article 58 Paragraph (1) PP 82/2012); Markers Hand deliver to the Operator identity Electronic Signatures.

*Hand marker register to the Operator or Service Support Electronic Signature:*

Mechanism Electronic Signing of Electronic Information, to be signed must be known and understood by marker Hand. (Article 56 paragraph (2) PP 82/2012). Approval Hands Markers on Electronic Information that will be signed with the Electronic Signatures must use the mechanism of affirmation and / or other mechanisms that show the purpose and objective markers Hands to be bound in an electronic transaction (Article 56 (2) PP 82/2012).

Electronic Signatures for the electronic identity verification, Hands Markers, are required to apply a combination of at least two (2) authentication factors (Article 58 paragraph (2) PP 82/2012).

*Power of Digital Signature Law:*

Referring to Article 5 Paragraph (1) of Law 11/2008, Electronic information and / or electronic documents and / or prints with a valid legal evidence, it is an extension of the valid evidence in accordance with the Law Events apply in Indonesia.

Pursuant to Article 11 Paragraph (1) of Law 11/2008 jo. Article 53 Paragraph (2) PP 82/2012. Digital signature has no legal force and effect of law are valid for fulfilling the following requirements:

- Data manufacture of electronic signatures associated only to signatories.
- Electronic signature creation data at the time the electronic signing process is only in the power of the signer.
- Any changes to the electronic signature that occurred after the time of signing can be known.



- Any changes to the electronic information related to the electronic signature after the signing time can be known.
- There are certain ways that are used to identify who the signatories are.
- There are certain ways to show that the signatory has given its approval to the relevant electronic information.

### **3. Methodology**

In order to collect data for this study, the authors use a normative juridical research method or library research, to examine a legal problem and make the settlement through the legislation in Indonesia.

The authors use Secondary data to support this research. Data is obtained from the library that includes books, reports, scientific papers, expert opinion and the law applicable to the problems studied.

### **4. Result and Discussion**

In the implementation of paperless systems, traditional signature and stamp still cannot be separated from the practice of everyday documents. Signature and stamp will still determine the authenticity of a document, so it is often about the limiting factor to the implementation of a paperless system. In practice, there is still required a long time-consuming manual process, to distribute the document to the signing, the examination paper documents and document signing process and then re-done digitizing documents.

The increased convergence development of Information Technology and Telecommunications today, resulted into increasingly diverse variety of services (features) in the existing telecommunications facilities, as well as the increasing sophistication of information technology products capable of integrating all the media information. Amid the growing globalization of unified communications (global communications network) with the growing popularity of the Internet has made the world as a shrinking (shrinking world) and even eclipsed the following national borders and sovereignty society state. Ironically, the dynamics of the new Indonesian society is still growing and developing as an industrial society and information society, as it still seems premature to accompany the development of these technologies.

The pattern of the Indonesian society dynamics irregularly moves towards a desire to reform all areas of life, rather than a powerful idea to formulate a policy or the right setting for it. Although the community is already used to the presence of the information technology products in their life, the Indonesian nation outline is still groping in the search for a public policy in building a reliable infrastructure

(National Information Infrastructure) facing the global information infrastructure (Global Information Infrastructure).

Human computer as a tool, supported the development of information technology and helped the network access to the public network (public network) in the transfer of data and information. In e-commerce transactions, for example, the most commonly used cryptographic device is the digital signature (digital signature). If the sender of the message (message) is affixing a digital signature in the message, the recipient can feel confident that once signed by the sender, the message that no one manipulates.

The properties owned by digital are an authentic sign of hands, it cannot be written / copied by others, it is only valid for document messaging, it can be easily checked. In general, the digital signature uses a public key cryptographic technique, symmetric keys and a one-way hash function. It is noteworthy that the digital signature is not a signature of a person being scanned or entered into the computer using a stylus or mouse, but a multitude of mathematical calculations to encrypt data, ie, with cryptography.

Other terminology for the digital signature is 'digitally document ensured', so that its meaning is not ambiguous. So, it can be likened to a document that is 'locked' and its content cannot be manipulated. In developed countries, like the United States of America, some states already apply the rules on digital signatures. There are some states that have a very comprehensive regulation, but there is also very quick to make regulations. Even some countries that incorporate the regulation on the Internet and multimedia information, such as in Malaysia.

In the direction of the actual digital signature regulations, in Indonesia already exists the Law No. 11/2008 on information and electronic transactions. However, because of the limited budget to support the infrastructure of the digital signature, it is not optimal in practice, especially in supporting the investment climate in Indonesia.

## **5. Conclusion**

It is expected that the digital signature is optimizing the investment climate in Indonesia. Therefore, it is better related to the regulation and make it easier for investors to develop its investment in Indonesia, which ultimately aims to absorb a lot of labor on the market.

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## Determinants of Individual Taxpayer in Tax Amnesty Decision-Making

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Ngadiman,\* Christiano \*)

### **Abstract:**

*A sustainable state budget to execute annual program funding is one of the positive conditions aimed by government in the specific country. For example, in Indonesia, most of the state's income comes from tax revenue. However, government also realize that tax avoidance always exists in their own country. Tax amnesty is a strategic plan to begin a tax reform for a better taxation system.*

*It is not suggested to stipulate tax amnesty repeatedly in several years and they must consider individual-extrinsic factors that they could arrange in the coming regulation to boost taxpayer's decision to participate in tax amnesty, such as providing a 'gift' to declare the unreported income like penalty waive, good communication in the program socialization, lower tax rate during tax amnesty period, sufficient time to prepare, and ease-to-use in practice.*

*On the taxpayer side, Prospect Theory told us about the taxpayer's tendency to avoid risk that is going to be bigger in future. Following this logic, we assume that these factors can have a positive effect for the taxpayer decision-making by following Signaling Theory practice. The result supports our entire hypothesis by proving positive-significant influence from extrinsic factors in their tax amnesty decision-making.*

**Keywords:** Indonesia, tax reform, prospect, signaling;

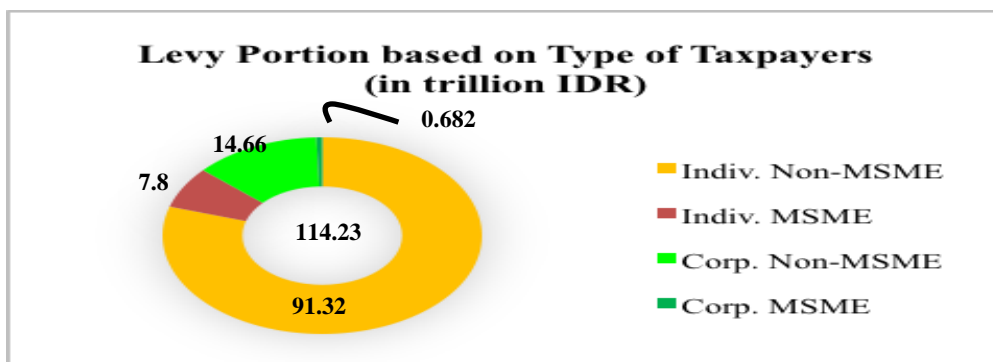
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### **1. Introduction**

State revenue comes from taxation sector which plays an important role in state's budget, especially for the countries where most of the state's income comes from it, including Indonesia. In 2017 (Indonesia State Budget), 85.6% of the state's revenue is obtained from the taxation sector. A tax reform is needed to collect the potential tax more effective.

Previously, Italy has performed the most successful tax amnesty in 2009 with a total assets' declaration of more than EUR 80 billion (approx. IDR 1,179 trillion) which represents about 5% of GDP and EUR 4 billion (approx. IDR 59 trillion) tax revenue (Dinmore, 2009). The Indonesian tax amnesty ran from 1<sup>st</sup> July 2016 to 31<sup>st</sup> March 2017 (9 months) with government target: asset declaration IDR 4,000 trillion, repatriation IDR 1,000 trillion, and tax revenue IDR 165 trillion (Hamilton-Hart and Schulze, 2017). The realization is: asset declaration IDR 4,880.6 trillion (39% of GDP), repatriation IDR 146.69 trillion, and tax revenue IDR 135.35 trillion (Indonesia Ministry of Finance, 2017). From the total tax revenue of IDR 135.35 trillion, IDR 114.23 trillion comes from levy, IDR 19.37 trillion comes from payment of tax arrears, and IDR 1.75 trillion comes from discontinuance of preliminary evidence audit.

**Figure 1.** Levy Portion based on Type of Taxpayers



*Source: Indonesia Ministry of Finance, 2017.*

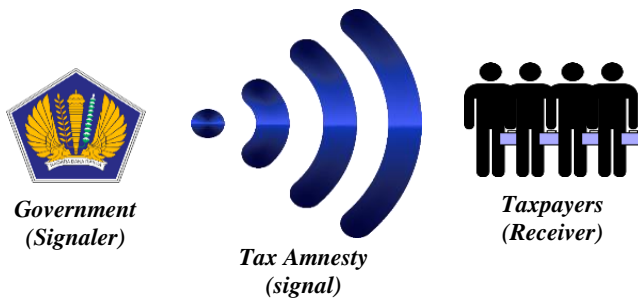
## 2. Literature Review

The Prospect Theory developed by Kahneman and Tversky (1979) was explained by Nar (2015), "... that individuals' tendency to avoid risks is bigger. According to this approach, when individuals consider the potential damages that may occur in the future, they may behave shy and not take risks in order to tolerate the risk, no matter how much the gain is." Nevertheless, the location of the reference point, and the consequent coding of outcomes as gains or losses, can be affected by the formulation of the offered prospects, and by the expectations of the decision maker (Kahneman and Tversky, 1979; Anderson and Sawyer, 1998).

Advance of Prospect Theory, The Cumulative Prospect Theory (CPT), Tversky and Kahneman (1992) found that people become risk-averse for condition with high probability in gain ( $p \geq .5$ ) and low probability in loss ( $p \leq .1$ ). According to this research, taxpayer's gain is represented as the benefit they receive if they participate in tax amnesty which the probability should be 1 as it is regulated in the tax amnesty regulation by government (without considering the change on regulation that can

interrupt the ‘gain’) and taxpayer’s loss is the condition when the tax officers find their unreported assets which represents their unreported income that should have been taxed previously but they did not make use of tax amnesty, so that they should pay the tax based on normal rate plus the penalty.

**Figure 2.** Signaling Theory Concept for Tax Amnesty



*Source:* Author’s Illustration based on Signaling Theory Concept.

As applied theory to support all the determinants from government, Signaling Theory by Arkelof, Spence, and Stiglitz (2001) is a suitable theory to explain tax amnesty as a signal from government, who attempts to inform about the positive effect in participating tax amnesty while before the signal is sent out, the taxpayers have asymmetric information regarding the tax amnesty, e.g. the tax amnesty is a government’s trap in order for them to be forced to pay more taxes in the future; and by participating tax amnesty, the tax auditor will come to them more easily.

### 3. Methodology

The data used is primary data which was directly obtained from the taxpayers and the sample is limited to the individual taxpayers with a total of 200 respondents in a one-shot collection (cross-sectional) using agreement-level questionnaire (Likert scale) as research instrument to obtain the research objects.

$$TADM = \alpha + \beta_1FAC + \beta_2SOC + \beta_3SOC.UND + \beta_4RATE + \beta_5TIME + \beta_6APP + \epsilon_0$$

Hypothesized:

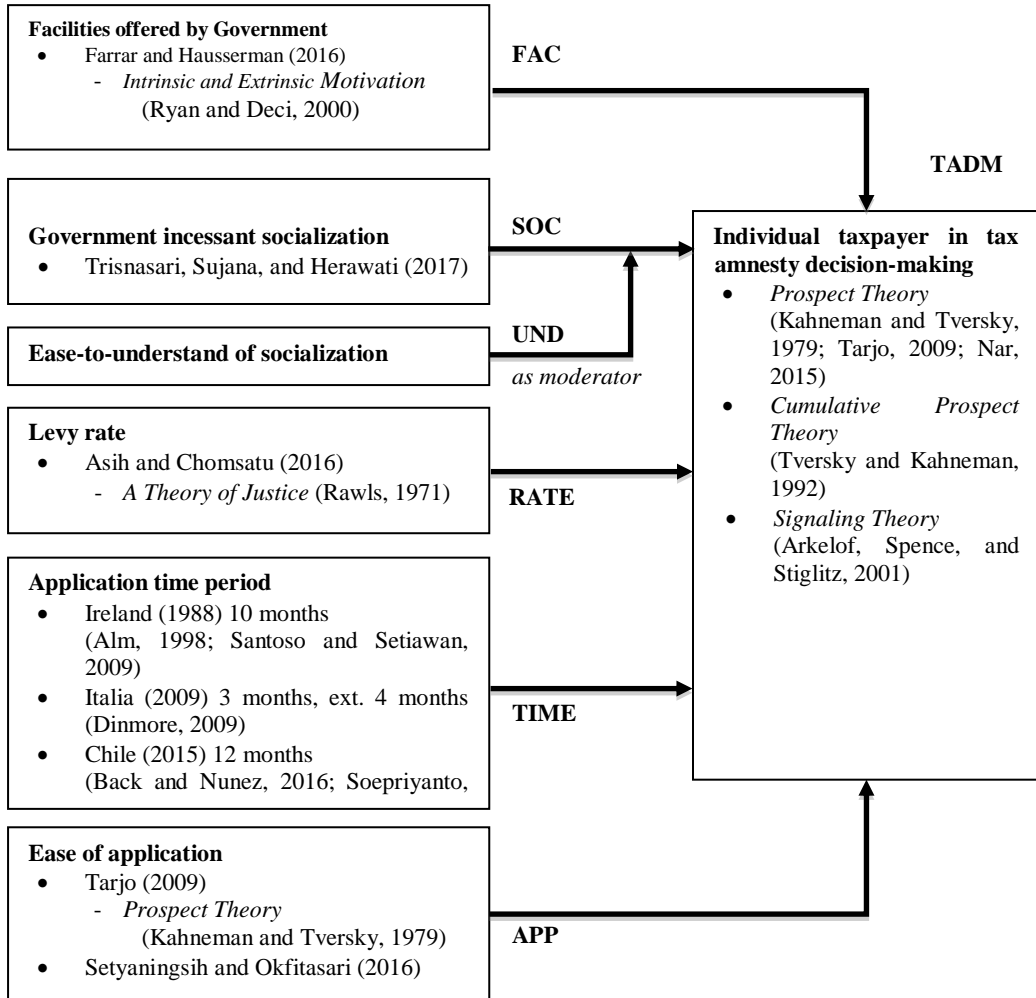
$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_3 > \beta_2, \beta_4 > 0, \beta_5 > 0, \& \beta_6 > 0;$$

where:

- TADM : Tax amnesty decision-making
- FAC : Facilities offered by Government
- SOC : Government incessant socialization
- UND : Ease-to-understand of socialization

RATE : Levy rate  
 TIME : Application time period  
 APP : Ease of application

Figure 3. Research Conceptual Framework



#### 4. Result and Discussion

It is indicated below that the independent variables sequentially influencing dependent variable are APP .255; SOC .230 (it can be the most dominant if moderated by UND as SOC.UND .326); RATE .213; TIME .169; and FAC .156. A further finding is that our subjects still have high priority on SOC.UND and APP. A surprising result shows that the FAC becomes the least dominant factor.

As mentioned previously, another highlight point is the UND can moderate correlation between SOC and TADM. Increasing coefficient SOC from without moderation .230 to moderated .326 evidences this.

**Table 4.** *Compilation of Analysis Result*

Dependent Variable: TADM			
Sample: 200			
One-tailed hypotheses testing			
du DW table	1.8306		
t table	1.65279		
Variable	Coefficient	t-Statistic	Prob.
Constant	2.669	1.930	*
FAC	.156	2.876	***
SOC	.230	3.773	***
SOC.UND	.326	2.566	**
RATE	.213	3.341	***
TIME	.169	2.774	***
APP	.255	3.851	***
R-squared	.468		
DW stat.	2.110		

*Source: Data Processing.*

## 5. Conclusion

We conclude that our subjects have as a high priority, the easiness of understanding the socialization and its application although they work or have intention to work with tax consultants who can assist them in tax amnesty preparation. This is in line with the research done by Tarjo (2009) and Setyaningsih and Okfitasari (2016) that concluded less difficult levels of tax amnesty implementation, less ambiguity, and easy-to-practice of application form will be more potential for taxpayer to participate.

On the contrary, we suspected that the most of our samples are not tax evaders as they do not prioritize the benefit facilities. Another highlight point is the ease-to-understand of socialization factor is able to strengthen correlation between government incessant socialization and the dependent variable. Therefore, in order to achieve more optimum results in motivating the taxpayer join the tax amnesty, the socialization material should be easy-learning and the tax officers who deliver the materials need to be well prepared, so then they are able to present communicatively.

For theory developers, it will be very helpful for people who make research about taxation, if the used theory is derived to its derivatives and/or an advance. Further



theory in taxation should be invented in order to correlate accurately to state tax revenue optimizing purposes by doing study on tax compliance; tax amnesty; or other taxation occurrence.

Finally, our suggestion for governments around the world are to have a well-planned tax amnesty implementation, whether it is the urgent way needed to increase the compliance; encourage tax reform (e.g. reducing income tax rate, integrating database system while welcoming automatic exchange information, adding tax auditors, jacking up penalty rate and amount); learn from many countries practices.

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## The Impact of FDI on Economic Growth with Considering Financial Sector Development, Trade Openness, and Human Capital in ASEAN-5

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**Abstract:**

*The objective of this paper is to examine foreign direct investment (FDI) impact on ASEAN-5 economic growth with considering its interaction with domestic pre-conditions such as financial sector development, trade openness, and human capital.*

*The purpose is to show the most important precondition for FDI to have a positive impact on economic growth. A panel dataset for ASEAN-5-member countries over 1980 – 2012 is employed, and it is estimated by using Pooled, Fixed Effect, and Seemingly Unrelated Regression approaches.*

*This paper empirically found that the interaction between FDI and domestic absorption capacity has a positive impact on the economic growth. Two out of three preconditions have a positive contribution of the effects of FDI on economic growth: human capital and trade openness.*

**Keywords:** FDI, financial development, trade openness, human capital, economic growth;

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### 1. Introduction

Foreign direct investment (FDI) is one of the sources of economic growth. Besides providing additional funds, FDI becomes more useful as it brings new technology and knowledge to the indigenous firms (Das, 2010). The impact of FDI on economic growth will increase when the spillover effect takes place. However, this spillover effect does not automatically exist, yet need to be created (Musonera, 2005). Thus, it is important to elaborate not only FDI role on economic growth but also preconditions of the host country that are needed for the spillover effect. This paper will assess the above topics on ASEAN countries, especially on the five founding members: Indonesia, Malaysia, Philippines, Singapore, and Thailand, the ASEAN-5. From 2004 to 2011, ASEAN-5 has been dominating around 80 – 90% of total FDI inflow in ASEAN. Moreover, FDI has increased rapidly with CAGR at 23.8% during this period (ASEAN Secretariat, 2012).

Contrary to the above trends, the gap between rich and poor has widened in the last two decades in ASEAN-5. In 2000, GDP per capita of Singapore was 16.3 higher than Philippines's GDP per capita and 19.46 higher than Indonesia's GDP per capita, while in 2010, the number had risen to 24.15 and 19.93, respectively. Based on these trends, the convergence does not hold in ASEAN-5. In addition, an anomaly is also found as the technological growth of ASEAN-5 keeps declining, amid the huge inflow of FDI. The ratio of manufacturing to GDP in ASEAN-5 has declined in recent years. The ratio in Indonesia has fallen from 29.05% to 23.93% during 2001 to 2012. In the same period, Malaysia's ratio also has fallen from 29.34% to 24.23%. In Singapore, the ratio has dropped from 23.77% to 20.70% and in Philippines it has also dropped from 24.66% to only 20.55%. Only Thailand recorded an improvement in this period to 33.97% from 33.42% (World Bank, 2014).

## **2. Literature Review**

The empirical literature on FDI contribution still provides ambiguous results for many countries (Denisova et al., 2017; Boldeanu and Tache, 2015). Mixed results are found in the empirical literature on FDI and human capital interaction. Borensztein et al. (1998) found that only 46 out of 69 countries, have enough stock of human capital to increase the impact of FDI. Tu & Tan (2013) on their research in ASEAN found only three out of 10 countries that have enough human capital. On the other hand, Chee & Nair (2010) found a negative effect on economic growth from the interaction between FDI and human capital.

The varied result is also found in the empirical literature on FDI and financial sector development interaction. Hermes & Lensink (2003) found a positive effect on economic growth from the interaction with FDI and the financial sector in 37 countries. Choong et al. (2004) discover positive impact in several countries, three developed countries (Japan, UK, and USA) and some East Asia countries (Indonesia, South Korea, Malaysia, Philippines, Singapore, and Thailand). Contrary, Apergis et al. (2006) found that FDI might cause credit aversion for domestic firms.

The more consistent result is found on FDI and trade openness interaction empirical literature. Makki & Somwaru (2004) found a positive effect from FDI and trade openness interaction in 66 developing countries. Pham (2012) found that liberalization of trade improves the spillover effect in Vietnam, whether for horizontal or vertical spillover. Leshar & Miroudot (2008) also found the similar result for firms' productivity in OECD countries. The mixed results provide room to re-conduct research on these variables. This research tests three hypotheses, (1) there is a statistically significant impact of the interaction between FDI and human capital on economic growth; (2) there is a statistically significant impact of the interaction between FDI and trade openness on economic growth; (3) there is a statistically significant impact of the interaction between FDI and financial development on economic growth.

### 3. Methodology

#### *Hypothesis Testing: Human Capital and FDI Interaction:*

The human capital of the recipient country is a prominent factor to enhance the contribution of FDI to economic growth (Borensztein et al, 1998). The stock of human capital reflects the ability to absorb new knowledge or technology brought by the FDI. If the increase of capital varieties, the adaptation of technology is needed, which requires fixed setup cost. The larger the amount of number of FDI, the lower the fixed setup cost. Secondly, the higher the stock of human capital effect the higher is FDI. Employing this theoretical framework, below is the first model in this paper:

$$Y_{it} = \alpha_0 + \alpha_1 FDI_{it} + \alpha_2 Human_{it} + \alpha_{22}(FDI_{it} \times Human_{it}) + \alpha_3 Kapital_{it} + \alpha_4 Govex_{it} + \alpha_5 N_{it} + \alpha_6 LIPDBK_{it} + \varepsilon_{it}$$

where, Y is growth of GDP per capita, FDI is the natural logarithm of FDI to GDP ratio, Human is the natural logarithm of tertiary school enrolment ratio – proxy is for human capital, Capital is the natural logarithm of Gross Fixed Capital Formation to GDP ratio, Govex is natural logarithm of government expenditure to GDP ratio, N is the growth of population, LIPDBK is the natural logarithm of the initial GDP per capita (t-1).

#### *Trade Openness and FDI Interaction:*

Another precondition that also affects the impact of FDI on economic growth is the trade openness. Liberal trade regime is an important investment climate that may encourage FDI inflow larger as it allows higher integration to the international trade activity and hence will encourage FDI to provide their best and the latest technology (Bhagwati, 1978; Balasubramanyam et al, 1996). Below is the second model:

$$Y_{it} = \alpha_{10} + \alpha_{11} FDI_{it} + \alpha_{12} Human_{it} + \alpha_{13} Open_{it} + \alpha_{14}(FDI_{it} \times Open_{it}) + \alpha_{15} Kapital_{it} + \alpha_{16} Govex_{it} + \alpha_{17} N_{it} + \alpha_{18} LIPDBK_{it} + \varepsilon_{it}$$

where, OPEN is natural logarithm of the sum of export and import to the GDP ratio – proxy for trade openness.

#### *Financial Sector Development and FDI Interaction:*

Finally, the financial sector development is also an important precondition to increase the impact of FDI on economic growth. According to Hermes & Lensink (2003), the rate of economic growth is depending on the rate of the technological growth. The level of technology, A, is a function of the financial sector development. While FDI in Borensztein et al. (1998) reflects the idea that the imitation cost is associated to the financial sector of development.

Thus, the higher financial sector development, effect of FDI is also higher. The third model is as follow:

$$Y_{it} = \alpha_{20} + \alpha_{21} FDI_{it} + \alpha_{22} Human_{it} + \alpha_{23} Credit_{it} + \alpha_{24}(FDI_{it} \times FinDev_{it}) + \alpha_{25} Kapital_{it} + \alpha_{26} Govex_{it} + \alpha_{27} N_{it} + \alpha_{28} LIPDBK_{it} + \varepsilon_{it}$$

where,  $\text{FinDev}$  is the natural logarithm of private credit to GDP ratio – proxy is for the financial sector development.

*Empirical Methodology:*

This study mainly uses panel data pooled, fixed effect (FE) and seemingly unrelated regression (SUR) approaches. To overcome multicollinearity problem, we modify the data of the related variable by using standardization formula of (Z) statistic.

**4. Results and Analysis**

Based on the Hausman test statistics, the null hypothesis was rejected for model 1 and 3. Hence, the FE-estimator was the best estimator for these models. On the other hand, based on Chow and LM test statistics, the null hypothesis was rejected for model 2. Thus, the pooled-estimator was more appropriate. Based on BP-LM test statistics, the null hypothesis was rejected for all models. Thus, SUR-estimator was exercised. Based on the FE regression, the interaction variable of FDI with human capital was found to be positive and statistically significant. While based on SUR regression, the same result was found, but with a lower coefficient number. Hence, considering the direct and complementary effect, a one percent increment of FDI will increase the economic growth in ASEAN-5 with about 0.03 – 0.05 units (%).

**Table 1.** *Impact of FDI on Economic Growth with Considering Human Capital Level*

Country	Human Capital (in Ln)	FE	SUR
Indonesia	2.411	0.042	0.029
Malaysia	2.623	0.044	0.031
Philippines	3.294	0.0502	0.034
Singapore	3.547	0.0526	0.035
Thailand	3.255	0.0498	0.033

*Source:* Researcher’s empirical test.

For the pooled regressions on the 2. model, the interaction variable between FDI and trade openness also yield a positive impact on the economic growth and is statistically significant. Based on SUR regression, the same result was found with a similar coefficient number. Thus, with direct and complementary effect, 1% increment of FDI will increase the economic growth in ASEAN-5 with around 0.04 – 0.06 units (%).

**Table 2.** *The Impact of FDI on Economic Growth with Considering Trade Openness Level*

Country	Trade Openness (in Ln)	Pooled & SUR
Indonesia	3.982	0.046
Malaysia	5.061	0.053
Philippines	4.268	0.048
Singapore	5.880	0.058

Country	Trade Openness (in Ln)	Pooled & SUR
Thailand	4.496	0.049

*Source: Researcher's empirical test.*

In contrast, the results of the interaction term between FDI and the financial sector development based on FE or SUR regressions were negative and statistically insignificant. The negative results suggest that FDI may provide a crowding out effect as it may cause differences in the access to credit (Apergis et al., 2006).

## 5. Discussion

To sum up, all regression showing that the impact of FDI on the economic growth is positive and the size positively depends on the trade openness variable and human capital. The overall result is consistent with the general hypothesis employed in this paper. Nevertheless, the complementary impact of FDI and financial sector development was not as significant. The result provides evidence to reject Solow's convergence hypothesis. The convergence of economy between the rich and poor countries in ASEAN-5, such as Singapore and Indonesia or Philippines requires not only certain capital level but also similar human capital and trade openness level. Without the sufficiency of these preconditions, one country might find difficulties in transforming the capital into a productive investment such as high technological content manufacturing. Thus, as the level of the human capital and the trade openness among the ASEAN-5 members is different, equal capital level in the form of FDI will not yield a convergence as expected by the traditional growth theory. Moreover, for the less wealthy countries in ASEAN-5 is more difficult to catch up with the more prosperous country – Singapore – as it has the highest precondition level among the ASEAN-5. This result is consistent with the previous empirical result such as in Chowdhary et al. (2010).

## 6. Conclusions

This study has examined the impact of FDI on economic growth through its interaction with trade openness, the financial sector development, and human capital in ASEAN-5. The study finds that FDI has a positive impact on ASEAN-5 economic growth. Moreover, their size of the effect is positively depending on the trade openness and the human capital pre-conditions in ASEAN-5. The result of this empirical study shows that the most critical complementary effect to the growth in ASEAN-5 comes from the interaction between FDI and trade openness. Based on the results, this paper suggests ASEAN-5 countries to keep implementing trade liberalization and issuing more export promotion policies. On the other hand, ASEAN-5 also needs to make a policy to encourage the human capital such as with education policy.

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## A Proposed Model to Increase and Stabilize Sales for Online-Based Bakery Business: A Study from Makku Baked Goods

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Poetry, \*) Roma Nova \*

### **Abstract:**

"Creative industry" have become popular words in Indonesia. The gross domestic product (GDP) of the country's creative economy grew by 62.07 percent in the last five years and the culinary sector accounted 32.4% of the growth. Thus, Makku Baked Goods as one of the small-medium enterprises (SME) takes part and participates in the market. Makku Baked Goods is an online-based bakery business, which comes to market to fulfill the needs of people who seeks for homemade and freshly baked baking products. This research aims to identify the problems and the root cause experienced by the company and proposes a strategy to solve the problems.

This study is using qualitative research approach that uses information obtained from historical company data (sales and customer profile) and depth interview. In-depth interview done with Makku's stakeholders includes owners and employees. Furthermore, the interviews are conducted with current Makku's customers to gain customers' perspectives about the current performance of the company to support the data. Then, Root Cause Analysis is conducted to identify the main problem faced by Makku Baked Goods that is unstable and low sales throughout the year. After identifying SWOT and RCA, TOWS matrix strategic possible alternatives were formed.

The best alternative strategies include developing new products, creating Makku Cookies Spot as pickup point, exploring affordable yet effective digital marketing activities, and joining bazaar/culinary events. These four strategies could work together in an integrated manner to boost Makku's sales and make them stay stable all over the year.

**Keywords:** Ansoff matrix, new product development, market development, small-medium enterprise (SME).

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### **1. Introduction**

In recent years, creative economy and creative industry have become popular words in Indonesia. Deputy of Research, Education and Development Agency Creative Economy (BEKRAF) Abdur Rohim Boy Berawi stated that the gross domestic product (GDP) of the country's creative economy grew by 62.07 percent in five years from 2010 to 2015 (The Jakarta Post, 2016). It is dominated by three main

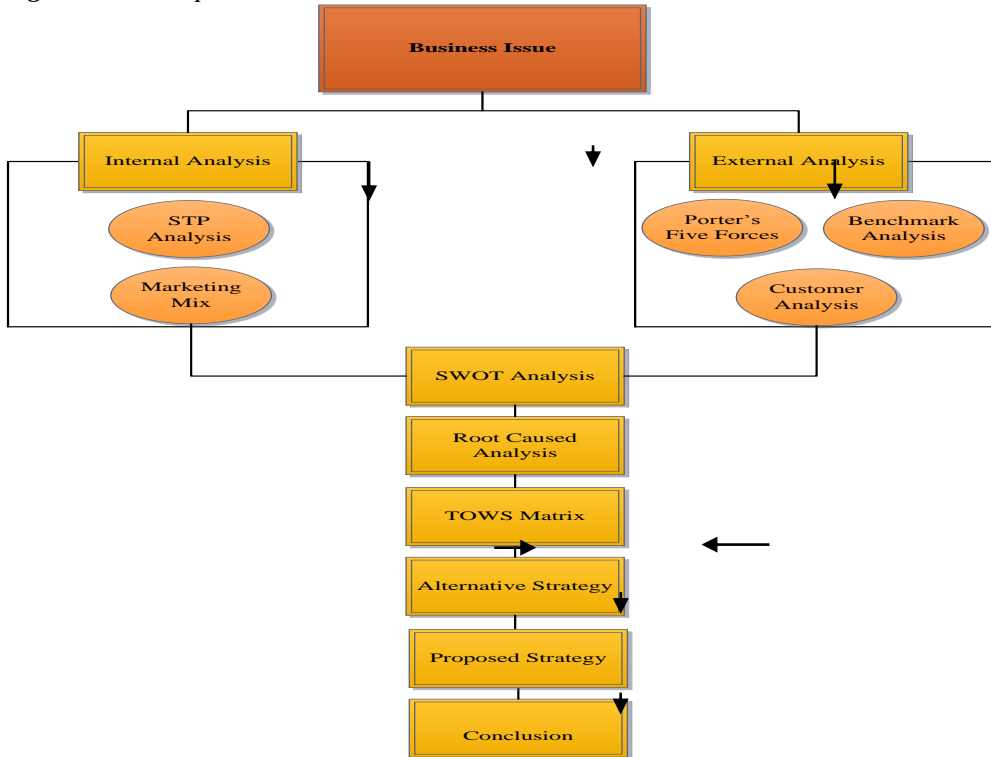
industries: culinary, fashion, and craft. The biggest contribution came from culinary sector accounted 32.4%, 27.9% from fashion, and craft 14.88% (Tempo Co, 2016) . Bakery as one sector within the culinary industry also has a role. Euromonitor (2015) convinced that consumer lifestyles continuously shifted, particularly in Indonesia's larger cities. Consumers in big cities started to appreciate more convenient ways of serving and eating meals. Thus, baked goods successfully gained more attention. Artisanal bakery, together with a number of individual homemade-style bakeries, and the franchised players continued controlling the bakery sector in Indonesia. Baked goods show a potential to maintain a positive volume growth over the review periods. The middle- to high-income consumers are expected to continue driving volume growth of baked goods in Indonesia (Euromonitor, 2015). These found facts were showing the important role of the culinary sector, one of its subsectors being the bakery products in economic growth in Indonesia. Regarding this phenomenon happening in Indonesia, Makku Baked Goods takes a part and participates in the market. Makku Baked Goods is an online home-based bakery business, which comes to market to fulfill the needs of people who seeks for homemade and freshly baked baking products.

Makku Baked Goods is an online home-based bakery business that comes to market to fulfill the needs of people who seeks for homemade and freshly baked baking products. By having a passion for baking, mother and daughter were changing their hobby into business and using their home kitchen as production house. The new brand of Makku Baked Goods exists since March 2017. Recently, the business provides a various menu of baking product, ranging from sweet and savory that is freshly baked every day, including mini pie/tartlet, birthday cake, vanilla choux, and cookies. Within the first year of its establishment, there were several issues experienced by the company. This research objective is to identify the problems and the root cause that was experienced by the company and proposed a strategy to solve the problems in order to improve their current business.

## **2. Literature Review**

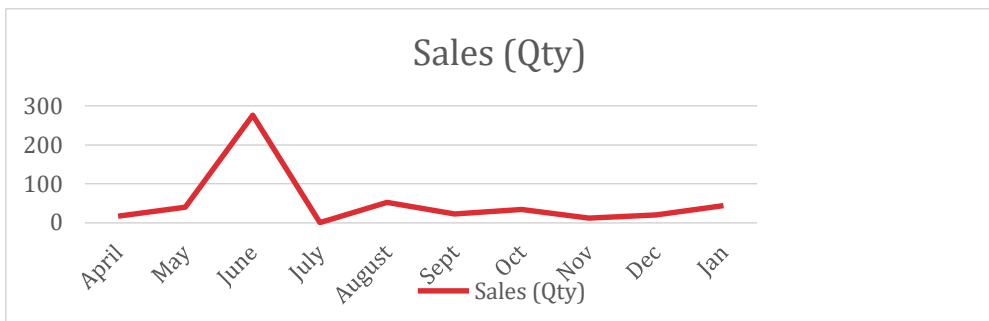
The conceptual framework of the research is shown down below in Figure 1. It illustrates the conceptual framework of this research. It shows how to solve Makku Baked Goods business problems. All the explanations are in the following section. Within a year of its establishment, there were several issues experienced by the company. The business issues of Makku Baked Goods are mentioned down below: Sales dependently affected by trend. The product of bakery is very engaging to special events such as birthday, engagements, family events, and others or seasonal events such as Eid Al-Fitr (Ramadan month), Christmas, New Year, Valentine's Day etc. This condition is affecting the sales. The sale really depends on the trend throughout the year.

Figure 1. Conceptual Framework



The monthly sales tend to fluctuate extremely from month to month. This issue happens because of its unstable orders as well as sales and it could be challenging for the company to fulfill its operation cost throughout the year. While the operation cost such as utilities and employees’ salary should be paid every month, the revenue remains unstable. The following figure showed the highest sales of Makku significantly occurred on June, the month of Ramadan. For the rest, sales remained low.

Figure 2. Sales in Quantity (April 2017-January 2018)



Makku Baked Goods only relies on social media, especially Instagram for its marketing. The company has no website and rarely updates its Instagram. The reason is because Makku has no content designer to manage its social media as the product is self-distributed online. So, the advertising company does advertising only through Instagram Ads. Furthermore, Makku Baked Goods is only rarely joining the bazaar to introduce its product to the market. For that reason, there is only few people know about Makku.

### **3. Methodology**

This study is using a qualitative research approach. This research using the data which was obtained from primary and secondary sources. Primary data is the information obtained in first-hand by the researcher on the variable of interests for the specific purpose of the study (Sekaran, 2013). The primary data in this study is the information obtained from the in-depth interviews. The In-depth interviews are done with Makku's stakeholders such owners and employees. The interviews with Makku's stakeholders are meant to gain the information regarding the current condition within the company. Furthermore, interview and questionnaires are conducted to current Makku's customers to gain customers' perspectives. Secondary data of this research is obtained from literature studies. Literature studies include books and academic journals which provide theories regarding the issues within this study. This helps the researcher to solve the issue.

This research is using analytical management tools, including STP, Marketing Mix, Porter's Five Forces, SWOT, Root Caused Analysis, and TOWS matrix. STP and Marketing Mix are tools that are being used for assessing the internal conditions of the company. Porter's Five Forces Analysis are tools to determine the external condition of the company. Root Caused Analysis is being used to identify a list of problems that cause the big issues that the company is experiencing. Lastly, TOWS matrix is being used to determine several strategies to overcome the main problem.

### **4. Results and Analysis**

This study uses STP and Marketing Mix to assess Makku's internal condition. The data in internal analysis is obtained from owner and validated by employees through interviews.

STP Analysis is being used to analyze the offering and the way it communicates its benefits and values to specific groups, as mentioned in Kotler and Armstrong (2014). Thus, the company selects one or more segments to enter and decide to serve. Makku Baked Goods' target market are women age 19-34 coming from the middle and upper middle class of the social class. Located in the urban density such Bogor and Jakarta. Their occupancy is: high school students, college students, and employees. The interest to sweet snack, social media, and homemade products. Their resource preference is Instagram and Facebook. The personality of the target

includes family persons, cheerful, and up-to-date persons. From this market which is being targeted by Makku Baked Goods, the High School Student market is still not being present on historical customer profile data. Thus, High School Student market are unreached potential customer of the company. Furthermore, the target market of Makku tends to buy the product for special events, such as holy month Ramadan. It was proved by company's sales report.

Furthermore, Kotler and Armstrong (2014) described the possible value proposition on which a company might position its product. The positioning of Makku is formed based on owners self-positioning statement and it is validated by customers. Based on this classification, Makku decided to position itself in the statement More for the Same. It means that Makku offers more benefits and quality at competitive prices with other companies in market.

#### **4.1 Marketing Mix**

As described by Kotler & Armstrong (2014), the Marketing Mix is a set of tactical marketing tools, ranging from product, price, place, and promotion that the firms blend to get the feedback it wants from the target market. These are four variables the company could use to influence the demand for its product. The four variables or as they are called, the 4Ps of Makku Baked Goods are listed below.

*Product:* Makku Baked Goods provides ranging types of baking products. Makku's specialties are cookies and mini pies/tartlet. Furthermore, packaging also become important in the consideration of Makku. For the packaging, Makku is using round plastic jars, good for 500-gram cookies. In fact, the package is not strong enough and is still easy to crack. Thus, by using this plastic jar, the product is not safe to be shipped by expedition courier. In Makku Baked Goods, the package is adaptable based on the theme of the special event. The company serves freshly baked products by an implemented -make to order - system.

*Price:* Makku uses cost-based pricing as a strategy. Makku does not charge a premium price but sets competitive and fair prices for its producta. For its cookies, the price is ranging from 75.000-120.000 rupiah.

*Promotion:* Promotion of Makku is done through personal selling, advertising, and trade show. The power of the word of mouth also has a big role in Makku promotion and advertising done through Instagram Ads.

*Place:* Makku has no physical store as a product placement. Customers can only buy the products online. The online sales are centered on Instagram. Customers can contact the admin for the product catalog and order. In near future, Makku plans to have some points of sale through consignment partnerships in retail store, café, or coffee shop and join big event to open up the booth.

#### **4.2 External Analysis**

Porter's Five Forces is a framework that allows companies to analyze the level of competition within an industry and business development (Porter, 2010). To evaluate the score for each force, researchers choose a competition factor by answering YES or NO to the elements listed, based on Joe McCoy. A higher score indicates a higher competitive pressure within the force. Based on McCoy (2017), the competition factor can range from less competitive force (-30) to more competitive force (+30).

**Table 1.** *Makku's Porter Five Forces*

Porter Five Forces	Competition Score
Bargaining Power of Suppliers	-3
Bargaining Power of Buyer	-3
Threat of Substitutes	+1
Threat of New Entrance	+5
Rivalry among Competitors	-1
Complements	-5
Total Competition Factor	-6 (Little competitive force)

Based on the table above, the overall competition factor analysis for Makku remains little. Since the score is -6, which means closer to -30 than to +30, it is indicated a a highly competitive force. Even though the results show little competitive score, this result indicates that Makku should improve the self-competitiveness level to prepare itself to be competitive in the market and face its competitors.

#### **4.3 Benchmark Analysis**

Benchmarking is a process of comparing the company's products and processes to those of competitors or leading firms' other industries to identify best practices and find ways to improve quality and performance (Kotler and Armstrong, 2014). There are several brands which play in the same industry with Makku. Even though their product is not exactly the same as Makku's offer, but they are considered as Makku's benchmark and also competitors. These three brands considered as Makku's benchmark because they have similar products, a similar target market, playing more or less in the same market, Makku is shaping itself toward those brands in the next future.

Mookies is a food and beverage company based in Jakarta. The business started in June 2016. It introduces itself as seller of various baked goods, its specialty is producing soft baked cookies. Mookie actively joined any bazaar event, especially in Jakarta area, such as Market Museum, the biggest culinary market in town. For daily operation, customers could order online and there is available one pick up point of Mookie in Kroma Café. Almond tree is a famous bakery which is under the same group of Harvest Cakes and Patisseries. The company went through rebranding from a Cheesecake Factory to Almond Tree in December 2016. It serves ranging baked products. They opens up a store in a big city such as Jakarta, Bandung, and

Surabaya totaled 16 outlets around Indonesia. Classic, catchy and young with a selection of shocking color dominated its branding.

Eighteen Pies is a Jakarta based business. It started the production in early 2015, Eighteen Pies is focused on mini pies production. The mini pie has a sweet and savory flavor. They create a special edition for every occasion throughout the year such as Christmas, Lunar New Year, Ramadhan, and New Year. The packaging and flavors of the pies are adapted, depending on those special events. Currently, customers could directly pick up the pies at Miko Café, Jakarta.

The overall analysis shows that Makku is still far below its competitors in terms of product, process, strategy, and brand exposures through social media. When Makku only does its business, including order, product catalog, and distribution channel through social media, its competitors already have at least one pick up point in an offline store. Other evaluations are coming in terms of products. Other similar brand which are listed above, always adapt and launch new product based on any special event throughout the year such as Ramadhan, Christmas, lunar new year, New Year, Valentine's Day, and others. Makku only focused on one event, Ramadhan. New products made by its competitors could be totally new or adapted flavor or packaging depending on those special events within the year.

#### **4.4 Customer Analysis**

The data in this section are collected from company's historical customer profile and result from the interview. From historical customer profile, Makku kept +90 customers data, including their name and occupancy. From customers profile it is known that the most customers of Makku are University student and employees who accounted 55% of the total customer's occupancy. Then, researcher did an interview to +30 customers to dig in deeper information about their perspective toward Makku Baked Goods. It was found that cookies are the favorite product of Makku Baked Goods, which represent 68%, followed by mini pie/tartlet which represent 19%.

The reason for buying Makku's product is that the products are delicious, answered 80% of the customers. Following by order significant results as good and quick service which amounted 10% and flexible delivery time, 6%. The highest percentage on customers' information source about Makku Baked Goods is from their family/friend which amounted 84% from the total. Followed by 16% of the customers, who know about Makku from social media. Based on customer's interview factor, 49% said that the customer satisfaction should be improved through packaged, slightly followed by other factors of price and delivery system which are 32% and 13%, respectively.

#### **4.5 SWOT Analysis**

After analyzing external and internal condition of Makku Baked Goods, the SWOT analysis of the company could be conducted.

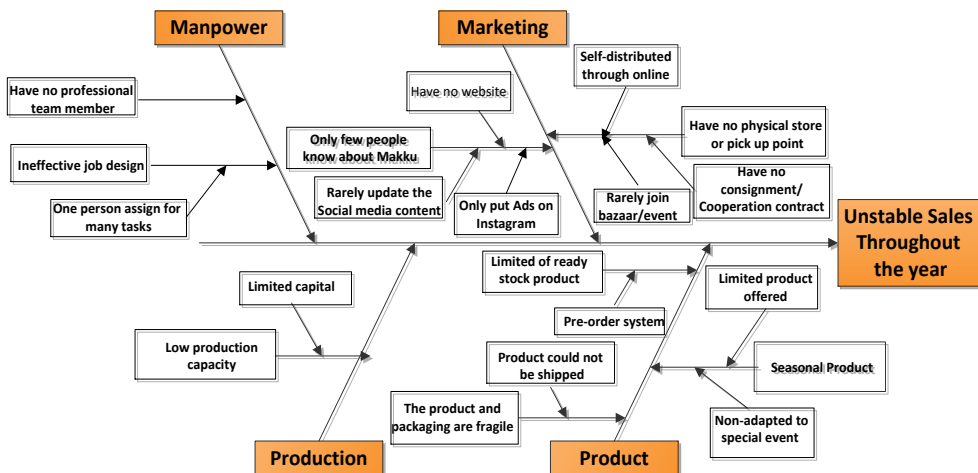
**Table 2.** SWOT of Makku Baked Goods

Strengths (S)	Weaknesses (W)
Product is accepted by customers Fresh product, no preservatives Custom order is available Small scale production to guarantee quality Quick and easy order through online	Sales are very depending on special events (seasonal) Limited marketing budget Limited point of sales, it has no physical shop Has no professional content creator The product is fragile, could not be shipped
Opportunities (O)	Threats (T)
Potential new target market Opportunity to product improvement The rapid growth of online platform Consignment Establishment of culinary event and food bazaar	Government license (P-IRT) Current competitor movement The presence of new competitors

#### 4.6 Root Cause Analysis

Root Cause Analysis (RCA) is a tool of problem solving used for identifying the root causes of faults or problems (Jacobs & Chase, 2014). There are several tools in RCA, but the Fishbone diagram is being chosen by researcher as a tool for mapping the problems which have been experienced by Makku Baked Goods. The Makku Baked Goods' fishbone diagram is illustrated down below in Figure 3.

**Figure 3.** Fishbone Diagram



The business issues are being addressed and internal and external analysis for the company is being. The Fishbone diagram allows the company to categorizing the potential causes involved in those business issues to identify its root cause. The main problem in this study are the unstable sales throughout the year. There were four



dimensions, namely Marketing, Product, Manpower, and Production. As showed in the diagram, Product and Marketing dimension are more likely produced by contributing causes than by other dimensions that lead to Unstable Sales as main effect. Because of that reason, this research would solve the Product and Method dimensions. The product dimension can address business issue involved in sales dependently affected by trend (business issue number 1) and marketing dimension, can address the second business issue which is low marketing effort.

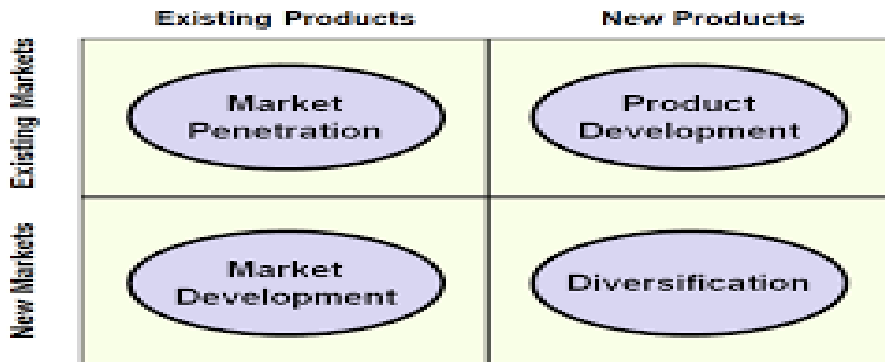
#### 4.7 Business Solution

A TOWS analysis is a well-known tool to use brainstorming to form alternative strategies. TOWS matrix is simply creating a chart that illustrates how company's internal pieces (Strengths and Weaknesses) facing a particular corporation, can be matched with the external aspects (Opportunities and Threats) to create four sets of possible alternatives (Wheelen & Hunger, 2012). The selected strategies based on TOWS analysis are developing new products to attract the unreached target market (W-O), create a Makku Cookies Spot in coffee shops, cafés or retail shops (S-O), explore affordable yet effective digital marketing activities (W-O), join bazaar and culinary events (S-O).

#### 4.8 Develop new products to attract potential target market

Ansoff Matrix is a decision making framework about the expansion strategy (Hussain, 2013). It was introduced by Igor Ansoff in 1957 and gave four dimension of market growth strategies.

*Figure 4. Ansoff Matrix*



By reviewing analysis in previous chapter, the business issues that were experienced by Makku Baked Goods could be solved by applying strategies of new product development. Thus, new product development becomes important to companies success to keep its performance and sale remain good (Bhuiyan, 2011). Based on Cooper (2000) new products lead to organizational performance such as sales and profits.

For Makku Baked Goods, cookies or kue kering are the most popular products and its sales are very depending on special occasions (lebaran), thus the company needs to be focused on creating new products to the market which regularly suit to every occasion and are not dependent on special events. Based on Ansoff on Hussain (2013), new products are to be marketed to existing customers, in order to increase the growth vector of the firm, where there is a decline for the existing products in the current market segment. Further, the company could develop new products or offerings to adding existing ones to boost market share.

Taking an opportunity of growing the number of cafés and coffee shops establishment and new concepts of product development, Makku could add to their point of sales and revenue stream, a spot for Makku Cookies Spot. The Makku Cookies Spot should take place in a café, coffee shop or even a retail shop. The form of cooperation could be in the form of consignment, partnership, or as supplier. When competitor's analysis showed that they have several pick-up points that allow their customers to see and choose the preferred products directly, Makku could also offer the same experience but in different concept.

Content marketing has become the key of a successful online marketing promotion and the most important tool of the digital marketing (Patrutiu Baltes, 2015). Since Makku is an online based bakery business, the digital marketing activity could be one solution to boost their sales. Then, here are some proposed solution to increase sales with a limited marketing budget that could fit to Makku Baked Goods: having a digital marketing content creator, promoting through social media, and endorsement by influencing people.

Join bazaar and culinary event could be a good way to advertise to a target market and create brand awareness (Business Queensland, 2016). Inspired by a strategy implemented by Makku's benchmark company, joining bazaars and culinary events can be one of the solutions for online bakery businesses to get the product, be known on the market. Especially for Eighteen Pies and Mookie which are very active to join bazaars. It could be a good way to advertise to a target market and create brand awareness (Business Queensland, 2016). When joining a culinary event, Makku could offer free testers to gain the markets attention and a general opinion about their products.

## **5. Conclusions**

Identified Makku Baked Goods' issues are sales dependently affected by trend, and low marketing effort. In order to solve these issues, Makku need to evaluate their internal and external condition to find solutions. Makku conducted an internal analysis that consists of STP and Marketing Mix, while external analysis in this research involves Porter's five forces, Benchmark Analysis, and Customer Analysis. This analysis has done by conducted discussion among employee of the company, interview to their customers and company's historical data. All of these analysis lead

Makku to determine their SWOT and root caused analysis. It is found that the issues that were experienced by the company, lead to the main problem, unstable sales throughout the year, caused by product and marketing as root caused.

After SWOT and root caused analysis that have been determined, TOWS matrix can be conducted. TOWS matrix allows the company to arrange a set of solutions to overcome the main problem of the business issue. It helps to get a better understanding of the experienced strategic choices. To solve the problem which is mainly caused by the product itself, several solutions are created as alternative strategies. Then, the company chooses expansion strategies to be implemented in addressing their main problem. The proposed solutions are to overcome their main issue, unstable sales throughout the year: create a new product to attract potential target market, create Makku Cookies Spot in a coffee shop, café or retail shop, explore affordable yet effective digital marketing activities, and join bazaar and culinary events.

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## Exchange Rate Pass – Through and Pricing to Market: Evidence from Bilateral Trade

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**Abstract:**

*The paper examines the pricing-to-market (PTM) and investigates whether the fluctuation of the exchange rate has symmetric effects on international prices. We used the multiple regression method and regression with polynomial lags (rolling regression) based on bilateral trade data between the export in Indonesia and the primary trading partner (China, Japan, and the USA) using 1996-2014 monthly data.*

*The results indicate that substantial heterogeneity in the high degree of PTM across countries (China, Japan, and the USA), including across HS commodity classification and country destination export.*

**Keywords:** Exchange past-through, price to market, exchange rate;

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### 1. Introduction

In the last two decades, exchange rate movements and their impact on international prices have become the central themes of debate among academics, policymakers, and trade flow analysts. Traditional trade theory explains that in a world with a perfect link between domestic and international commodity markets, price changes as a result of the exchange rate volatility are perfectly transmitted into the economies of countries that are either direct or indirect trading partners through consumer prices. A large body of work has been built examining price behavior in the international market; in particular, on studies of the related issues of the exchange rate “pass-through”-which refers to the response of import prices to exchange rates.

A typical pattern in many empirical studies has been the tendency to observe less pass-through (Campa and Goldberg (2002), Gagnon and Ihrig (2004), and Bailliu and Fujii (2004)). In the recent literature, 'new open economy macroeconomics' has been highlighted a variety of factors affecting the degree of the incomplete pass-through, Pricing to Market (PTM) which refers to price discrimination across export markets that is induced by exchange rate movements. A high degree of pricing to market could affect reduce the degree of exchange rate pass-through.

This paper examines the degree of price to market and identifies its determining factor to understand the declining degree of the exchange rate pass-through as reported in the literature. Understanding the relation between exchange rate fluctuations and their effects on prices is not only important for both exporters and importers, but also for the implementation of monetary policy, including the determination of the choice of exchange rate regime and the analysis of how the external shocks affect the domestic economy.

## **2. Literature Review**

The PTM behavior causing exchange rate changes has no significant impact on the condition of the trade balance (Ito, Sasaki, & Sato, 2005). This is indicated by the results of the Knetter study (1989) which states that the practice of PTM by importers, limiting the rise in import prices in US currency, causes import prices in the US not to rise proportionately with the changes in exchange rates that occur and implicate the continued deficit in the trade balance in the US even after US \$ suffered a sharp depreciation. Goldberg & Knetter (1997) found, that different degrees of PTM are more visible among industries than between countries in the same industry. This encourages research on ERPT, based on estimates at the product level. However, most studies of both ERPT and PTM using extended sectoral dimensions with time series analysis have limitations in both the timeframe and the low disaggregation level making it extremely difficult to generalize the results of these studies.

Chondro and Falianty (2017) examined the degree of PTM in the case of Indonesia based on panel regression model. The degree of PTM conducted by the Indonesian exporters of industrial products vary across export destinations countries and industry sectors. Based on export destination countries, higher PTM coefficient is found in the Chinese market where the Chinese market is considered large enough and potential so that Indonesian exporters apply pricing strategy in order to maintain their market share in the market. PTM also occurs in the Japanese market with a lower degree. They also found that PTM practices do not occur in all industry sectors. Of the 10 industrial sectors, only about 4 industry sectors are indicated to conduct PTM, including the food industry; Textile industry; basic metals industry; and furniture industry. PTM behavior in foot industry appears in both market while PTM behavior in basic metals and textiles only appear in the Japanese market and PTM behavior in furniture industry only appear in the Chinese market. They found that in the case of Indonesia we find that differences between export markets are more important than differences across the industry. This motivates this study of PTM to explore the difference across HS commodity and using longer samples of time series to make sure the PTM across HS commodity.

## **3. Methodology**

The term Pricing to market describes how firms with monopoly power engage in price discrimination between segmented domestic and foreign. As theoretically discussed in Marston (1990) and Sasaki (2002), suppose the profit function of the firms is assumed to be as follows:

$$\pi_{it} = P_{it} \varphi(P_{it}/P_t, Y_t) + S_t Q_{it} \theta(Q_{it}/Q_t, Z_t) - c([\varphi(\cdot) + \theta(\cdot)], P_t^e, P_t^m) \quad (1)$$

The monopolistic competitive firm can engage in price discrimination by setting a dollar price for domestic sales that differs from the price it sets for exports.

The monopolistic firm in the  $i$ -th industry maximize their profit (by taking f.o.c and total differentiation of each element), we get the following reduce form of the export–domestic price margin,  $(dX_{it}/X_{it})$  :

$$\begin{aligned} (dX_{it}/X_{it}) = & \varphi_1 (de_t/e_t) + \varphi_2 (dQ_t/Q_t) + \varphi_3 (dP_t/P_t) \\ & + \varphi_4 [d(p_t^e/p_t)/(p_t^e/p_t)] + \varphi_5 [d(p_t^m/p_t)/(p_t^m/p_t)] \\ & - \varphi_6 (dY_t/Y_t) + \varphi_7 (dZ_t/Z_t) \end{aligned} \quad (2)$$

In our empirical model, the  $(dX_{it}/X_{it})$  is measured merely by a natural logarithm of the relative price of the export commodity  $i$  to country  $j$  at time  $t$ , or  $\ln(p_{ij}^e/p_i)_t$ .  $e_t$  is the exchange rate (denominated in domestic currency). The parameter  $\varphi_1$  is PTM elasticity. The higher the PTM elasticity, the more portion of price change as a result of the exchange rate movement is absorbed by the exporting firm, through variation in the received unit price in their domestic currency. Thus, PTM elasticity  $\varphi_1$  depends on the export destination.

### 3.1 Empirical Specification Model

The conventional estimation method of the pricing-to-market (the PTM) model in the international trade literature is the regression of export prices on exchange rates. The empirical test of the model can be expressed by the following equation

$$\begin{aligned} \ln \Delta \ln p_{ij,t}^e = & \\ \text{const} + \varphi \Delta \ln e_t + \sum_{i=0}^k \varphi_i \Delta \ln e_{t-i} + & \\ \sum_{i=0}^k \gamma_i \Delta \ln IP_{i,t} + \varepsilon_t & \end{aligned} \quad (3)$$

where

$\ln(p_{ij}^e/p_i)_t$  is the natural logarithm of the relative price of the export commodity  $i$  to country  $j$  at time  $t$ .  $\ln e_t$  is the natural logarithm of the exchange rate of the natural

logarithm of the exchange rate expressed in rupiah price of the country  $j$ 's currency at time  $t$ .  $\varphi$  is a measure of the elasticity of relative export price to the exchange rate (PTM).  $\varphi > 0$  indicates that PTM occurs on Indonesia's export to its trading partner, exporting firms are likely to prefer foreign currency-invoiced transaction.  $\varphi \leq 0$  when exporting firms are likely to prefer domestic currency- to use domestically in domestic currency; the PTM does not exist.

We estimate the average elasticity of Rupiah to the bilateral exchange rate (using data: 1996-2014). We document substantial heterogeneity in the high degree of PTM across countries (China, Japan, and the USA), including across industry. The exchange rate elasticity differs dramatically according to industry, country destination export. In examining whether exchange rate pass-through exhibit declined, increase or constant, we then re-estimate the elasticity using rolling regression. We compare these results to the case where the difference export destination, and sectors area ignored<sup>1</sup>.

#### 4. Results and Analysis

The results of the unit root tests indicate all the variables  $I(1)$ . Most of all variables for the empirical analysis are  $I(1)$ . For the time series analysis with  $I(1)$  variables, we typically choose either of two alternatives, namely the level regression to estimate a long-run co-integrating relationship of PTM or the first difference regression which captures only short-run PTM behavior. We also perform the co-integration test and the error correction regression, the results of which are presented in Table 1. As shown in Table 1, firstly, for exports to the China, Japan, and USA the estimates of  $\varphi_1$  (the average PTM elasticity) for export total and each commodity (Animal/vegetable Oils/fats, Iron Ores, Mineral fuels, mineral oil, Rubber and Pulp of wood). The average of PTM elasticity is positive and statically significant from zero in Japan and China, but negative for the USA.

The average elasticity estimated point of 1.26 for Indonesia's exports to Japan, as an example, implies that a 10 percent depreciation (appreciation) of Rupiah against the US Dollar will lead to a 12.3 percent increase (reduction) in export prices in terms of Rupiah. In this case, Yuan (or U.S. dollar) denominated price of export would remain almost unchanged and the pass-through is incomplete, which implies that they are likely to be invoiced in Yuan (or U.S. dollars). As for many other ASEAN countries, China and Japan used US dollar-invoiced transactions in their trading commodities to Indonesia and its major trading partners.

In the case of mineral fuels/mineral oil, the estimation of  $\varphi$  is negative and significantly different from zero for China. It must be emphasized, however, that even though the estimates of  $\alpha$  range from 0.14 to 2.82, the regression results do indicate the significant correlation between relative export prices and the exchange

rate US dollar invoicing by rupiah exporters is likely to elicit a certain degree of export price's stabilization in terms of U.S. dollar in China's market.

**Table 1. Simple Regression results: Export Relative Price on Exchange Rate**

Commodity	Description	USA		Japan		China	
		const	$\varphi$	const	$\varphi$	const	$\varphi$
HS 15	Animal/vegetable Oils/fats	0.04*	0.08	0.21	0.77**	0.23**	0.14
HS 26	Iron Ores	0.23**	0.02	0.45**	2.02**	0.065**	1.52
HS 27	Mineral fuels, mineral oil	0.43*	0.29	0.32*	1.21*	0.012**	-0.40**
HS 40	Rubber	0.01	0.22	0.54	2.11*	0.045**	0.69*
HS 47	Pulp of wood	0.03**	0.08	0.56**	0.64*	0.32*	2.80***
Total	Total Export	0.45***	0.36*	0.23*	1.26*	0.54**	0.95*

*Source:* Calculated.

*Note:* \*\*\*, \*\*, \*, Significant level at 1 %, 5%, 10%.

#### 4.1 Regression with polynomial lags

In the simple model, we implicitly assume that the exchange rate has immediately responded to prices of export. However, it is natural to predict that the price of Indonesia's Yuan- or Yen- denominated export does not adjust quickly in the short run. This stickiness of export price depends on how strong the importers are to renegotiate their contracts with exporters when the exporters' currency appreciates. Several researchers used the polynomial distributed lags regression to capture such behavior (Sato (2003), Marston (1990), Khosla (1991), Fukuda and Ji (1994), and Tange (1997)). We apply their approach by adding the lagged exchange rate variable into our empirical model.

**Table 2. Regression results: Export Relative Price on Exchange Rate**

Commodity	USA		Japan		China	
	const	$\sum_{k=0}^2 \varphi_k$	const	$\sum_{k=0}^2 \varphi_k$	const	$\sum_{k=0}^2 \varphi_k$
HS 15	0.32**	0.111	0.12*	1.01***	0.003	0.28***
HS 26	0.01*	-2.91	0.54**	2.28	0.001***	0.071***
HS 27	0.43	0.40***	0.67*	1.57***	0.34**	-0.85***
HS 40	0.65**	0.37***	0.32	2.77**	0.45*	0.64***
HS 47	0.02**	1.16***	0.34**	0.87***	0.76*	0.10***
Total	0.06*	0.48***	0.65	1.56***	0.21	-0.57***

*Source:* Calculated.

*Note:* \*\*\* significant 1%, \*\* significant 5%, \*significant 10%.

The results are almost the same as those reported in Table 1. The estimates of  $\sum_{k=0}^2 \varphi_k$  for almost all commodities are significantly different from zero in exports to Indonesia's trading partner except H15 and H26 (for USA and Japan).



We have so far examined the degree of correlation between relative export prices and the exchange rate of Yuan against Rupiah. It has been argued that the exporter may choose to reduce domestic-currency-denominated prices due to changes in production cost. The results of the regressions estimated in equation (3) are reported in Table 3.

Firstly, the estimates of  $\psi$  (the coefficient of the exchange rate) are positive and statistically significant for exports of all commodities to all trading partner except for coal (HS27 for China). Secondly, the estimates of  $\sum_{i=1}^L F_i$  are statistically significant for an export total as well as all the commodity excluding export of rubber (for Japan). These results are in line with the hypothesis that export prices are adjusted to reflect the changes in production costs and to the results reported by Khosla (1991), Fukuda and Ji (1994), and Sato (2003) for Japanese Yen.

**Table 3** Regression Results

Commodity	USA			Japan			China		
	const	$\psi$	$\sum_{i=1}^L F_i$	const	$\psi$	$\sum_{i=1}^L F_i$	const	$\psi$	$\sum_{i=1}^L F_i$
HS 15	0.67**	0.14*	0.118*	0.12*	0.787*	-0.002	0.01*	0.312*	0.009*
HS 26	0.03**	-4.79*	-0.12*	0.43*	2.284**	0.005	0.02*	0.022*	-0.014
HS 27	0.02*	0.518*	0.041**	0.07*	1.279**	0.143*	0.03*	-0.254	0.092*
HS 40	0.56	0.299**	-0.014**	0.32	2.352**	0.035	0.43*	0.679*	0.063*
HS 47	0.32*	1.02*	-0.011**	0.03*	0.706**	0.014*	0.65	0.090*	-0.006**
Total	0.57**	0.41*	-0.007**	0.67	1.324**	0.006	0.32**	-0.497**	-0.479**

*Source:* Calculated.

*Notes:* \*\*\*, \*\*, \*, Significant level at 1 %, 5%, 10%.

## 5. Conclusions

This paper estimate degree of price to market in bilateral trade between Indonesia and primary trading partner (China, Japan, and the USA). We estimate the elasticity of PTM based on both aggregate and the sectorial data which covers 5 significant commodities' export share of Indonesia i.e., coal (HS27), oil-fat, crude oil, refined oil (HS15), iron ores and concentrate (HS26), rubber (HS40), wood pulp-mechanical, chemical (HS47). The empirical evidence reported in this study verify

that degree of price to market is high which could potentially affect by reducing the degree of exchange rate pass-through. PTM is significant for all destination country for HS 27, 40, and 47. For HS 26, PTM is significant only in China, but not in Japan and US market. For HS 15, PTM is significant in Japan and China, but not in US market.

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## Understanding Capital Flows in a Developing Country: The Case of Indonesia

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Agus Salim\*, Sugiharso Safuan\*)

### **Abstract:**

*This paper identifies and analyzes the extreme episodes of capital flow movement and its volatility in Indonesia. We identify that the average length of time for each extreme episode of capital flows movement in Indonesia is longer than the average length of time in other developing countries.*

*This indicates a higher risk of economic instability during extreme episodes in Indonesia. We also find that the volatility of capital flows in Indonesia is increasing over time, especially after the global financial crisis in 2008. These findings indicate the need for additional policies as a complement to monetary policy in managing capital flows.*

**Keywords:** *Extreme episodes, volatility, risk, economic crisis;*

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### **1. Introduction**

The risks posed by the excessive and volatile capital inflows to developing countries shows the importance of the analysis of these problems so that policymakers can adopt right policies to manage capital flows. The first step taken in the analysis process is to identify the massive capital flows movement (extreme episodes of capital flows), and the volatility of capital flows over time. Forbes and Warnock (2012) divide extreme episodes of capital flows into four types of episodes, surges, and stops that show the episode of the massive capital inflows and outflows by non-resident into a country. Other episodes are flight and retrenchment, which show the episode of the massive inflows and outflows by the resident of the country.

The identification of extreme episodes and the volatility of capital flows can help the policy maker to analyze any factors that associated with the extreme episodes and high volatility of capital flows. This analysis will give the insight to create an early warning system against the possibility of crisis due to capital flows. The failure to identify the occurrence of extreme episodes of capital flows can make policymakers

fail to identify the underlying causes that make them not being able to prevent the recurrence of extreme episodes that result in future crises (Allegret et al., 2016).

This research will identify and analyze the extreme episodes and the volatility of capital flow movements in developing countries. We choose Indonesia to represent other developing countries for the following reasons: (1) Indonesia is one of the largest economies among developing country with open economic policy; (2) The capital inflows into Indonesia are among the largest in value compared to other developing countries; (3) Indonesia has experienced an economic crisis due to the reversal of capital flows. With the analysis and identification of extreme episodes and the volatility of capital flows in Indonesia, it will be possible to further analyze the factors associated with extreme episode and volatility of capital flows in developing country. With this further analysis, policy makers can build an early warning system to identify the possibility of crisis due to capital flows.

The results of this study indicate that the volatility of capital inflows in Indonesia increases after the Asian economic crisis in 1998. Another finding is that the average length of time to stop an episode of extreme capital flow movement in Indonesia is longer than the average time of other developing countries. Both findings indicate an increased risk of economic instability due to capital flows in Indonesia. This study also confirmed the occurrence of an extreme episode of stop, that shows extreme sudden stops revealed during period 1997-1998. This sudden stops and reversals became one of the causes of the economic crisis in Indonesia. On the other hand, there is no occurrence of extreme episodes in Indonesia during the global financial crisis in 2008.

## **2. Literature Review**

Massive capital inflows will significantly increase liquidity in the economy that will change the behavior of households, firms, and banks as economic agents and encouraged them to expand its balance sheet (Azis and Yarcia, 2014). The expansion of the balance sheet will result in a credit boom and asset price bubble that will have an impact on the financial instability (Borio and Lowe, 2002). Other than massive capital inflow, the volatility of the capital flows is also having a huge impact on financial and economic stability (Pagliari and Hannan, 2017). The capital flows reversal would result in weakening exchange rates, economic downturns, falling asset values and rising inflation as a sign of financial crisis becoming an economic crisis (Azis and Shin, 2013; Gubin et al., 2017; Rupeika-Apoga and Solovjova, 2017).

After the global financial crisis, Indonesia received massive capital inflows (Warjiyo, 2015). Indonesia has a domestic-oriented economy structure that makes it more resistant to external shocks, but the adoption of a free foreign exchange system makes the monetary and financial system in Indonesia be influenced by global financial markets and capital flows. The capital inflows into Indonesia, especially

the portfolio investment, according to Cerruti, Claessens and Puy (2015) is associated to global factors, it means that it is sensitive to the changes of the global factors. It makes the capital inflows into Indonesia be volatile (Warjiyo, 2016).

The analysis of the capital flows can be done in the form of an analysis of net capital flows and gross capital flows. Gross capital flows consist of gross capital inflows (non-resident capital flows) and gross capital outflows (resident capital flows) (Forbes and Warnock, 2012). At first, the difference between gross and net capital flows in developing countries was insignificant, as up to the early 90s capital flows investments from the resident of developing countries abroad, were very small so that net capital inflows can represent the investment by non-resident into developing country's domestic assets (gross capital inflow). However, over time, the capital outflow from the resident of developing countries is getting more prominent so that the flow of capital from non-residents entering the developing countries can no longer be represented by net capital flows which means that capital inflows from non-residents do not always correspond to net capital flows (Koepeke, 2015).

The behavior of gross capital inflows is considered to be important for further investigation because, in an era of the open economy, developing country economies are affected by gross capital inflows. Gross capital inflows are generally volatile, especially in times of crisis, affecting exchange rate movements, interest rates, and the value of domestic assets that will have an impact on financial and economic stability (Ostry et al., 2010). The use of information related to gross capital flows will help separate analysis of capital flow behavior caused by non-resident or residents that indicates the integration of a country into the global financial market (Borio and Disyatat, 2011).

### **3. Methodology**

In identifying the extreme episodes of capital flow movements, we are using a method introduced by Forbes and Warnock (2012), while to analyzing the volatility of capital flows we are using the Standard deviations over a rolling window (RW) method as in Broto, Diaz, and Erce (2011).

Using Indonesia's gross capital flows data from the first quarter of 1969 to the fourth quarter 2016 from Indonesia Economic and Financial Statistics (SEKI) Bank Indonesia, four types of extreme episodes of capital flow movements in Indonesia will be identified: (1) "Surges": episodes of extreme increases of gross capital inflows; (2) "Stops": episodes of extreme decline in gross capital inflows; (3) "Flight": episodes of extreme increase gross capital outflows; and (4) "Retrenchment": episodes of extreme decline in gross capital outflow.

Following Forbes and Warnock (2012), to determine each extreme episode there are used three criteria used: (1) a four-quarter year-over-year change of gross capital inflows (delta gross capital flows) exceeds the band of two standard deviations

above or below their historical average over a period of time in that quarter; (2) The extreme episode takes place when the delta of gross capital flows is beyond the one standard deviation band of the historical average for several consecutive quarters; and (3) The length of each episode is more than a quarter.

Let  $\bar{C}_t$  be a 4-quarter moving sum of gross capital flows (GFLOW) then calculated per year change of  $\bar{C}_t$  ( $\Delta C_t$ ).

$$\bar{C}_t = \sum_{i=0}^3 GFLOW_{t-i}, \text{ with } t = 1, 2, \dots, N \text{ and}$$

$$\Delta C_t = \bar{C}_t - \bar{C}_{t-4} \text{ with } t = 5, 6, \dots, N.$$

Then calculate the five-year moving average and rolling standard deviation of  $\Delta C_t$ . Use the results to determine the extreme episodes of a surge, stop, retrenchment and flight.

Following Broto et al. (2011) we use the standard deviation of gross capital inflows (percentage of GDP) over a rolling window of annual data. We calculate rolling standard deviation during four-quarter rolling window:

$$\sigma_t = \left( \frac{1}{n} \sum_{k=t-(n-1)}^t (flow_k - \mu)^2 \right)^{1/2},$$

where  $\mu = \frac{1}{n} \sum_{k=t-(n-1)}^t flow_k$  with  $flow_k$  is the capital flows in the period k.

#### 4. Results and Analysis

Using the data of gross capital inflows and outflows in Indonesia from the first quarter of 1969 to fourth quarter 2016 we identified that during that period there had been several episodes of extreme gross capital flows in Indonesia as it follows:

**Table 1.** Extreme episodes

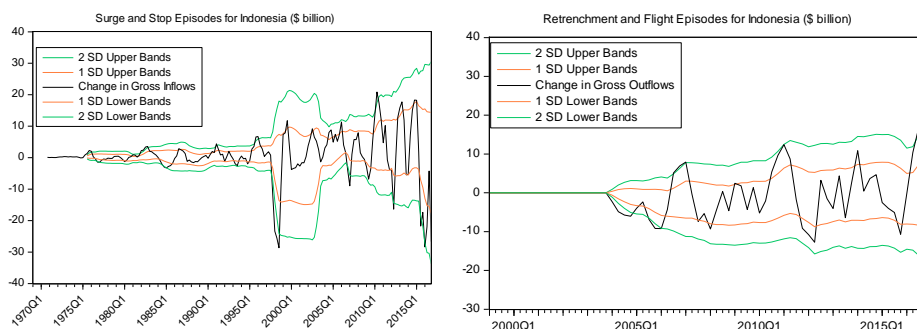
Surges	There were five episodes of surges for 24 quarters	Q3 1975 - Q2 1976, Q4 1981 - Q1 1983, Q1 1991 - Q3 1991, Q2 1995 - Q3 1996, Q1 2010 - Q1 2011
Stops	There were six episodes of stops for 29 quarters	Q3 1976 - Q3 1977, Q2 1984 - Q4 1985, Q4 1997 - Q4 1998, Q3 2006 - Q2 2007, Q1 2012 - Q3 2012, Q3 2015 - Q3 2016
Retrenchments	There were two episodes of retrenchment for six quarters	Q3 2006 - Q2 2007, Q2 2016 - Q4 2016
Flights	There were two episodes of flight for nine quarters	Q1 2004 - Q2 2005, Q3 2005 - Q2 2006,

Source: SEKI Bank Indonesia.

The average length of time for each extreme episode in Indonesia is almost similar to the average for middle-income countries based on Forbes and Warnock (2012) except for the stop episode that was almost one year longer (4.8 quarters vs. 3.8

quarters). The longer the length of time of stop episode in Indonesia, a higher risk of economic instability is shown due to this extreme condition when compared to other middle-income countries.

**Figure 1.** Extreme Episodes for Indonesia (\$ billion). Source: SEKI Bank Indonesia



From 1975 to 2016 Indonesia experienced five episodes of surge with the most crucial episode of the surge was the episode that occurred in the second quarter of 1995 to the third quarter of 1996. This five-quarter surge episode occurred before the 1997-1998 economic crisis. The high economic growth in Asia during that period, according to Corsetti, Pesenti, and Roubini (1999) has caused excessive optimism that such high economic growth will be sustainable. This excessive optimism is resulting in massive capital inflows that fuel consumption and investment booms that later turned into excessive worries in the event of the shock to the economy in Asia that trigger Asian economic crises.

Stop episodes occurred six times in Indonesia. In the early 80's the world was in recession. Along with the recession are the debt crisis of Latin American countries and the decline of world oil prices. These post-oil boom conditions affected the Indonesian economy resulting in a stop episode in Indonesia that began in the second quarter of 1984 and ended in the fourth quarter of 1985. The occurrence of this stop episode affected Indonesia's economy. Indonesia grew only 3.9% in 1985 after more than a decade of more than 7% growth per year.

Indonesia's better economy in the 90s reached its peak in the mid-1990s. In that years, high optimism over Indonesia's economy had resulted in a surge episode during that period. However, the shock that occurred in the economy in 1997 has reversed the confidence in the Indonesian economy resulting in a long and very massive stop episode. This stop episode occurred for five quarters from the fourth quarter of 1997 to the fourth quarter of 1998 where for four consecutive quarters the sudden stop and sudden reversal capital outflows exceeded the two standard deviation band of its historical average. The economic crisis that occurred in 97-98 made the Indonesian economy contracted in 1998 by 13.13%. Furthermore, along with the European debt crisis and the start of the tapering off the program by the

United States government, there was a stop episode in the first quarter until the third of 2012. This stop episode precedes 40% depreciation of the rupiah against US dollar during the end of 2012 until 2015. An interesting finding of global financial crisis 2008, there was no occurrence of extreme episode of capital flow in Indonesia. That is why the global financial crisis does not have a significant impact on the Indonesian economy.

**Figure 2.** *Standard Deviation of Gross Capital Inflows for Indonesia (% GDP).*



*Source: SEKI Bank Indonesia.*

The volatility of capital flows in Indonesia increased significantly during the Asian economic crisis of 1998 from average standard deviation 1.87% before the crisis to 13.75% during the crisis. This volatility decreases after the crisis but still at higher level compare to pre-crisis (1.94% vs. 1.87%). The episode of volatility shock during the crisis and increase the volatility level post-crisis increases the risk of financial and economic instability that can lead to an economic crisis.

## 5. Conclusions

The study found that extreme episodes of gross capital inflows and outflows occurred in Indonesia, where the worst impact was the 1998's economic crisis. In addition, the study also found that the volatility of capital flows into Indonesia has increased post-economic crisis. This increase in volatility can increase the risk of financial and economic instability in Indonesia. With the increase of financial and economic risks, the use of monetary policy alone is not sufficient to properly manage capital flows. Thus, additional policies that can complement monetary policy in managing capital flows are needed. Concerning this, Korinek and Sandri (2016) argue that in order to complement monetary and fiscal policy, policymakers are faced with the choice of whether to use macroprudential policy or consider the use of more heterodox policies such as capital control.

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## Monetary Policy and Exchange Rate Overshooting: Observation on ASEAN-5

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**Abstract:**

*Dornbusch's exchange rate overshooting hypothesis (DOH) is one of the most important theories on explaining international economics phenomenon, especially related to exchange rate, price and interest rate movement.*

*However, the ability of DOH to explain the theory empirically is still questionable in several research findings. To investigate the inconclusive findings, this study follows and extends the research methodology in Bjornland (2009) by incorporating the violation of several DOH assumptions in the research methodology.*

*This research found that DOH is sensitive or restrictive to its assumptions hence DOH unable to properly explain exchange rate, interest rate and price movement in a country with violating DOH assumptions.*

**Keywords:** Overshooting hypothesis, exchange rate response.

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### 1. Introduction

The price and exchange rate affect the economy of a country, especially the consumption. The nature of price and exchange rate is relatively unstable because they are influenced by supply and demand of both the goods market and the money market. Given no economic barriers, when the supply of domestic goods is not sufficient to meet its demand, the exchange rate will depreciate, and the price will increase through import activities. Then, the domestic interest rate increases in line with higher consumption level, which causes a higher domestic interest rate than the global interest rate, or the exchange rate will appreciate.

Dornbusch Overshooting Hypothesis (DOH) theory is one of the most popular theories on explaining the exchange rate movement because DOH can combine both sticky price and rational expectation assumptions simultaneously in explaining the movement of exchange rates and prices. Dornbusch (1976) explains that exchange

rate movements are triggered by differences in interest rates or return on investment between countries (Zaman and Meunier, 2017).

Rogoff (2002) argues that although the DOH can theoretically explain the price and exchange rate movement, those movement is hard to be explained empirically as noted by Favero & Marcellino (2004), Kim & Roubini (2000). To find the reason behind those inconclusive findings, this study follows research methodology in Bjornland (2009) because that study is applicative and uses minimum modification on DOH framework. Furthermore, we also extend the research methodology in Bjornland (2009) by incorporating the methodology with several violations of DOH assumptions such as violation on uncovered interest parity as, low capital mobility, the existence of monetary policy (Kassidova, 2016; Gasteratos et al., 2016).

Through observation in ASEAN-5 countries, this study concludes that DOH is sensitive or restrictive to several DOH model assumptions as further described in next section. This study also confirms that DOH is still able to explain exchange rate movements empirically (Duduleanu and Duguleanu, 2016).

## 2. Literature Review

Explaining price and exchange rate movements, DOH is more popular than other theories because DOH can combine both sticky price (equation 3) and rational expectation assumptions (equation 1 - uncovered interest parity condition and equation 2 - money demand equation) simultaneously in explaining the movement of exchange rates and prices.

$$i_t = i_t^* + EX_t(q_{t+1} - q_t) \tag{1}$$

$$md_t - \pi_t = \eta i_{t+1} + \phi y_t \tag{2}$$

$$P_t = v(\alpha, G_t, P_M) \tag{3}$$

Through equation 1, an increase of the domestic interest rates ( $i_t$ ) (contractionary monetary policy) will appreciate the exchange rate ( $q$ ) assuming the global interest rate ( $i_t^*$ ), which is not significantly changed because the foreign investor will exchange their currency in domestic currency for investments. Further, as explained in equation 2, an increase of the domestic interest rate will also increase the money demand ( $md_t$ ) because economic growth can be assumed not significantly changed in short run. Furthermore, in the following period, the price level ( $\pi_t$ ) will gradually increase as a result of higher cost of consumption (i.e. cost of import goods) because the price level is assumed rigid in the short run as it depends on the consumer's assets ( $\alpha$ ), government budget ( $G_t$ ), and the price of imported goods ( $P_M$ ) where

the public and private consumption is not instantly changing. Then, an adjustment in price will reduce real money demand ( $m d_t - \pi_t$ ) hence the exchange rate will depreciate until the initial level.

Several DOH assumptions are used in this study, such as: 1. Small open economy, 2. Uncovered interest parity, 3. Perfect capital mobility, 4. no speculation in the goods market, 5. non-tradable goods and international tradable goods are not perfect complements, 6. the central bank can respond in the short term (counter economic policy), 7. monetary policies use inflation and growth benchmark, and 8. no counter economic policy

Assumption 1 is based on equation 1 where a country must have a small open economy so that the country is affected by (spillover) the changes on foreign variables such as global interest rates, but the monetary policy in the country does not significantly affect these foreign variables. Equation 1 also underlies assumption 2 where it is assumed that the exchange rate reflects the difference between domestic interest rates and global interest rates. So DOH assumes that the uncovered interest parity equation remains valid.

Assumption 3 and 4 are based on equation 2 where the monetary policy shock will immediately increase the demand for domestic money. Beside perfect capital mobility assumption, that condition will only apply if there is no speculation in the goods market and price of non-tradable goods and international tradable goods are not a perfect complement. Speculation may cause higher price changes than demand changes in the money supply. Complementary goods may cause the price of exported goods be dependent on the price of the imported goods, so the supply and demand of domestic money will unnaturally adjust.

The basis of the assumption 6 and 7 is the Central Bank which assumed to follow Taylor's rule where it aims to control macroeconomic activities in order to maintain price movements and economic growth in accordance with the targets. Furthermore, Taylor's rule also shows that the central bank does not have the option to directly apply counter economic policy because the policy-making process is based on domestic macroeconomic conditions.

This study uses ASEAN-5 countries as the observed countries. Several countries observed in this study, such as Indonesia, Malaysia, and Singapore, have conditions that are not in line with the DOH assumption. The economic conditions in Indonesia violate assumptions 2 and 3 because Indonesia has a high investment risk due to the low credit rating during the period of observation. Further, economic policy in Malaysia and Singapore also violate assumptions 7 and eight because those countries maintain a certain level of exchange rate during the observation period. It indicates that they have a monetary policy benchmark beside inflation and growth

target, or they use counter economic policy on the economic condition of their trading partner countries.

### 3. Methodology

The relationship between the real exchange rate, the interest rate, and other macroeconomic variables has a complex process because it involves direct and indirect interaction between those variables and the relationship can be simultaneously incurred, so this study is considered more appropriate to use structural vector autoregressive (SVAR) method. Although SVAR is a flexible approach that is able to explain the economic phenomenon, SVAR methodology faces a serious challenge that should be in line with the existing macroeconomic frameworks.

**Table 1.** Variable definition and operational variable

	Definition	Proxy
$i^*$	global interest rate	The weighted average interest rate from 10 countries with the largest three-monthly foreign trade volume. (in %)
$y$	output	Real GDP. (log real GDP*100)
$\pi$	inflation	Annually adjusted inflation. $[\log IHK_t - \log IHK_{t-4}] - 1$
$i$	domestic exchange rate	Three-month interest rate. (in %)
$q$	Real exchange rate	Real effective exchange rate. [foreign inflation/domestic inflation] * [domestic currency rate/foreign currency]

The determination of the research model and its ordering follows a methodology used by Bjornland (2009). The methodology is based on several economic theory or equation such as Mundell-Flemming equation for small open economies, Taylor's rule for monetary policy benchmark and money market and goods market mechanisms equation.

Small open economy assumes that foreign or global variables can only react to disturbance or changes in its economic conditions policy. The global variable is proxy by global interest rate ( $i^*$ ). Also, assumed domestic economy does not influence the world economy but will respond to changes in the world economy. So, the autoregressive equation can be written as follows:

$$i^* = b_{10} + b_{11}x_{t-1} + \varepsilon_t^{i^*} \tag{4}$$

$$y = b_{20} + b_{21}x_{t-1} - S_{21}i^* + \varepsilon_t^y \tag{5}$$

Where  $x$  is another macroeconomic variable such as  $i^*, i, \pi, y, q$ . The definition of variables is described in Table 1.

The next equation is used in determining research model and its ordering is the Taylor rule. Under the Taylor rule, the central bank is assumed to have two policy benchmarks: economic growth and inflation stability. However, because many studies find that inflation targeting has a more positive impact on economic welfare compared to the economic growth, it can be assumed that the output growth is “more exogenous” than inflation. Hence, it can be written into an autoregressive equation as follows:

$$\pi = b_{30} + b_{31}x_{t-1} - S_{31}i^t - S_{32}Y + \varepsilon_t^\pi \quad (6)$$

The exchange rate can be determined in the goods market, money market and central bank policy. Through the goods market, the exchange rate function is  $q_t = v(\pi)$  since the price or inflation affect the consumption pattern over imported goods, while through the money market, the exchange rate function is  $q_t = v(i, i^*)$ . Lastly, the central bank plays a role in maintaining the stability of inflation or economic growth by using monetary policy instruments such as exchange rates or interest rates. Then, the exchange rate function through the monetary policy is  $q_t = v(\pi, Y)$ . Thus, the combination of those equations can be written in the autoregressive equation as follows:

$$q = b_{50} + b_{51}x_{t-1} - S_{51}i^t - S_{52}Y - S_{53}\pi - S_{54}i + \varepsilon_t^q \quad (7)$$

Unlike exchange rates, the interest rates function cannot be reflected in the goods market but only in money market and central bank policy. The interest rate function in the market is explained in Equation 1 or  $i_t = v(q, i^*)$ . Then, as previously discussed, the interest rate function from monetary policy is  $i_t = v(\pi, Y)$ . Thus, the combination of those equations can be written in the autoregressive equation as follows:

$$i = b_{40} + b_{41}x_{t-1} - S_{41}i^t - S_{42}Y - S_{43}\pi - S_{45}q + \varepsilon_t^i \quad (8)$$

Equations 4, 5, 6, 7 and 8 can be transformed into the following matrix form (primitive system):

$$\begin{bmatrix} S_{11} & 0 & 0 & 0 & 0 \\ S_{21} & S_{22} & 0 & 0 & 0 \\ S_{31} & S_{32} & S_{33} & 0 & 0 \\ S_{41} & S_{42} & S_{43} & S_{44} & S_{45} \\ S_{51} & S_{52} & S_{53} & S_{54} & S_{55} \end{bmatrix} \begin{bmatrix} i^t \\ Y \\ \pi \\ i \\ q \end{bmatrix} = \begin{bmatrix} b_{10} \\ b_{20} \\ b_{30} \\ b_{40} \\ b_{50} \end{bmatrix} + b_1 x_{t-1} + \dots + b_p x_{t-p} + \begin{bmatrix} \varepsilon_t^i \\ \varepsilon_t^Y \\ \varepsilon_t^\pi \\ \varepsilon_t^i \\ \varepsilon_t^q \end{bmatrix} \quad (9)$$

Where  $S_{11}, S_{22}, S_{33}, S_{44}, S_{55} = 1$ .

Following Bjornland's (2009) research methodology, this study combines short-run and long-run restrictions using the method used in Gali (1992). The basis of such a combination is the assumption, that the exchange rate does not respond to monetary policy shocks in the long-run, because investors have done adjustments. However, this study still assumes that the monetary policy will respond to the exchange rate shocks because the central bank has a role in maintaining exchange rate movements. Thus, the long-run matrix shows S45 in Equation 9 has null value.

#### 4. Results and Analysis

This study uses impulse a response function (IRF) in analyzing the exchange rate movements. The IRF result for the observed countries is shown in Figure 1. We define a country able to explain DOH if there is a policy shock, all below conditions is proven:

- The exchange rate will quickly appreciate, and then it will gradually adjust in the long-run.
- The interest rate will adjust (convergent) at a specific period.
- The price will adjust the exchange rate movement, so the exchange rate will converge on the long-run.

In Indonesia, IRF analysis shows a delay in the exchange rate response. Monetary policy response occurs in the second quarter. This is likely due to higher investment risk in Indonesia compared to other ASEAN-5 countries (violating the DOH assumption). Also, delaying response in the first period causes some deviations from the exchange rate movements in the short and long term. Consequently, investors require more time to calculate the potential exchange rate gains due to contractionary monetary policy (Gourinchas & Tornell, 2004).

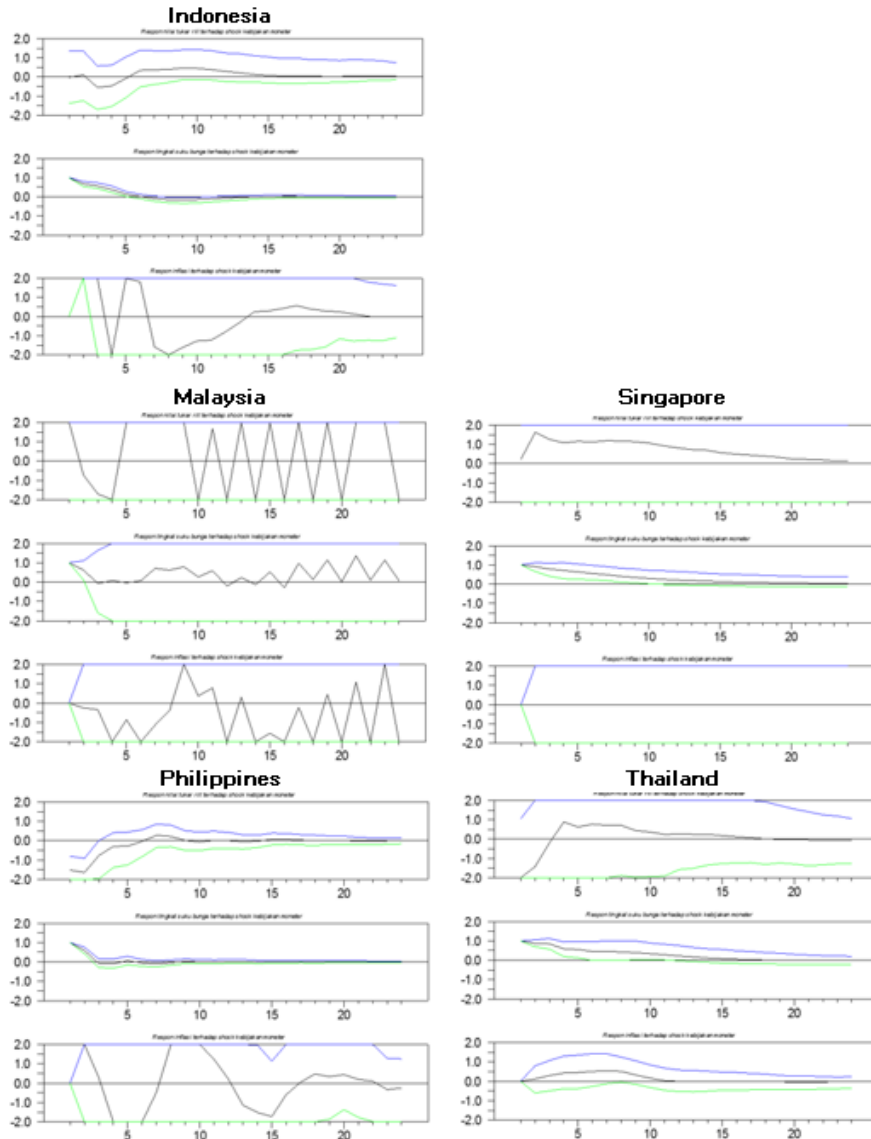
Lastly, DOH can be empirically proven in the Philippines and Thailand because those countries do not violate assumptions that are violated by other observed countries. This is instantaneously shown by exchange rates response when a monetary policy shock occurs<sup>1</sup>. The exchange rate then gradually adjusts as a result of price adjustment which is more rigid than the exchange rate. This finding is consistent with Bjornland (2009) which examines DOH in some developed countries which is unlikely to have a condition which significantly violates DOH assumptions

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<sup>1</sup> A slight difference in exchange rate response between Thailand and Philippines is caused by the level of trade openness and import price index. The average ratio of exports and imports to GDP in Thailand during the observation period is higher than the Philippines (Thailand: 1.21, Philippines: 0.82). This confirms the shorter exchange rate appreciation in Thailand as a result of interest rate shock because of the trade openness cause import goods marketable to quickly adjust. In addition, import price index in Thailand is cheaper than the Philippines (Thailand: 97 points, Philippines: 116 points). This confirms the exchange rate depreciation will last longer because lower price causes higher demand for imported goods.

as explained in this study. Thus, this study confirms that DOH is sensitive to its assumptions.

**Figure 1.** IRF analysis results in ASEAN-5 countries



Consecutively from top to bottom of IRF analysis in each country, the picture above shows the real effective exchange rate response to monetary policy shock, interest rate response to monetary policy shock, and inflation response to monetary policy shock. All responses are displayed in a scale of 2.



The IRF results in Malaysia and Singapore show that DOH cannot be explained in Malaysia and Singapore as exchange rate depreciates when a monetary policy shock occurs. In addition, adjustments from money market through interest rates and goods market through price do not converge in the long-run. This is because those countries violate the DOH assumption by maintaining their exchange rate during the period of observation so DOH cannot be explained in this country.

## 5. Conclusions

Based on observation in ASEAN-5 countries which have a condition that violates DOH assumption, this study shows that the research methodology used by Bjornland (2009) is still relevant to explain DOH empirically under the condition that there is no significant violation on DOH assumption. We expect the next study to test the more violation of DOH individually assumption to understand more about the relevancy of DOH in empirical research.

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## Employment and Poverty in Lampung Province: A Macroeconomic Approach

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Yudhinanto Cahyo Nugroho\*), Heru Subiyantoro\*\*), M. Sidik Priadana\*\*\*)

**Abstract:**

*Currently Lampung Province in Southern tip of Sumatera island are struggling with people's basic rights such as food, health, education, employment, housing, drinking water, land, natural resources and the environment.*

*We hypothesize that if the local government is focusing to improve the macroeconomic variables such as inflation, GRDP (Gross Regional Domestic Product), export, wage rate, welfare, it will reduce the poverty rate in the province of Lampung. We use quarterly data from 2007-2016. By employing structural regression analysis, it is confirmed that improving the above mention macroeconomic variables, it could reduce the unemployment and poverty in the Lampung province.*

**Keywords:** macroeconomics, unemployment, poverty;

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### 1. Introduction

Lampung Province covers an area of 35,288,35 square kilometers including islands located on the southeastern tip of the island of Sumatra - Indonesia and bordered by South Sumatra and Bengkulu Provinces in the North, Sunda Strait in the South, Java Sea to the East and the Indonesian Ocean to the West. The fundamental issues in this province are poverty, unemployment, food security and democracy enforcement (BPS, 2015). In the midst of the process of consolidating the domestic economy and slowing the global economic recovery, Lampung's economy in the fourth quarter of 2016 grown slightly above 5%, mainly driven by investment acceleration and export improvement. The Consumer Price Index in Lampung Province in the fourth quarter of 2016 was controlled at 2.78% (yoy), slightly lower than the lower limit of the national inflation target of 2016 by  $4\% \pm 1\%$ . Inflation in 2016 was also lower than the average of the last 5 years inflation rate (5.76%, yoy), which is also lower than the national, and Sumatra's inflation rate, which has reached 3.02% (yoy) and 4.52

% (yoy) respectively. When viewed from the inflation rate, inflation in Lampung Province is the lowest in Sumatra. The stability of regional finance is still maintained, especially the resilience of the household sector. The trend of high levels of public consumption is still accompanied by good credit risks that have minimal impact on the financial system. The resilience of the corporate sector amid the global economic consolidation process is quite fragile, but the optimism of the community supported by the strengthening of expectations of business activities is expected to support the resilience of the financial system in Lampung Province.

The economic growth could reduce both the poverty and the unemployment opportunities, and finally improve the social welfare. During the period of 2001-2015, the contributions of the processing industry sector, electricity, gas and water supply; trade, hotels and restaurants, transportation, dominated its GDRP and communications, finance, leasing and corporate services and services. Lampung economic growth continued to decline during the period of 2011-2014. During that period the economic performance of Lampung Province has an average growth rate of 5.97 percent, smaller than the national average growth of 5.90 percent. The slowing economic growth is due to the growth rate in the dominating sectors relatively lower than the growth rate of other sectors. The agricultural sector such as coffee, pepper, rubber and sugarcane, aquaculture and fresh water has contributed more than 30 percent of the economy.

The issues of employment problems are not just limited to job opportunities, but also its low productivity. The greater the employment opportunities for the workforce, the better the progress of economic activities of the community and vice versa. The macro conditions of Lampung employment in February 2015 showed a significant improvement. The declining trend of employment occurred in Lampung Province is due to the labor issues, unfeasible wages, contract labor issues and problems arising from the termination of employment contract, and the high number of mass unemployment. Limited availability of employment not only cause problems in the economic field but also cause various problems in the field of social one of which is poverty. Good economic growth should also be supported from the foreign trade sector, namely exports and imports. Minimum wage policy has become the most important issue in employment issues in both developed and developing countries.

*Problem Identification:*

Based on the above background, we analyze the macroeconomic variables such as inflation, GRDP (Gross Regional Domestic Product), Export, Wage rate, Welfare, Employment and Poverty in the province of Lampung. The following issues can be identified as it follows: 1) the autonomy has not been supported by the readiness and ability of the workforce adequately as well as the regulatory tool for the management of regional development resources, 2) region has not been able to manage existing natural resource sources to increase per capita income, 3) To keep the stability of peoples' primary needs, 4) Increasing percentage and number of poor people, 5)

Increasing poverty line due to price increases of goods and services, 6) Low levels of community income, 7) Increasing unemployment rate, 8) The low competitiveness of human resources.

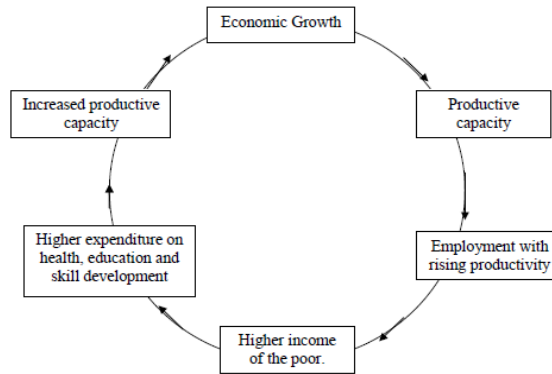
## **2. Literature Review**

### *Labor:*

Keynesian Theory argues that in reality the labor market does not work in accordance with the classical view. The labor union usually fights for the interests of the workers from the declining wage rate. A decrease in the incomes of some members of society will lead to a decrease in people's purchasing power, which in turn the overall consumption shrinks. If prices fall, then the marginal value of labor productivity (labor marginal value of labor) that is used as a benchmark by employers in hiring workers will fall. If the price slightly declined, then the productivity value just decreases slightly too. However, the growing number of workers remain less than the amount of labor offered. Even worse if prices fall drastically, this causes the marginal labor productivity curve to drop dramatically, and the number of workers occupied becomes smaller and unemployment becomes higher and wider. According to Harrod-Domar theory known as the theory of growth, investment not only creates demand, but also enlarges production capacity. Enlarged production capacity, is required a greater demand for production so that production does not decrease. If the increased production capacity is not followed by large demand, surplus will emerge together with a decrease in the amount of production. One of the main manifestations of factors leading to low levels of living in developing countries is the inefficient use of labor in comparison with developed countries. The use of sub-standard workforce is caused by a number of situations in which both urban and rural dwellers work under normal working hours and open unemployed, i.e., capable and willing to work but unemployment (Todaro, 2006).

The importance of Foreign Direct Investment (FDI) contribution in improving human resources, especially in Indonesia, and indirectly by the spillovers and resulting in the development of knowledge and skills of workers through the transfer of technology as a natural result of multinational activities such as licensing, subcontracting, and other. The low average work productivity can be caused by the relative lack of capital to labor and the use of technology backward. As high as the levels of the economic growth, it will lead to an increase in production capacity and expanded employment opportunities. The results of the process described above can be reflected in: (i) increased productivity of various sectors and jobs, (ii) shifts in the structure of work with higher productivity levels, and (iii) increase in real wages, income from entrepreneurs, and wage income work.

**Figure 1.** Circular relationship between growth, employment and low poverty reduction



Labor productivity and economic growth are key factors in any economy. The fact that labor productivity depends on the availability and quality of labor resources and applied technology. As a result, labor productivity greatly affects production processes and production costs. Production costs will affect the competitiveness of production in global markets. It must be acknowledged that issues and issues related to labor productivity in various economic cycles, for example, in the post-crisis period are a relatively unknown topic in the economic literature.

Given the changing macroeconomic scope in developing countries the phenomenon of increased unemployment is caused by the "limited demand" of labor which is then diminished by external factors such as the deterioration of balance of payments conditions, the escalating problems of external debt followed by policies others which in turn triggered a decline in industrial growth, wage rates and ultimately employment opportunities (Sulistiani, 2013).

*Inflation:*

Inflation is a tendency of increasing price of goods and services in general and continuously. The general indicator used in measuring the inflation rate is the CPI. An index that illustrates the price indicator used to see the success of monetary policy in controlling inflation. Inflation is closely watched and much discussed because it is considered a serious macroeconomic problem because of significant inflationary burdens on the widespread loss of public purchasing power as when prices rise each the revenue unit will only be able to buy goods and services with fewer amounts which also impact on the decline in living standards (Mankiw, 2012). In practical reality, inflation is caused by: Demand-pull inflation and Cost-push inflation.

*Regional Gross Domestic Product (RGDP):*

Most economies in many developing countries depend on the production of primary goods and not on the activities of secondary (manufacturing) and tertiary (service)

industry, then the primary commodities are the main exports of developing countries to other countries. Industrial areas play a role as important as a series of business groups (clusters) that provide benefits to increase production. There is much supportive evidence to suggest that industrial locations in various developing countries have a direct impact on a country's economic development with industry variations ranging from home-based industries to the use of more modern techniques (Todaro, 2006). Production growth refers to the transformation of various inputs or resources that will be outputted in the form of goods and services. Input is resources to be managed such as labor, capital or other natural resources. In the managerial economic the demand for a commodity arises from the desire of the consumer and his ability to support a commodity, so that a postulate of consumer demand has the idea that the quantity of the commodity demanded or the growth of a product in the market depends on several things such as commodity prices, consumer and consumer tastes (Salvatore, 2002). The complexity of the problems caused by the rapid rate of population growth clearly shows such a significant impact in slowing down all development efforts in less developed countries, except if it was supported with the rapid rate of capital formation and technological advancement (Jhingan, 2012). However, the concept of human capital formation in the context of investment in education contains a number of problems. Assessing the total stock of human capital is indispensable in the direction of human capital formation for these developing or underdeveloped countries. The limits in the rate of growth of human capital formation is also an interesting area of further study (Jhingan, 2012).

*Export:*

Todaro (2003) said there are three main factors or components that affect the economic growth that is the accumulation of capital, population growth which several years later brought the growth of labor force and technological progress. This is in accordance with the statement Arsyad (2010) that: economic growth cannot be separated from the problems of population growth and employment. Job opportunities can be defined as participation in the development process. Employment opportunities represent the number of available jobs that can be absorbed by the labor force (Sudarsono, 1995). According to Monireh Dizaji and Arash Ketabforoush (2014) the increase in export capacity will increase domestic product, this is because export activity is one component of aggregate expenditure, exports can affect the level of national income to be achieved. This is supported by research conducted by Ramayanake and Lee (2015) that economic growth cannot be separated from export activities.

*Rate of Wages:*

Top contributors to job polarization are regular work and international labor market integration that measures polarization for employment easier than determining the root cause, but researchers are making progress in understanding the operative forces behind the data. In short, wider job transfers, intensive work in routine tasks contribute to job polarization towards high skills, high wages and low skills, low-wage jobs, with a decrease in medium-skill jobs. Simultaneously, the real income of

workers with lower levels of education stagnated. This decline is very steep between males by 12 percent for high school graduates and 16 percent for dropouts.

*Welfare:*

Welfare is the ultimate goal of achieving economic development that requires the creation of basic conditions such as sustainable economic growth, the creation of a solid economic structure and inclusive and equitable economic development. The welfare of society is expected to be achieved through the growing economic growth and employment creation, so that it can absorb the maximum workforce. The welfare of the community will be achieved if the workforce can earn wages that can be used to meet the needs of life both economic needs and non-economic needs (Sulitsiani, 2013). Today, the welfare and prosperity of a country is seen on the basis of the national income and national income per capita.

*Poverty:*

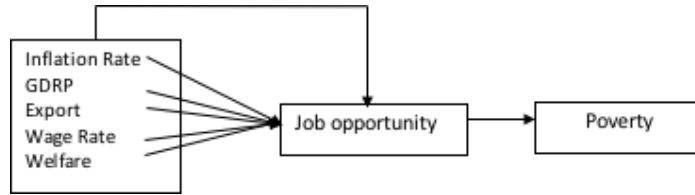
The term poverty can be seen from various perspectives of the World Bank (2002) dividing the poverty dimension into four main points: lack of opportunity, low capacity, low security level and low capacity. Poverty can also be attributed to the limitations of social, economic and political rights, leading to vulnerability, deterioration, and powerlessness. A similar analysis was put forward by Gustavo Gutierrez in Chen (2002) on the problem of poverty in Latin America, that in the sociological direction, poverty is a social injustice associated with economic, political and socio-cultural structures. It explains that in fact not all poverty at all times and places is a trap. Poverty may be temporary, and in some cases, people may try and succeed in getting out of poverty. But poverty becomes a trap when a vicious cycle of poverty foils the efforts of the poor. Another case with Sachs (2005) states that poor people who are very poor at least do not have six major capital, namely: a. Human capital; b. Business capital; c. Infrastructure capital; d. Natural capital; e. Public institutional capital; f. Knowledge capital.

Based on the above description, then, poverty can also be seen as a condition of society that has or has not participated in the process of change, because it has the ability, both ability in possession of production factors and the quality of production factors are adequate, so do not get the benefits of development. Various kinds of poverty. According to Lincoln Arsyad (2010) poverty has a broad meaning and is not easy to measure it.

### **3. Methodology**

We use quarterly time series data from 2007 to 2016 (10 years). The Lampung Province's data used in this research are ( $X_1$ ) Inflation, ( $X_2$ ) RGDP, ( $X_3$ ) export, ( $X_4$ ) wage rate, ( $X_5$ ) welfare, ( $Y$ ) job opportunity and ( $Z$ ) poverty, and the following methodology as follows.

Figure 2. Research Methodology



$$Y = f(X_1, X_2, X_3, X_4, X_5) \tag{1}$$

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \tag{1.a}$$

$$\text{Ln } \hat{Y} = a_1 + \beta_{11} \text{Ln } X_{11} + \beta_{21} \text{Ln } X_{21} + \beta_{31} \text{Ln } X_{31} + \beta_{41} \text{Ln } X_{41} + \beta_{51} \text{Ln } X_{51} + e_1 \tag{1.b}$$

Where:

$Y_j$  = Job Opportunities

$X_{ij}$  = Share or contribution of the  $i$ -th variable on the  $j$ -model of employment

$a_j$  = intercept / constant for  $j$ -th model (where  $a_j = \text{Ln } A_j$ )

$A_j$  = Total Factor Productivity for  $j$ -model

$\beta_{ij}$  = elasticity of the  $i$ -th variable in  $j$ -th model

Equation of structure model II

Model of the effect of Job Opportunity ( $Y$ ) on Poverty ( $Z$ ).

$$Z = f(\hat{Y}) \tag{2}$$

$$Z = a + \beta Y + e \tag{2.a}$$

$$\text{Ln } Z = a + \beta \text{Ln } \hat{Y} + e \tag{2.b}$$

Where:

$Z$  = poverty

$Y_{ij}$  = share or contribution of the  $i$ -th variable on the  $j$ -model of Poverty

$a_j$  = intercept / constant for  $j$ -th model (where  $a_j = \text{Ln } A_j$ )

$A_j$  = Total Factor Productivity for  $j$ -model

$\beta_{ij}$  = elasticity of the  $i$ -th variable in  $j$ -th model

#### 4. Result and Discussion

##### Structural Regression Analysis I

Multiple linear regression analysis is used to know the influence of independent variable that is Inflation ( $X_1$ ), GRDP ( $X_2$ ), Export ( $X_3$ ), Minimum Wage Rate ( $X_4$ ) and Welfare ( $X_5$ ) to dependent variable that is Job Opportunity ( $Y$ ). We get the following result:

$$\hat{Y} = 15,1895 - 0,0354 \text{Ln } X_1 + 0,0276 \text{Ln } X_2 + 0,0338 \text{Ln } X_3 + 0,1016 \text{Ln } X_4 + 0,2236 \text{Ln } X_5 + e.$$

$$\begin{matrix} (9.9379) & (-4.3556) & (5.0363) & (5.2897) & (8.0038) \\ (2.0815) & & & & \end{matrix}$$



Figures in parenthesis are *t*-statistics

*R*-Squared: 0.8873; Adjusted *R*-Squared: 0.8707

*F*-statistic: 53.5193; *DW*-statistic: 2.0008

#### *a. Inflation Variables on Job Opportunities*

The result that the inflation rate ( $X_1$ ) influences partially on the absorption of manpower in Lampung Province, and according to the monetarist theory and view of inflation, it says that inflation can affect employment. The theory of A. W Philips which says there is a relationship very closely between the rate of inflation with unemployment. The results of previous research of Sitompul, D. N. (2013) says that there is a negative and significant partial relationship between inflation with the absorption of labor in an area.

#### *b. Variable GRDP to Job Opportunity*

The positive increase of GRDP from the previous year in Lampung Province shows that development activities are on their track and lead to the increasing employment in various economic sectors. GRDP is the total value of final goods and services produced by all units of production within a certain period (one year) in the province. Dimas and Nenek (2009), Momongan (2013), and Ferdinan (2011) mention the development of GRDP gives a positive and significant impact on labor absorption. Putro and Achma (2013) in their study found that GRDP has a negative and significant effect on unemployment, which means that increasing GRDP will reduce the number of unemployment. In other words, GRDP has a positive effect on labor absorption. In conclusion, from the theories and the results of previous studies of GRDP has a positive influence on employment absorption which will also increase, and vice versa. Furthermore, it can be explained that the increase in the number of final goods and services will lead to an increase in the number of requested labor. This statement can be interpreted that the real GRDP has a positive relationship to employment. Real GRDP should be able to grow rapidly to keep unemployment rate unchanged. If unemployment wants to be lowered or increases job opportunities, then real GRDP should be able to grow faster than potential GRDP.

#### *c. Export Variables on Job Opportunities*

The export variable ( $X_3$ ) has a partial effect and the positive regression coefficient (0,033) indicates that the Export has a positive effect on the Job Opportunity in Lampung Province the period of 2006-2016. Rising exports will increase Employment opportunities and vice versa, declining exports may reduce employment opportunities. The increase of this GRDP encourages the company to conduct a larger production process, thus requiring more production factors, capital and labor. Associated with the workforce will have an impact on increased employment opportunities. The increase in export value is driven by the existence of

a very significant economic growth, so that the company's sector can continue to maximize production, especially export products. In line with these conditions, the industrial sector will need a lot of manpower, so it will open up more job opportunities.

*d. Wage Level Variables on Job Opportunities*

The wage rate variable ( $X_4$ ) partially and the positive regression coefficient (0.101) indicates that the wage rate has a positive effect on employment opportunities Lampung Province for the period of 2006-2016. Rising wage rates will increase employment opportunities and vice versa, lower wage rates can reduce employment opportunities. This is in line with the results of research Febrianica (2015) and Martasari, et al. (2014) on the impact of minimum wage policy on poverty in Indonesia. Increasing the wages given by employers to these workers led to an increase in the earnings of the worker's morning income, an increase in the income of these workers due to increased employment opportunities for workers. Likewise, from the results of research Lustig and McLeod (1996) who said that the minimum wage redistributed resources and potential, increase income and employment.

*e. Variable of GRDP per Capita to Job Opportunity*

Community welfare can be seen from the amount of public expenditure to meet the consumption needs of all goods and services needed. The size of the expenditure depends on the level of income per capita that the community can generate. In addition to the level of income per capita public expenditure is also influenced by the level of people's purchasing power from the income generated. In this research indicates that the welfare variable ( $X_5$ ) measured by using per capita income level shows a significant positive influence on employment, this is in line with the results of other variables such as GRDP, export value, and minimum wage. GRDP that continues to increase and followed by increasing minimum wage impact on economic activity in producing goods and services are also increasing. Increasing corporate activity in producing goods and services requires labor to increase employment.

*Structural Regression Analysis II*

The regression result shows the following multiple regression equation:

$$Z = 9,9897 - 0,557509 \ln Y + e$$

(5.9792) (-3.8989)

Figures in parenthesis are *t*-statistics

*R*-Squared: 0.9981; Adjusted *R*-Squared: 0.9979

*F*-statistic: 5918.117; *DW*-statistic: 2.0595

*Employment Opportunities on Poverty.*

The Job Opportunity (*Y*) variable partially and the negative regression coefficient (-0,557) indicates Job Opportunity has a negative effect on Mind Lampung Province for the period of 2006-2016. Increased employment may result in poverty reduction and vice versa, reduced employment opportunities can increase poverty. Yoga and Arianti (2012) in his research also show that unemployment has a direct and significant effect on poverty. This is in accordance with the opinion of Arsyad (2010: 359) which states that there is a close relationship between the unemployment rate, the extent of poverty, and the uneven distribution of income

## **5. Conclusion**

This study supports the previous researches particularly on how the economic and social issues could be overcome by improving the above-mentioned macroeconomic variables, which lead to reducing the unemployment and poverty in the Lampung province.

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## The Model Which Determines Job Satisfaction (Case on Company Employees in Indonesia)

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Suherman Saji\*, Cicih Ratnasih\*\*)

### **Abstract:**

*This study entitled a model that determines job satisfaction (the case of company employees in Indonesia). The variables used are work participation, communication, organizational culture, intellectual capital, organizational culture as endogenous variable and job satisfaction as an exogenous variable.*

*The purpose of this study wanted to know the direct and indirect effects of endogenous variables through intervening the work culture variables. The used research method is path analysis, which is considered to be able to predict the purpose of this study. The result of the research shows if  $H_0$  is rejected or  $H_a$  is accepted, hence there is the significant influence of Communication, Work Participation, and Intellectual Capital which directly influence the organizational culture.*

*Furthermore,  $H_0$  is rejected or accepted, hence there is the significant influence of work participation which partially influences the organizational culture, while the indirect influence of communication, work participation, intellectual capital and organizational culture affect the job satisfaction through organizational culture.*

**Keywords:** *participation, communication, organizational culture, intellectual capital, organizational culture, and job satisfaction.*

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### **1. Introduction**

The human factor is the main capital that must be considered by entrepreneurs and corporate leaders. Humans are complex and very complex to understand because they are very different from machines and have other work behaviors. Employees are deployed according to their abilities, high employment rates, high work motivation, high work participation, effective communication, high work discipline, salary. Salary wages are determined fairly according to position and education, high responsibility and a well-developed organizational culture. With such circumstances,

the company is expected to have a harmonious working situation with work productivity that can be achieved by the company.

The more comfortable an employee feels and the more satisfied he/she is with work, the more he/she works and thinks creatively about the company's progress. According to Robbins (2009: 111), there are consequences when employees like and do not master their work. Regarding the problem of job satisfaction, the problem encountered is job dissatisfaction. Employee dissatisfaction itself is influenced by several factors. Several previous research results indicate that there are several factors that affect job satisfaction such as communication, conflict, performance, compensation, organizational commitment, organizational culture, motivation, and participation.

While job satisfaction is itself a person's general attitude towards his work. A person's work is not just a machine-driven technical routine, but more than that requiring interaction with colleagues and superiors, following organizational rules or policies, meeting performance standards, living in less ideal, and similar conditions. Satisfaction in work can lead to better job performance or performance can determine job satisfaction. The individuals who loves the own work will work better, so he/she also displays her job well. Organizations with employees who have high job satisfaction will tend to be more effective and productive than organizations with employees who are not satisfied with their work.

Locke in Mangkunegara (2015) mentions that job satisfaction depends on the difference between what is earned and what is expected of the employee. If the employee gets more than what he/she has expected, then the employee becomes satisfied. Conversely, if employees get lower than expected, he/she will not be satisfied. This indicates that job satisfaction is one of the issues that must be considered by the organization. Problems that often arise due to lack of job satisfaction are usually employees will be out of work, and less motivated to work, often late to work, and often skipping work. Such issues are:

- Is there an influence on work participation, communication, organizational culture, intellectual capital directly to job satisfaction?
- Is there an indirect influence of work participation, communication, organizational culture on job satisfaction through organizational culture?

As a growing company, it should have superior and professional human resources, which is expected to create an effective and efficient work activity. Effective and efficient work will increase productivity with high spirits from its employees. But the current state of affairs indicates an imbalance of employees with desirable expectations.

## **2. Literature Review**

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Human resources in the company need to be professionally managed in order to realize the balance between the needs of the employees with the demands and capabilities of the company's organization. The balance is the key to the company to grow productively and reasonably.

The role of MSDM to achieve competitive advantage is to contribute more to the organization to achieve it. With this demand, it is imperative for MSDM to change its results-oriented role. Thus, MSDM should serve as a partner for other functional management. By definition, MSDM must be actively involved in planning, management, and organizational controls related to human resource allocation and development. These role changes from responsive work systems to proactive and more flexible structures and implementing strategic policies. This makes human resources play an important role in business success associated with increased profits, competitiveness, adaptability and flexibility. According to Keith Davis in Mangkunegara (2015), participation in the emotional and mental involvement of employees in group situations that encourage them to contribute to group goals and responsibility for them.

Based on the above definition, there are three aspects that are very important in the work participation, namely emotional and mental involvement of employees, motivation to contribute (contribution) and acceptance of responsibility. Participation means engaging emotionally and mentally rather than physically. The psychological involvement of employees is greater than the physical. Employees who have high work participation will be seen in the behavior of creative work activities and high morale. Similarly, managers with high work participation will be active in providing information, explanation of instructions to their subordinates, and empathy, sympathy to their subordinates, Mangkunegara (2015).

Keith Davis in Mangkunegara (2015) argued that communication is the transfer of information and understanding others. Sikula in Mangkunegara (2015) is an information communications processor, understanding, and understanding of a person, place, or something for something, place, or someone else. Meanwhile, according to Gibson and Ivan proposed by Ardiansyah (2016), communication is the process of transfer of understanding in the form of ideas or information from one person to another.

From the opinion of experts above can be defined as the process of transfer of information from one person to another. Effective and efficient communication that benefits management in performing its functions to plan, organize, implement, direct, and oversee all organizational performance. Communication will direct management to perform effective and efficient managerial tasks.

According to Sutrisno (2007), organizational culture can be accepted as a tool of value system, belief, principle (assumption), or old norm, agreed and followed by member organization as an organization. Organizational culture is also called

corporate culture, a set of values or norms that have long been done, owned by members of the organization (employees) as a norm of behavior in solving organizational problems (the company). Meanwhile, according to Kilman et al. in Sutrisno (2007), organizational culture is the soul of the organization and members of the soul of the organization.

According to Tunstall in Sutrisno (2007) who is considered to represent a holistic group, said corporate culture can be described as a general constellation of beliefs, customs, habits, values systems, behavioral norms, a unique way of doing business for each company, which sets out the implicit and emerging patterns of behavior and emotions that characterize life in the organization. Meanwhile, according to Drucker in Tika (2006), organizational culture is the main issue of solving external and internal problems. The implementation is done consistently by a group which then inherited new members as a proper way to understand, think and feel towards the related problems. Based on the above definition, it can be concluded that the organizational culture is a fundamental concept for the company, where employees adhere to the concept which is the values and norms that have been attached to the company.

Robbins (2007), job satisfaction can be defined a positive feeling about a person's work which is the result of a characteristic evaluation. Each job seeks interaction with colleagues and superiors, follows organizational rules and policies, meets performance standards, accepts often unhealthy working conditions, and so on. A person with a high level of job satisfaction has positive feelings about the job, while an unsatisfied person has negative feelings about the job. When individuals talk about employee attitudes, what is often meant is job satisfaction.

According to Purwono (2007), companies with superior performance and world-class using the method of formal and informal assessment size to determine the level of welfare, satisfaction, and employee motivation. A government organization can also conduct several surveys and censuses on employee satisfaction, among others through an employee satisfaction survey.

Hypotheses:

- *There is a positive and significant influence of work participation, communication, intellectual capital, directly affect the work culture.*
- *There are a positive influence and significant work participation, communication, intellectual capital and organizational culture directly affect job satisfaction.*
- *There is a positive and significant influence on organizational culture directly affect the job satisfaction.*
- *There is a positive and indirect effect of work participation, communication, and intellectual capital on job satisfaction through organizational culture.*



### 3. Methodology

The sampling method used by using Slovin formula in Hadari Nawawi (2008) is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

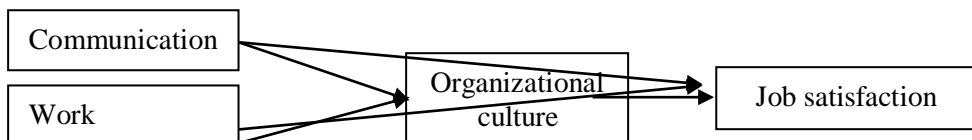
n= large sample

N = large population

E = the desired margin of error, in sampling and population here, used 5% failure rate which means the level of confidence 95%.

This study uses an associative type of research. According to Sugiyono (2007), associative research is a research that aims to know the operationalization of variables is an explanation of the meaning of the theory of variables, so it can be observed and measured by determining the things needed to achieve certain goals. The relationship between two or more variables. The research method used is survey while the frame of thought as follows:

*Figure 1. Conceptual Framework*



### 4. Result and Discussion

F-test is to know the test simultaneously / stimulant significance of the relationship between independent variables and dependent variable with a confidence level of 95% (α = 5%). The results of this F test calculation will also be compared with F-tables with α = 5%. If the result of F test (F-count) is bigger than F-table, then H0 is rejected which means independent variable together influence the dependent variable. Processing using SPSS 22 for test analysis (ANOVA test) with the following results:

*Table 1. The Result of F-test Mode I*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1103,266	3	551,633	56,646	,000b
	Residual	1100,424	113	9,738		
	Total	2203,690	115			

a. Dependent Variable: Organizational culture

b. Predictors: (Constant), Communication, Work Participation, Intellectual Model

*Source: data processed (2017)*

Based on Table 1 above the probability (Sig) value in the F test is 0,000 smaller than 0.05 and F-count is 56.646 larger than F-table of 3.08, then H0 is rejected or Hais accepted, hence there is significant influence Communication, Work Participation, and Intellectual Capital directly affect the organizational culture.

**Table 2. The Result of F-test Mode II**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1389,909	4	463,303	62,649	,000b
	Residual	828,264	112	7,395		
	Total	2218,172	115			

a. Dependent Variable: Job satisfaction

b. Predictors: (Constant), Work Participation, Communication, Intellectual Model and Organizational culture

*Source: data processed (2017).*

Based on Table 2 above the probability (Sig) value in the F test is 0.000 smaller than 0.05 and F-count is 62.649 greater than the F-table of 3.08, then H0 is rejected or Ha accepted, hence there is significant influence Communication, work participation, and organizational culture directly affect job satisfaction.

The t-test is used to test the relation of each independent variable to the dependent variable separately with a confidence level of 95% (a = 5%). So, in this case to test the significance of the influence of independent variables on dependent variables.

Based on table 2 above the probability (sig) value of Work Participation in T-test 0.000 is smaller than 0.05 and T-count is 4.945 bigger than T-table equal to 1,981, H0 is rejected or Hais accepted, hence there is significant influence partial work participation affects the organizational culture.

The result of hypothesis testing one (H1) shows that work participation, communication, and organizational culture influence job satisfaction. This can be seen from the significance value of 0.005 or less than the significance level of 5% or 0.05 which means that the first hypothesis is accepted. Based on the result of path coefficient analysis got unstandardized direct effect 26%, 46,9%, and 30,4%. This means that work participation, communication, and organizational culture have a positive effect on job satisfaction. Which means the better the work participation given by the company then the job satisfaction will increase.

The result of hypothesis testing (H2) shows the indirect effect that communication, work participation, intellectual capital and organizational culture influence to job satisfaction through organizational culture. Based on the result of path coefficient analysis got unstandardized undirect effect 7% and 9%. This means that work

participation has a positive effect on job satisfaction through organizational culture. Which means the higher job satisfaction perceived employees, the better the organizational culture that is formed.

## 5. Conclusion

So, the results of the study can be summarized as follows:

- There is a positive and significant influence of work participation, communication, intellectual capital, directly affect the work culture. This is based on the results of research with a coefficient value of 26% and significance of 0.005.
- There are a positive influence and significant work participation, communication, intellectual capital and organizational culture directly affect job satisfaction 46.9% and significance of 0.000.
- There is a positive and significant influence on organizational culture directly affect the job satisfaction. This is based on the results of research with a coefficient value of 30.4% and significance 0.000.
- There is a positive and indirect effect of work participation, communication, and intellectual capital on job satisfaction through organizational culture. This is based on the results of research with a coefficient value of 30.1% and significance 0.000.

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## The Survey of Household Empowerment and Small-scale Households in Southeast Sulawesi through Rural Banks (BPR) in Mobilizing Rural Economy

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**Abstract:**

*This study seeks to investigate whether BPRs are able to empower villagers to encourage the development of village economics particularly in southeast Sulawesi.*

*This study also examines rural population perceptions of the role of BPR as a Rural Development facilitator, by using the Southeast Sulawesi Region as a case study. 100 villagers were selected and interviewed purposively from rural enterprises such as agriculture, home industry and small traders.*

*Data obtained from interviews analyzed quantitative and qualitative techniques. This study reveals that, BPRs can empower villagers in particular to assist in education.*

**Keywords:** Empowerment, small enterprises, rural banks.

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### 1. Introduction

The access to rural financial services has the potential to make a difference in agricultural productivity, food security, and poverty reduction. However, to create an efficient, sustainable and widely accessible rural financial system remains as a problem, to a major development challenge in most developing countries. The rural transformation is integrally connected to the broader process of structural, economic and social transformation in a country that should not be seen separately. Structural transformation involves an agriculture shares decrease, in the terms of economic output, employment, and the increasing of industrial economic activities, such as manufacturing, mining, and construction, that also includes modern services. These factors lead to the migration of rural workers to urban areas. Transformation of rural areas in some countries has different results in terms of economic growth, social inclusion, poverty reduction and environmental sustainability. While global and regional forces influence this transformation, social structure, as well as national and

local institutions, and the local communities themselves mediate them (Berdegué et al., 2014)

A productive economic structure results from the existence of economic diversification, inter-sectorial linkages including agricultural and non-agricultural activities (industries including mining, manufacturing, services, tourism and various types of companies, which includes formal and informal households, small and medium enterprises). A sectorial linkage between agriculture and non-agricultural economies that is explained by Haggblade et al. (2007a). Includes: 1. Production linkages, 2. Consumption linkages, 3. Market relations factors, 4. The linkage between labor demand and rural and urban wage levels, 5. Productivity linkages related to the increased agricultural productivity. Rural infrastructure plays a central role in the relationship of rural economic growth, especially Rural Banks.

The Indonesian Government through OJK (Financial Service Authority) regulation introduced and established the Rural Banks, or BPR in 1976 as one of the strategies to facilitate the development of rural communities. In addition to instilling banking customs to rural communities, BPRs also serve as the tool to mobilize funds, and channel them to productive enterprises in rural areas. The rural banking subsector has become a part of growing overall banking industry in Indonesian economy as a whole. In addition to the lack of credit facilities that could improve the living conditions of the beneficiaries, BPR has also created jobs and helped in instilling banking customs to the rural communities to some extent. This paper examines the empowerment efforts of financial services in the rural area and the role of financial institutions from the perspective of their success in improving the livelihoods of rural populations in Indonesia in a case study that took place in Southeast Sulawesi province. Two important questions in this study are:

- *To what extent does microcredit could be channeled to household and small and medium enterprises?*
- *How does the microcredit being utilized by the households and small businesses?*

The aim of these questions is to highlight some of the key issues that can attract the attention from the Southeast Sulawesi regional government's cooperation authorities to improve domestic and local farmers quality of life. The paper also highlights the contribution of microcredit, to the effort of breaking out from the deep-seated poverty trap and its significant contribution to community productivity. In other hands, we see the potential for deposited money to be used by the Rural Banks.

## **2. Literature Review**

*Rural Economy:*

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The rural economy includes the transfer of goods and services by people in areas of low population density, usually far from the city center. But there is no natural dividing line or breakpoint based on a set of characteristics to differentiate rural from urban areas. The change from the very remote towns to the largest cities is often gradual, (Ferranti et al., 2005)

Meanwhile, according to Laderman and Bravo (2005) the rural economy is more than just agriculture; this includes the production of forestry and fisheries and other economic activities occurring in non-periphery areas. There are at least three ways to describe a rural economy: a sectorial approach, which emphasizes sectorial contributions to national GDP; a household income approach that includes both agricultural and non-agricultural activities; and territorial approaches that examine rural space more generally, in terms of population density and distance from the city.

Ferranti et al. (2005) attempted to distinguish rural economies by highlighting their basic characteristics; the level of income is generally low, Revenue is basically derived from primary production (agriculture, mining, forestry and fisheries). They have low population density and are located far from the center of the big city.

Distinguishing characteristics of this rural economy make the access to banking and banking services to rural communities be generally difficult. Most financial institutions can concentrate their business in urban areas where they have high incomes, geographically concentrated consumers. The cost of conducting business in a rural economy is generally high and therefore dodged from the rural economy by financial institutions. This study uses households that include agriculture and non-farming in explaining rural economies - as revealed by Laderman and Bravo (2005).

*Empowerment:*

Empowerment is the expansion of assets and the ability of the poor to participate in, negotiate with, influence, control, and have responsible institutions that affect their lives (Narayan, 2002). The empowerment approach is not a new concept. It has been championed by the largest development agency for the World Bank's developing countries. The World Bank is the main fund provider for many development projects worldwide and has a strong goal of combating poverty with empowerment as the primary focus (Duncan, 2000).

Mayo (2000) is pressing the culture of society in empowerment. He writes about community empowerment and takes the attitude that this is achieved through a thorough understanding of how each community is culturally formed. Rural areas in developing countries are very important because most poverty is there. Empowerment is generally seen as a key to good quality of life, enhancing human dignity, good governance, pro-poor growth, project effectiveness and better service delivery (Narayan, 2002.). Strategies for using empowerment goals vary because the community has class, ethnic, religious and gender differences. This makes

empowerment successful on a case-by-case basis and best suited to the social structure of each community.

This study itself sees empowerment as an effort to expand the community's capacity and the addition of community assets. The essence of community empowerment is the effort to improve the quality of community life affecting the welfare of households, household expenditures and household assets in daily life.

*BPR in Indonesia:*

In Indonesia the history of rural credit banks began in the Dutch colonial period in the 19th century with the establishment of Village Lumbung, Village Bank, Farmer Bank, and Village Dagang Bank, with the aim of helping farmers, employees and workers to escape from the entrapment of money loan sharks) that provide high interest credit. (Source Perbarido.co.id). Post-independence Indonesia established several types of small financial institutions and financial institutions in rural areas such as Market Bank, Village Production Work Bank (BKPD), and the early 1970s, Rural Credit Fund Institutions (LDKP) by Local Government.

In 1988, the Government issued the October 1988 Policy Package (PAKTO 1988) through Presidential Decree No.38 which became the initial momentum of the establishment of new BPRs. The policy provides clarity on the existence and business activities of "Rural Bank" or BPR. With the issuance of Act No.7 / 1992 on Banking), BPR was given a clear legal basis as one type of bank other than Commercial Bank.

BPRs established after PAKTO 1988 as well as Financial Institutions confirmed as BPRs in accordance with Government Regulation No.71 / 1992, are subject to the provisions stipulated in the Banking Act and regulations issued by Bank Indonesia as bank supervisory authorities. Particularly for the Village Credit Agency (BKD), although the institution is in accordance with Law No.7 / 1992 on Banking, it is given the status as BPR, but because the organization and management are relatively simple, the scope of its business is very small, and its operation is not everyday, the regulation and supervision of BKD can not be equated with BPR.

Considering the specific characteristics, numbers and distribution and historically prior to PAKTO 1988 BKD control under the authority of BRI, the supervision of BKD shall be conducted by BRI for and on behalf of the Bank. The Government of Indonesia through OJK regulation introduced and established BPR in 1976 as one of the strategies to facilitate the development of rural communities. In addition to instilling banking customs in rural dwellers, BPRs are to mobilize funds and channel them to productive enterprises in rural areas.

The rural banking subsector has become a growing and growing part of the overall banking industry and the Indonesian economy as a whole. In addition to the lack of



credit facilities that have helped improve the living conditions of beneficiaries, BPRs have also created jobs and have helped instill banking customs in rural populations to some extent.

### 3. Methodology

Qualitative research is used in this study while data analysis is using descriptive survey. This involves a one-time interaction with members of BPR and community financial institutions. The survey also includes interviews with members of community groups such as Perbarindo and BPR Management and 100 BPR users. Interviews were also conducted with selected staff members purposively. Criteria for conducting interviews are determined based on the tasks and positions held. While to the recipient community of the loan used purposive random sampling based on frequent use of loan and good repayment of loan.

### 4. Result and Discussion

#### *Amount of loans disbursed:*

The definition of fund disbursement is to resell the funds obtained from the collection of funds in the form of deposits. In channeling these funds, the bank must have a strategy that is able to channel funds to the community through strategic allocation so that the benefits can be maximized. The bank's purpose of allocating funds is to maximize profits. In allocating funds, the BPR \ Southeast Sulawesi divides it into certain percentages according to segmentation and vision of the mission as a bank that concentrates on the empowerment of Micro, Small and Medium Enterprises (MSMEs) The funds collected by banks will be a burden if left unchecked alone without any allocation of the productive use of such funds seen in Table 1.

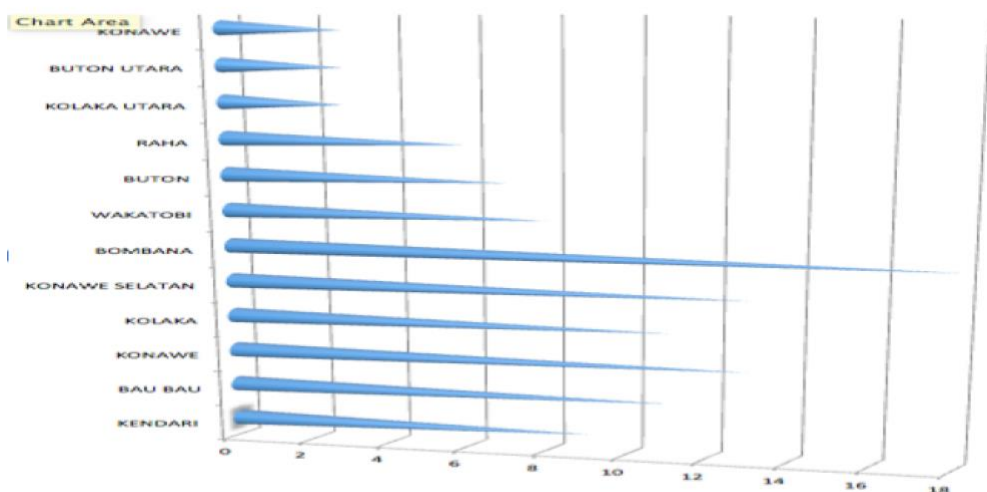
**Table 1.** Total Loans Disbursed in 12 Cities in Southeast Sulawesi

2011	2012	2013	2014	2015
1,874,792,176.41	2,041,213,384.92	4,128,019,616.42	8,972,328,377.30	11,018,149,655.43
1,860,733.00	3,114,239.00	3,703,075.00	7,502,600.00	12,225,217.00
1,376,585.00	4,391,088.00	8,561,553.00	15,706,546.00	15,333,942.00
1,445,852,457.81	2,616,758,120.32	4,457,746,335.62	7,661,007,884.34	12,981,255,644.75
1,830,252.00	4,353,437.00	8,085,543.00	12,574,111.00	14,603,290.00
1,529,114.00	3,565,548.00	8,422,246.00	17,515,761.00	20,459,225.00
800,366,563.14	2,417,487,301.54	3,580,393,306.00	5,546,428,824.49	8,838,209,346.38
			193,500,000.00	3,560,215,936.43
			132,395,774.90	3,241,713,297.11
			531,744,520.00	6,446,477,001.04
			-	3,429,099,900.00
			-	3,926,491,846.22

NO	WILAYAH	MODAL KERJA	KONSUMTIF	INVESTASI	TOTAL KREDIT	NASABAH
01	BPR KENDARI	10.278.458.387	739.691.268		11.018.149.655	526
02	BPR BAU BAU	8.874.670.697	3.350.546.392		12.225.217.089	767
03	BPR KONAWE	9.543.192.882	4.877.206.299	624.535.734	15.044.934.915	2.038
04	BPR KOLAKA	9.319.297.763	3.508.884.674		12.828.182.437	395
05	BPR KONAWE SELATAN	10.500.981.207	3.766.729.703	335.579.347	14.603.290.257	550
06	BPR BOMBANA	17.669.639.000	2.768.152.000	21.434.000	20.459.225.000	428
07	BPR WAKATOBI	6.089.957.027	2.748.252.320		8.838.209.346	429
08	BPR BUTON	1.840.377.778	795.237.000	856.208.334	3.491.823.112	118
09	BPR RAHA	5.661.047.000	890.698.000		6.551.745.000	234
10	BPR KOLAKA UTARA	2.808.282.997	433.430.300		3.241.713.297	150
11	BPR BUTON UTARA	3.357.589.000	568.903.000		3.926.492.000	143
12	BPR KONAWE UTARA	2.883.420.808	887.000.000		3.770.420.808	415
	JUMLAH KREDIT	88.826.914.546	25.334.730.956	1.837.757.415	115.999.402.917	6.193

*Source: BPR Owned Local Government in 12 cities in Southeast Sulawesi. In sequence, Kendari, Baubau, Konawe, Kolaka, South Konawe, Bombana, Waktobi, Bhuton, Raha, North Kolaka, North Buton, northern Konawe. has been processed. August 2016.*

From the above data shows the amount of credit distributed in all BPRs owned by the regional government experienced the increase and the highest amount of credit disbursed in BPR Kendari region and also seen the newly established BPR also began to experience a significant increase in credit channeled.



Of the number of loans distributed, BPRs should minimize the risks to the amount of credit channeled, this is in line with the results of interviews with informants the amount of Loans disbursed by BPR with emphasis on growth and minimize risk by way of small credit issuers with a large number of beneficiaries percentage amount of credit disbursement in each PD. BPR for Regency / Municipality, then PD. BPR Bombana has a large percentage with 18% or a disbursement of Rp. 20,459,225,000 followed by second position PD. Konawe BPR of Rp. 15,044,934,915 and the third position is filled by PD. South Konawe BPR of 13% and other BPRs.

From Table 1 shows the level of demand for BPR funds is very high with total disbursement of debits of Rp. 115.999.402.927. this shows the need for empowerment; the community is quite high. Percentage of loan disbursement in each PD. BPR for Regency / Municipality, then PD. BPR Bombana has a large percentage with 18% or a disbursement of Rp. 20,459,225,000 followed by second position PD. Konawe BPR of Rp. 15,044,934,915 and the third position is filled by PD. South Konawe BPR of 13% and other BPRs.

*Impact of Rural Banking on Household Empowerment:*

The impact of micro lender institutions to support rural economies can be divided into three main areas; This is household welfare, household expenditure and household assets. Household welfare further divided into three domains namely; education of children, housing and food security. In relation to children's education 76% of respondents, depending on funds from Micro Lending Institutions to bring their children to school. This shows that rural banking really plays an integral role in funding children's education. Another 14% pay their children's tuition by using remittances from overseas siblings, 5% income generating activities, 2% savings, 1 % sponsors and 2 % their own government.

Regarding housing, 46% of respondents received housing funds from micro-lending institutions. Other funding sources include: own savings, relatives and friends, income generating activities and sponsors, and each contributed 26%, 14%, 4%, 6% and 4%. Although rural banks have the highest scores in response the results are still below 50% which means it contributes to housing albeit to a lesser extent. These results indicate that in Southeast Sulawesi, microfinance has no impact on housing expenditure, people do not actually use micro loans for housing purposes, so they get other sources. Another reason that could be used to explain why microfinance from micro-lending institutions is not used for housing purposes is because the amounts are too small to be insufficient and therefore can not be used for building materials. Those who use it for housing purposes combine it with funds from other sources.

Household expenditures include funds spent on household products, transportation and funds spent in diseases and deaths. The results show that 58% of their respondents buy their household products that include furniture, kitchen utensils and clothing using funds borrowed from the BPR. The remaining 10%, 18% and 14% buy their household products using funds from their own home savings, remittances from overseas workers and income generating activities. Some members have the funds they keep in their homes that they do not keep in their village banks; This fund is a household saving which is a saving house. Income generating activities include small retail clothing, food items, agricultural produce, brick-making and chicken selling projects.

It is important that we investigate the source of funds. All respondents confirmed to run several small businesses. From the survey results, micro-lending institutions are the main source of funds (75%) used by respondents in their businesses, other sources include home own savings (10%) as well as sponsor from donor or government (2%) from other sources (13%). Of 95% of respondents who borrowed funds from village banks 90% experienced an increase in their business. 35% increase in profit, 15% of respondents managed to collect some assets, 15% increased sales, 20% increased Percentage for improvement of customer increase and debt settlement of 5% each. The remaining 10% have not improved in them.

## **5. Conclusion**

The impact of micro lending institutions to support the rural economy Household welfare the household welfare is further divided into three domains namely;

- a. Empowerment for children's education is very high at 76 percent.
- b. Empowerment for housing is quite high reaches 46 percent.
- c. Empowerment of food security is also high reached 56 percent.
  - 2) Household expenditure is high enough to reach 58 percent.
  - 3) Empowerment of household asset increase reaches 90 percent.

What's interesting is that 75 percent of their sources are obtained from BPRs, meaning that BPRs are very empowering them in improving their livelihood. While the results of research show the level of demand for BPR funds is very high with the total disbursement of debits of Rp. 115.999.402.927. this shows the need for high community empowerment. So, the local government should be able to revive the BPR in each region with the interest facilities are lowered, given the BPR interest rate is high enough, it is appropriate that BPR interest is subsidized so that it can empower the local community. Village funding program that reaches 60 trillion in 2018 should be utilized for village community empowerment through Rural Bank.

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## The Impact of Risk Judgment of Economic Policy and Financial Aspects Regarding the Life of the ASEAN Community Area

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**Abstract:**

*The objective of this research is to investigate the impact of risk judgment of economic policy and financial aspects regarding the life of the ASEAN Community area. The research sample is built of secondary data taken from websites and literature books. The quality service in many sectors like industries, financial, trading, taxations, tourism, agro-industries, highly technology industry, digital technology industry, modern market collaborations between companies etc., is quite high in the ASEAN community.*

*The selected sample of this research is coming from a purposive sampling method. There were indicators such as risk judgment economic policy indices, financial aspects and financial conditions in the ASEAN community which have been taken into consideration on the research hypotheses adopted in this study.*

*The data analysis used in this study is the multiple regression analysis. The result of multiple regression model shows that the impact of risk judgment economic policy (X1) influences the concern about the life of ASEAN. Similar conclusions have been drawn from the other independent variables as well.*

**Keywords:** Risk of judgment, financial aspect, global market, going concern;

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### 1. Introduction

ASEAN Community has brought many important contributions to the world. Those are supporting the Global Marketing in finance, economy, and technology. The power of the Global Economic Market is influencing the ASEAN Community, being able to rise the reputation of the ASEAN. Entrepreneurship is the new revolution, and it's about continual innovation and creativity. It is the future of our economic world. Entrepreneurship is the symbol of business tenacity and achievement. The sense of opportunity, the drive to innovate and the capacity for accomplishment have become a standard by which free enterprises are now measured. Entrepreneurship will continue to bring critical contributors to the economic growth through

leadership, management, innovation, research and development effectiveness, job creation, competitiveness, productivity and formation of new industry. The perspective is statistical, providing actual aggregate numbers to emphasize the importance of small firms in the economy (Kuratko and Hodgetts, 2007). The Global Economic Market is determining the ASEAN Community to be the best mentor on the long-term and it can support the economic growth in the world. Financial and economic indicators have full competencies in many industry sectors as trading, technology, digital technology and Agro-business to improving Global Market competitions. The human competence contributes to improve business aspects in ASEAN Countries Membership Programs.

The facilities of the economic policy offer the best solutions in many problems in ASEAN Community, especially Market Global Competitions and Economic Growth for All Countries member in the ASEAN Community. The Creative and Ethical Culture will be dominating. The need to act ethically is imposed to stakeholders in every field a firm does work. This need transcends everything else, and it influences the way the firms from the ASEAN countries view their responsibilities to their various membership of the ASEAN Community, especially to stakeholders like Customers demand ethical behavior, good ethics improves the work climate, newly empowered workers need clear guidelines. The Impact of the external forces Model of the path toward a successful Business-like indicators performance of achieving financial performance are: meeting customers' needs, building quality products and services, encouraging innovation and creativity and gaining employee commitment. Assessing the Environment and its impact like diversity trends and issues, economic forces, global influences, financial markets and process, legal and regulatory forces and industry and trading structure. Providing excellence in products and services like thinking strategically, providing value quality products and services, acquiring and using resources and using biotechnologies in a competitive environment (Fry, Stoner, and Hattwick, 2001).

Global concerns are a timely issue for contemporary American and Europe Business Collaborations, increasingly, foreign business is importing influencing of ASEAN Community Global Market competitions. Many foreign competitors became strong rivals because they could produce goods which are from much more cheaply firms. Opportunities for market growth are becoming increasingly saturated. The economic and Government issues are one of several kinds of influences on globalization that affect the business operation. Government involvement in global issues aim to increase the wealth, stability, and standard of living of their societies. To achieve this goal, they often implement policies that affect international trading. These policies may consist of tariff and other trade barriers or of overt support of business as they compete worldwide, like tariffs-free trade refers to situations, a tariff is a tax on an imported product. The tax raises the price that customers must pay for the imported good. If the tax is high enough, it will cause a higher import price than the price of the locally produced good or service. Accordingly, customers will be more likely to buy the locally produced goods.

The Government assistance is of various kinds, creating a new industry or enabling an existing industry to expand more than it could, if market forces were the only determinants of output. Type of price competition occurs when the value of the home currency increases. A type of import price competition is offering lower prices due to a practice known as dumping. Technically, dumping occurs when imports are sold at prices that are below the cost of production and distributions of the global market.

***Problem Solving Model:***

There are several problem-solving models as follows:

1. Which is the effect of the risk economic policy and financial conditions impact in the market? Simultaneously to the ongoing concern of global market competitions of the ASEAN Community area, could be the economic growth the maximal powerful solution?
2. Which is the impact of the risk economic policy partial to going concern of the risk of such dependency in global market economic competitions of ASEAN Community Area?
3. Which is the impact of the financial conditions in the market? Is it a partial or a growing concern of risk of such dependency in global market economic competitions of ASEAN Community area?

***Problem Limitation of Resources:***

The destinations and benefit are as follows:

- a. We can know about the impact of the risk economic policy and financial conditions in the market simultaneously to going concern to benefit of improving of ASEAN Community area knowledge for many people especially to lecturer, student, and public communities,
- b. We can know about the impact of the risk economic policy as partial of going concern to Supporting to ASEAN community area membership and partnership program, especially to business activities program as effectively and efficiently to achieve maximal benefit and powerful Economic highly.
- c. We can know about the impact financial condition in market to partial to Developing Critical aspects, thinking skills, giving the best mental attitude continuing in many sectors of supporting Economic of ASEAN Community Program toward the best global market reputations at ASEAN Area Community Area.

**2. Descriptive theoretical, framework thinking, resources of data analysis and resources of hypothesis development**

The framework in ASEAN Community implementation was a significance part and it has been evaluated theoretically from Kondalkar (2007), Robbins (2009), Sutermesiter in Tjutju Yuniarsih and Suwatno (2009), Staw in Taliziduhu and Draha (1999), Syafri Mangkuprawira (2009), Wagner and Hohenbeck (2010), Gibson and Ivancevich in Mangkuprawira (2009), Colquitt, Lapine and Wesson (2009), Ratundo



and Sackett in Khaerul Umam (2010) and Sims (2002). They conclude that the framework is an indicator to determine the persistence of a community area as ASEAN Community.

***Framework thinking and analyzing:***

The characteristic of team work of an organization and the framework in supporting the risk management judgment of the leader from ASEAN Economic Community can be contributed in financial aspect and strategic economic indices that are important measures for a continuously perfectly membership and partnership between the countries of the ASEAN Community. The Organizations of ASEAN Community must contribute servicing important for depending and improving motivations to achieve a maximum output. The different team works of frame working have characteristics toward the best output in decision making. The statement of the team characteristics influences directly productivity activities of the ASEAN community in the global market, satisfactions to the working frame regarding productivity, leadership value, market value etc., (Katzenbach and Smith in Rees and McBain, (2007).

***Data analyzing:***

The research analysis use hypothesis testing concerning a single parameter with regards to the dependent variable. The type of data is numerical, t test has been used for hypothesis testing, using the mean and the categorical Z test. The independent variables are the judgment of the economic policy in ASEAN (X1) and financial aspects and other conditions in the global market applied to ASEAN Community (X2). The dependent variable is the frame regarding concerns about the life in the ASEAN Community Area (Y). This research used descriptive statistic. There are two possible situations when means are compared. The first is when the means are from independent samples, and the second is when the means are from samples that are related.

***Hypothesis development:***

X1 and X2 simultaneously influence the dependent variable Y.

X1 partially influence the dependent variable Y.

X2 partially influence the dependent variable Y.

Frequency distributions and measures of central tendency are very useful for the measurement of an ASEAN Global Marketing Community researcher. In most cases, the researcher will have some preconceived notion of the relationship the data should present. The preconception should be based on Global Marketing competition theory or previous research. The preconception is called a hypothesis. In statistical significance, there are two type errors associated with hypothesis testing that the marketing researcher needs to be aware when forming conclusions based on the data analysis. The first type of error is termed type I: type I error is associated with rejecting the null hypothesis and accepting the alternative hypothesis although it is not correct. This type of error, frequently called alpha (alpha), occurs when the

sample data lead to rejection of a null hypothesis that is in fact true. The probability of such an error is termed the level of significance. The level of significance is equivalent to the amount of risk regarding the accuracy of the test that the researcher is willing to accept. Type II error is the error that occurs when the sample data produce results that fail to reject the null hypothesis when in fact the null hypothesis is false and should be rejected. Type II error is frequently called beta (beta). Unlike alpha which is specified by the researcher, beta depend on the actual population parameter.

As follows the sample data and the hypothesis formula in researching in this research is associated with:

- The influence of Global risk judgment economic policy and financial condition in the market of the ASEAN Community region area influenced positive directly to Going Concern aspect of the ASEAN Global Marketing Community area.
- Analyzing relationship of sample data and population parameters used logistic regression logistic with hypothesis of alpha 5%.
- Going Concern of ASEAN Community Global Sectors Area (Y)=  $a + \text{Beta}_1$  risk of economic policy (X1)  $+ \text{Beta}_2$  Financial Condition in the market (X2).

### **3. Methodology**

The purpose of inferential statistic of this researching are to decide about a population on the basis of sample from that population. Sample statistics are measures obtained directly from the sample or calculated from the data in the sample. A population parameter is a variable or some sort of measured characteristic of the entire population. Sample statistics are useful in making inferences regarding the population's parameter. Generally, the actual population parameter is unknown since cost of perform true census of almost any population is prohibitive.

Data are secondary data coming from the population of sampling. In this sample, this mean that the response to the question on competitive prices will have a mean of 5.5 (approximately halfway between 1 will not be significantly different from 5.5). The formula for conducting a t test is available on the website. This test is used frequently in situations where the sample size is small, and the population standard deviation is unknown.

### **4. Result and Discussion**

Data have analyzed using the regression multiple linear method with SPSS program version 22. The selections of data based are 50 sample of the criteria of indicators from secondary data sources as the website and literature books, we have 20 indicators to select the sample as follows in Table 1:

**Table 1.** Statistically of Impact of Global Market Competitions

Risk of analyzing of global market Competitions	Amount	%
The impact of risk judgment economic policy (X1 )	35	70
Financial aspect condition in global market (X2)	15	30
Total	50	100

For validation it was used the statistic SPSS software program, in order to test the responses from the data base to find the answer to the research questions posed above. The click through sequence is ANALYZE, Compare Means, One sample test. When we get to the dialog box, click on X2, competitive to highlight it. Then click on the arrow to move X2 into the test variables box. In the box labeled test value, enter the number 5.5. This is the number we want to compare the respondent. The first table is labeled one sample statistics and shows the mean, standard deviation and standard error for X2 Competitive price or value. This means that the null hypothesis can be rejected, and the alternative hypothesis is accepted with a high level of confidence, from practically standpoint, the result of the univariate hypothesis test mean that respondent felt that the value of the menu item was not competitive at all. In fact, the average answer is closer to the anchor point on the scale (1= not competitive) where the value of validity can be corrected item-total correlation (Ghozali, 2011). In this research for the r table is  $N-2 = 20-2=18$ , with significance tolerance  $5\% = 0,05$  so the r table for validity testing is as follows (Table 2):

**Table 2.** The validity variables are the impact of risk judgment policy and financial aspect conditions in global market of Uji T test Partial

Variable item	Cumulative Probability of t test Calculations	Critical Values of t test (Table)	Descriptions
EGM1	EG1 1.734	1.6896	Partial Positive Significance
EGM 2	EG2 1.734	1.7531	Partial Positive Significance

The validity of the variable from database of the result are as follows: The critical values of t calculation < cumulative probability table is EGM1 amounting  $1.6896 < 1.734$ , therefore it can be concluded that the variable X1 is marginally positive significant. The critical values of t calculation > cumulative probability table is EGM2 amounting  $1.7531 > 1.734$ , therefore it can be concluded that the variable X2 is marginally positive and significant (Tables 3, 4, 5):

**Table 3.** Sample statistics

X Competitive	50	2.22		1.15		0.16
X2 Competitive	15	0.67		0.35		0.048
X1 Competitive	35	1.55		0.49		0.112
X Competitive	20	0.88		0.46		0.064
X Competitive	18	0.79		0.414		0.0576

Test sampling N=50 have mean 2.22, standard deviation of sample is 1.15 and standard error mean data is 0.16.

**Table 4.** The validity variable is going concern of life ASEAN Community Area of Uji F Simultaneous

Variable item Values of F test	Cumulative Probability of F test Calculations Descriptions	Critical
EGM1 2.480	EG1 Simultaneously	2.77
EGM 2 2.900	EG2 Simultaneously	2.77

The validity of the variable from the results database shown in the Tables concludes that the critical values of F Table test < cumulative probability of F calculation in EGM1 amounting to 2.480 < 2.77, with the conclusion that the influence of this variable is simultaneous. The critical values of F Table test > cumulative probability F calculation in EGM2 amounting to 2.900 > 2.77, with the conclusion that the influence of this variable is also simultaneous.

## 5. Conclusion

This research is bringing many contributions in various aspects especially in the ASEAN Community of global marketing competitions and judgment in financial and economic risk of the decision-making leader of the regions or the countries. This result has given an intact database relevance and can be validated by the variable sampling from the indicators' relevance of the research. The conclusions are:

1. The validity of the variable from database of the result is as follows: Critical Values of F table test < cumulative probability F calculation is EGM1 amounting to 2.480 < 2.77, therefore it can be concluded that the variable is significant. It can be seen that Critical Values of F table test > Cumulative probability F calculation is

EGM2 amounting  $2.900 > 2.77$ , therefore it can be concluded that the variable is significant.

2. The impact of risk judgment economic policy and financial aspect condition in global market are partially positive and significant to concerns regarding the life of the ASEAN Community Area (t test).

3. The impact of risk judgment economic policy and financial aspect condition in global market are simultaneously positive and significant to concerns regarding the life of the ASEAN Community Area (F test).

Suggestions are as follows:

- We hope in added value from other independent variables which may influence the leader judgment in ASEAN Community region of the countries by improving the frame of working area regions and countries. This will help the global market competitions to go directly to the ASEAN Community Area and successfully programs to continue.
- We hope to increase the resources of sampling and greater expansion of validity tests giving more contributions, like good judgment of the ASEAN Community program regularly.
- We hope that the resources can be much more, more benefits for many people giving inspirations and inputs for the best solutions of the problems in the ASEAN Community region area especially for the global market anticipation program.

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## Performance Effectiveness Measurement of Village Funding Management Using Fuzzy Inference System (FIS) Method

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### **Abstract:**

*The complex village problems require special handling, especially in the management of village funding. It is believed that there are needed parameters to measure the success of village fund management. This research seeks to produce a method of measuring the effectiveness of village funding management. Fuzzy inference system (FIS) is an artificial intelligence model developed to quantify qualitative data obtained from expert opinion into mathematical equations. From this research, the effectiveness measurement model using FIS can be applied as one method of measuring the effectiveness of village fund which is user friendly.*

*Keywords: village funds, effectiveness, Fuzzy, user friendly;*

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### **1. Introduction**

Indonesia is one of the four most populous countries in the world with a population of 255.46 million as of June 2015 (BPS, Indonesia Population, 2016). The population is spread over 74,754 villages, in accordance with the data of the Ministry of Home Affairs (Kemendagri, 2016). Around 10 percent of Indonesia's population based on BPS data is below the poverty line with a total population of 27.76 million. Most of the poor live in rural areas. The number of poor people living in rural areas reached 62.24 percent or 17.28 million people.

The issuance of Law No. 6 Year 2014 on the village by the government and the House of Representatives affirmed the important role of the village as well as a strong foundation of the implementation of development and village empowerment so that the village is expected to become the center of the economic growth. The government of the Village is given the freedom to build the village in accordance

with the needs and is expected to become an independent village, responsible, and democratic. This is in line with Nawa Cita proclaimed by the Government of Indonesia Year 2014 with emphasis that build Indonesia from the edge with efforts to strengthen the areas and villages throughout the country. The village building program is a form of attention and seriousness in efforts to achieve prosperity for all levels of the Indonesian society (Bappenas, 2015). However, despite the increasing authority of the village, there is still a fundamental problem for villages regarding financial management, assets, revenues, and expenditures. The villages have been facing challenges that they must meet the demands of accountability, transparency and accountability (Setyoko, 2011).

One of the Government's efforts to make the village self-reliant and become the center of the economic growth is by allocating village funding (VF) in the national funding (APBN). VF is allocated equal to 10% of total budget Transfer to Region and Village Funding (TRVF) with 90:10 proportion that is 90% basic allocation divided by number of villages in Indonesia and 10% based on the following formula: population 25%, poverty rate 35%, area coverage 10% and Construction Cost Index 30% (Bappenas, Village Fund Policy Analysis and Poverty Alleviation, 2017). VF is planned to be transferred at least 1-1.4 billion rupiah per village.

Good village governance should follow the increasing trend of DD from year to year. Constraints faced by the village relate to low quality of human resources that manage village finances. The Ministry of Finance of the Republic of Indonesia considers that village apparatus is not yet ready to manage current budgeted village funds. The uneven human resources between regions has resulted in poor management of village financial administration. This has an impact on the level of effectiveness of VF that has been budgeted. Community participation is still low both in the process of budgeting the village funding and monitoring the use of VF. Thus, accountability still does not meet the expectations of the village governance itself (Ismail et al., 2016).

VF can achieve the desired level of effectiveness if the success supporting instruments are functioning and running properly, so that village financial management can be accountable, transparent, relevant and reliable. The quality of the human resources managing village finances is not equitable and balanced between villages so it needs professional counseling personnel. Implemented reporting standards can be optimized, as well as easy-to-use (user friendly) systems that will ultimately achieve local financial accountability. Based on the above, the problem formulation in this research is how to assess the effectiveness level of user-friendly village funding management using Fuzzy Inference System (FIS) method.

## **1. Methodology**

### Theoretical Framework



According to Isard (1940), a figure popularizing the territorial discipline, "territorial science is a study discipline that deepens social problems in the regional dimension or spatial dimension, using various combinations of analysis and empirical research." There are at least two types of territory division through both homogeneous and functional approaches. It is simply that a homogeneous approach to the scope of a region focuses on similarity or uniformity. On the other hand, the functional approach focuses on the interaction of the area compared with other regions outside the region so as to create interdependence in economic aspects. In relation to the countryside, there are at least two thoughts. First, urban areas are inferred as rural areas that are growing faster than other villages. Second, urban is referred to as an earlier area formed rather than a village. The village formed due to the high population growth in urban areas causing some of the urban population to spread to the surrounding areas and form a village (Setiono, 2011).

According to the Minister of Home Affairs Regulation No.113 of 2014, villages are customary villages or they are called by other names, hereinafter referred to as Villages, are legal entity units with territorial boundaries for governing and administering government affairs, the interests of local communities based on community initiatives, origin rights, and/or traditional rights recognized and respected within the system of government of the Republic of Indonesia. On the other hand, the village administration is the implementation of government affairs and interests of local communities in the system of government of the Republic of Indonesia. The village according to Authorized Indonesian Dictionary is a territorial unity occupied by a number of families with a self-governing system headed by a Village Head.

VF is a fund sourced from the State Revenues and Expenditures Budget for villages transferred through the Regency/City Revenue and Expenditure Budget and it is used to finance the implementation of governance, development implementation, community development, and community empowerment (Government Regulation No. 60 Year 2014). Implementation of VF involves three Ministries, namely Ministry of Home Affairs, Ministry of Finance, and Ministry of Village. Ministry of Home Affairs is responsible for organizing the village government's capacity building, the administration of village government, administration, accountability, and reporting of village funds. The Ministry of Finance is responsible for the royalty of the Village Fund in the APBN. While the Ministry of Village is responsible for determining general guidance and VF priorities.

Basically, all organizations perform activities to transform inputs into outputs with specific processes of each organization. Furthermore, output is expected to provide outcome and impact to the parties - stakeholders with the organization.

In the field of audit, effectiveness is one measure that is tested by the auditor to know audited performance. According to Law Number 15 Year 2006, the examination is called audit performance, which is defined as an objective and

systematic audit of various evidence to assess the performance of audited entities in terms of economy, efficiency and effectiveness, with the aim of improving performance, and entities that are audited and improve public accountability.

The design of this study is a qualitative study that quantifies qualitative data in the form of expert opinions from resource persons who have knowledge of VF governance. Based on the knowledge of the resource persons, a mathematical model is created that illustrates objective assessments in accordance with VD governance regulations and practices in the field.

This method is very relevant given the difference between the village character and the resources that manage it. Through this method, experts are very involved in establishing the effectiveness level of village funding management. With the ability of experts who can analyze more sharply on this issue, the conclusions can be presented in depth and can present a model of credible effectiveness scoring and can be accounted for. Therefore, this study uses fuzzy logic to accommodate expert opinions.

According to Atuilik (2013), fuzzy logic is one of the mathematical approaches that mimics the way of human thinking. This method of doing the analysis contains uncertainties. This method is very flexible and has tolerance to existing data. Therefore, the approach of the Fuzzy Inference System (FIS) method can yield more relevant scores on the effectiveness of DD management.

Fuzzy logic was first developed by Lotfi A. Zadeh of the University of California, United States in 1965. Fuzzy logic is a branch of the science of Artificial Intelligence which can change the ability of human thinking into the form of algorithms and can be run by the machine. According to Zadeh, conventional logic justifies right and wrong cannot accommodate in addressing gradation problems or vague things in the real world. The degree of disguise is expressed in the degree of a faint membership and the degree of truth membership. As a consequence, causes a thing can be categorized partly true and partly wrong at the same time. Fuzzy logic part of soft computing is a model that uses the approach by imitating the way of thinking human reason by understanding the environment around with conditions full of uncertainty and inaccuracy (Kusumadewi & Hartati, 2010).

According to Kusumadewi and Hartati (2010) Terminology of Fuzzy's set consists of two terminologies. First, the classical set (crisp) in which the existence of an element that is a member of the set has only two possible memberships. For example, being a member of set A or not a member of set A. Second, Fuzzy Set where this set is illustrated as set of consecutive pairs with first element as element name while second element as membership value. The Inference System (Fuzzy Inference System or FIS) is defined as a computational framework based on fuzzy set theory, IF-THEN rules, and fuzzy reasoning.

There are several operations in the conventional set and can be defined specifically for combining and modifying fuzzy sets. According to Zadeh, there are three basic operations in the fuzzy set, namely: AND, OR, and NOT. The AND operator is the result of the operation to be obtained by taking the smallest value between elements, the operator is closely related to the intersection operation of the set. Second, the OR operator is closely related to the union operation, where the results obtained by taking the largest value. While the operator NOT closely related to complementary operations that result by subtracting the value of membership elements (Kusumadewi & Hartati, 2010).

### Sample

This study uses a sample of villages in the District Cibungbulang, Bogor Regency. There are 14 villages used in this research sample: (1) Cimanggu II; (2) Cibatok I; (3) Sukamaju; (4) Leuwi kolot; (5) girimulya; (6) Cimanggu I; (7) Situ Udik; (8) Ciaruteun Ilir; (9) Cibatok II; (10) Cijujung; (11) Galuga; (12) Situ Ilir; (13) Cemplang; and (14) Dukuh.

## **2. Results and Analysis**

### Determination of Variables

The process of determining the input variables is based on the identification of both the literature from the previous research, the regulation of village funding (such as the Law, Ministerial Conflict, and Legislation). Variables determined on the basis of the literature consist of at least two input variables namely Budget Absorption and Reporting Accuracy, as well as the output variables namely Effectiveness of Village Funding Management. The Budget Absorption Assumption as an input variable is based on the Village Revenue and Expenditure Budget which focuses on budget absorption from budgeted funds so that development objectives will be achieved when the level of effectiveness of budget absorption is high. Second, the Accuracy of Reporting assumed in the Human Resources who manage it. Village financial management will achieve a high level of effectiveness when managers are able and have the capability to manage targeted. Accuracy Reporting becomes one indicator of successful management.

Determination of variables and criteria proposed by researchers and discussions with resource persons. The respondents who become resource persons in this study are: Joni Agung Priyanto, SE, MSi, Ak, C.A. The team leader of Indonesian Supreme Audit Institution.

Dr. Eko Prasetyanto Purnomo Putra, S.Si., M.Si, Director of Village Development – Ministry of Home Affairs.

The scoring process involves a source of knowledge or expert in the field of village fund management. The following variables are determined as measures of the effectiveness level of village funds in table 1.

**Table 1.** Variable Input - Output

Function Name	Variables
Input	Budget Absorption
	Distribution Period
	Budget Accuracy
Output	Effectiveness of VF Management

Fuzzy Logic

At this stage the first variable validation is tested, both input and output variables. The result of this variable validation is used as the criterion of effectiveness assessment. Based on the acquisition of discussion knowledge with resource persons assumptions considered in fuzzification. First, Budget Absorption. This variable is maintained with the assumption that the Village Fund cannot be separated from the absorption of the budget that can be absorbed by the Village. So that significant effect on the level of effectiveness of the Village Fund.

Second, Distribution Period. This input variable is influential but not very significant to the Village Fund. However, this variable can represent the level of effectiveness when there are two or more villages where the budget absorption rate and budgeting accuracy get the same score, then this variable can be an alternative in determining more score for the Village that gets the distribution according to the regulation. This distribution period is limited to a maximum of 7 days based on government regulation i.e. PMK No. 49 of 2016 on Procedures for Appropriation, Distribution, Use, Monitoring and Evaluation of Village Funds. If it exceeds 7 days, it will be considered ineffective until the next period of Village Fund disbursement. In one budget year there are three distribution periods, i.e. April, August, and October. This is true in the budget period before 2017, while the budget period starting in 2017 has only two periods, namely in March and August.

Third, Accuracy of Budgeting. These input variables have a significant influence on the effectiveness of village fund management. This is based on regulations requiring 70% of the budget to be used for development and empowerment, while the remaining 30% of the budget is used for village operations. So far, the operational fund is bigger compared to the development and empowerment. This has an impact on the objectives of the Village Fund itself in accelerating development so that there are economic impacts for the community. In the interim input variable, the accuracy of reporting is not used as input variable with the reason that the variable is still general and insignificant and has been represented by the period of distribution, where the distribution period is done after the administration of the previous period is completed and approved. While the Output variables, the Village Fund

Effectiveness. This variable consists of three sets of members, namely high, medium, and low.

#### **Inference**

Fuzzy Inference System (FIS) is a phase of converting reasoning from expert experts into fuzzy sets, with the IF-THEN (If-Maka) rules. The number of rules is based on the multiplication of the number of member sets of each input variable. So that the rules on the effectiveness of the Village Fund there are 12 rules, this is obtained by multiplying 3 sets of members of budget absorption variable, 2 subscriber variable sets, and 2 variable budgeting precision Defuzzification.

Based on the process if the data using matlab 13 applications, then each - each variable used in this study it will get the function of variable constraints. The complete matlab output of 13 of these variables is as follows.

Input Variables - Budget Absorption. The Budget Absorption Variable consists of three fuzzy sets, namely: LOW, MODERATE, HIGH. 2. Input Variables - Distribution Period

The Distribution Time variable consists of two fuzzy sets, namely: HIGH and LOW. Input Variables - Budgeting Accuracy. The Budgeting Accuracy variable consists of two fuzzy sets, namely: HIGH and LOW. 4. Output Variables - Village Fund Effectiveness

The Village Fund Effectiveness Variables consist of three fuzzy sets, namely: LOW, S, HIGH. The following figure set fuzzy variable output shown in Figure 7 below: Output Variables - Village Fund Effectiveness. The Village Fund Effectiveness Variables consist of three fuzzy sets, namely: LOW, MODERATE, HIGH.

#### *Analysis Results*

Based on the constraint function of each of the variables studied, then tested by using real data field using the algorithm to get the value of the effectiveness of each village. Automation calculations are made using java programming language in the form of applications with the aim of facilitating the user in doing the calculations. The results of calculations through the application can be seen in table 3 below:

Based on the output level of the algorithm in the table above, the maximum effectiveness level is 100% and the minimum is 86.86% so that the fourteen villages analyzed into the set that have the effectiveness of tinge because the value exceeds 80%.

To know and compare the achievement of the level of effectiveness that exists in the set of high effectiveness of membership needs to be re-classified within the set. The obtained level of effectiveness needs to be classified again into subsets into groups with the criteria of the highest effectiveness level, first high effectiveness, second high effectiveness, and the third high effectiveness. For villages that get 100%

effectiveness value then enter into sub-set with the highest effectiveness criteria. While the other 3 sub-sets are classified based on the frequency distribution with the class provisions in table 3 as follows:

Based on the criteria and class limits that have been determined above then the achievement of effectiveness in the set of high effectiveness membership is in graph 2 as follows:

### **3. Conclusions**

Performance measurement in VF governance needs to be done to determine whether FV is well managed. Measurement of effectiveness can be used both qualitatively and quantitatively. FIZ seeks to integrate qualitative data with quantitative processing. With the FIZ method can be calculated the effectiveness of each village based on the opinion of resource and inference researchers.

Based on this research it can be concluded that FIZ can be used to calculate the effectiveness level of VF governance. With java programming language can be made a user-friendly application so that FIZ can be easily used by regulators, auditors and implementers of VF both village, district and district as DD supervisors. With the flexibility of developing variables and FIZ criteria can be developed more complex in the future.

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## **Juridical Review on the Leasing Agreement Due to Web-prestrike Carried Out by Lessee in Pt. Naga Mas Bangun Reality**

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**Abstract:**

*Observing the reality of the public's need to have an increasing transportation facility, while the purchasing power is very limited and low, business actors compete to provide a way out so that in such conditions, consumers can still get a desired goods, then the role of Financing Institutions (Lembaga Pembiayaan) is expected as an alternative loan from banks. Financing in the fund provision or capital goods by not drawing funds directly from the community in the form of demand deposits, deposits, savings and or other equivalent.*

*The financing Institutions are also prohibited to issue Promissory Notes, except as collateral for debts to the creditor bank. Understanding the agreement, it can be found in Article 1313 Civil Code, that, "Agreement is an action where one or more persons bind themselves to one or more persons". Term "leasing" comes from the word "lease", which means "to lease", because leasing is basically lease. So, leasing is a derivative form of rent. But then in the business world developed a lease in a special form called leasing is sometimes called lease only and has changed its function to one of the financing. In Indonesian leasing is often termed "lease". PT. Naga Mas Bangun Reality is a leasing company that uses Financial Lease or Capital Lease or also called full pay out lease, which is a leasing business where in addition to paying the rent specified in the contracting period the lessee will purchase the capital goods based on the rest agreed upon mutuality.*

*The lessee is given the option to determine the leased item whether to buy, return or extend. Attempts to resolve the breach of contract by the lessee in the event of overdue payment of payment that is by giving Legal Notice to the lessee. The first one is granted 7 (seven) days, if the lessee does not respond to the legal notice, the lessor gives the second one for 7 (seven) days. If the second one of the lessees still has not responded, the lessor shall give a third legal notice for 7 (seven) days. The next call if the lessee has not fulfilled his / her obligations, the lessor shall call for deliberation on contained that the lessee required to pay the outstanding installment and the service reward service and the fine or the lessor shall take the lease from the lessee's control. After that the item will be auctioned and the proceeds will be used to fulfill the lessee obligation in paying the entire debt to the lessor, if any payment remaining, the lessor will return to the lessee.*

**Keywords:** Lease agreement, breach of contract.

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## 1. Introduction

Copyright belongs to the funding institutions, being a business institution making funding activities in form of fund provision or capital goods by not drawing funds directly from the community in the form of demand deposit, savings and or other equivalents. The financing institution is also prohibited to issue a Promissory Note, except as collateral for the debts to the creditor bank.

Leasing or *Sewa guna usaha* is a financing alternative first introduced in Indonesia in 1974, with the issuance of a Joint Decree of the Minister of Finance, Minister of Industry and Minister of Trade No. Kep-122 / MK / IV / 2/1974, Number: 32 / M / SK / 2/1974, and Number: 30 / Kpb / 1974 regarding leasing business licenses. The regulation on leasing has been enhanced by the Minister of Finance Number: 1169 / KMK / 01/1991 regarding Leasing activities. Based on the Decree of the Minister of Finance Number: 1169 / KMK.01 / 1991, the leasing business is getting attention from both the government and the community.

Leasing is an alternative financing form for companies that require capital goods. Business leasing is usually done easily through a simple agreement between the owner of the equipment (lessor or lessee) with the tool user (the lessee). The agreement covers the cost of using the equipment and any rules underlying this leasing business (Edy, 1990).

In the execution of the lease agreement, the lessee generally makes breach of contract both temporary in the sense of delinquency and then pay, and also of a fixed nature in the sense that the matter has to be resolved through legal process. In the case where the lessee performs a default contract, the law requires creditor (lessor) to provide a negligent statement to the debtor (lessee). This is confirmed in Article 1238 of the Civil Code (KUHPer). So, in the case of negligence, (breach of contract) by the lessee who owe the principal must be formally declared formally, i.e. by warning the lessee that the creditor (the lessor) wishes the instantaneous short-term payment to be determined. In short must, be billed and the negligent to be reprimanded with a warning or legal notice. The debtor (lessee) who performs a default can be caused in two ways that is by intent or negligence. To prove it must be proved before the judge because it has such important consequences.

### ***Problem Formulation:***

How is the settlement in case the lessee is late in paying the installment in the lease agreement?

Why is the lessee late in making payments to the lessor, even though was made a agreement letter has been legally agreed upon mutually?

Are late payments made by a lessee legally justified?

## **2. Methodology**

The approach method used in this research is Juridical Normative and sociological. The starting point of the existing rule of law with the aim of obtaining knowledge according to the rule of law applicable on the relationship between one rule with the other rules.

The data used in this study is secondary data, i.e. data taken from literature books, legislation, paper, and legal journals obtained from libraries, especially the Postgraduate of Borobudur University Jakarta. The legal materials used are: Primary legal materials, binding legal materials consisting of legislation, Book of Law Civil Law, Decision of the Minister of Finance Number: 1169 / KMK.01 / 1991, Joint Decree of the Minister of Finance, Minister of Industry and Minister Trade Number: Kep-122 / MK / IV / 2/1974, Number: 32 / M / SK / 2/1974. Secondary Legal Material, which is a legal material that provides explanation of primary legal materials, taken from the literature, research results, legal journals and so on.

Tertiary Law Material, which is a legal substance that provides guidance on primary and secondary legal materials, such as dictionaries and encyclopedias. Method in analyzing this research data is qualitative method, that is by describing the data that have been obtained based on legal norms or rules that are relevant to the subject matter. Then analyzed systematically to be drawn a conclusion.

## **3. Results and Analysis**

### *Discussion:*

Implementation Phases of Leasing Agreement in PT. Naga Mas Bangun Reality

### *Application Phase:*

Each application for lease submission must fill out an application form that has been provided to be fulfilled completely and signed by applicant.

### *Checking Phase:*

Based on the application of the applicant, the marketing department of PT. Naga Mas Bangun Reality will check the truth of filling out the application form by doing the following:

- Check if the facility still has outstanding debt to the bank or other LKKBB by sending Banker's Enquiry, if necessary;
- Check the funding to suppliers, lessees and competitors;
- Checks of shareholders and company administrator adjusted to the company's articles of association.

### *Field Checking Phase:*

If the checking phase of the result is good enough, then the application process is followed by a field inspection or audit for lessee candidate.

The objectives of the field inspection are:

- To ensure the existence of the lessee and ensure the need for capital goods;
- Studying the existence of capital goods required by the lessee, especially the capital goods prices, the supplier credibility / suppliers of capital goods and selling services;
- To calculate exactly the truth, the report and / or seller of the lessee candidate is compared to the report that has been submitted.

*Lessee's Curriculum Development Phase:*

Based on the result of field inspection, marketing department of PT. Naga Mas Bangun Realty will create a curriculum vitae of the prospective lessee, whose contents will illustrate:

- Company / individual lessee's name;
- Name of the owner;
- Address and Phone Number;
- Conditions of financing undertaken by the lessee;
- Type and type of capital goods.

*Proposal Submission Phase to Credit Committee:*

Division of Marketing Department PT. Naga Mas Bangun Realty will submit a proposal against the application submitted by the lessee to the committee credit. Proposals usually include:

- The purpose of providing leasing facilities to the lessee;
- Structure of financing facility concerning the capital goods prices, security deposit (guarantee deposit), net financing, interest period, type of capital and others;
- Background of the company and shareholders composition with information about the business and operating cycle of the client company;
- Analysis of financial statements, current accounts and capital requirements;
- Risk analysis;

*Credit Approval of the Committee Credit:*

The committee's credit decision is the basis for the lessor to undertake financing or not. If the lessee's application is rejected, rejection letter must notify it, whereas if approved, the marketing department shall prepare a prospective lessee's offer letter.

*Delivery phase of quotation letter:*

Once the proposal obtains approval from the credit committee, then the marketing division must prepare a quotation letter and must be signed by the lessee and this document will be a letter of acceptance.

*Binding phase:*

Based on the quotation letter signed by the lessee, the legal section will prepare the following binding:

- The lease agreement and its attachments;

- Personal guarantee, if any;
- Corporate guarantees, if any.
- Binding contract lease agreements can be made under the hands, legalized by a notary or notarized.

*Phases of ordering of capital goods:*

After both parties do the signing of the agreement, then the lessor (PT Naga Mas Bangun Reality) will do the following:

- The lessor asks for proof of purchase order and proof of delivery as well as receipt letter from the supplier, that has been sent to the lessee;
- Especially for used financing objects, whether motor vehicles, land and buildings, BPKB / certificates will be conducted by the credit administration to the relevant government agencies;

Payment acceptance from the lessee to the lessor (through a supplier) which includes:

- First Payment;
- Security deposit;
- The first lease installment, if any profit;
- Insurance premium, for the first year;
- Administrative costs;

The following payments, among others:

- Subsequent lease installments, in the form of check / backward bilyet giro;
- Payment of insurance premiums, for the following year.

Payment phase to supplier.

After the capital goods are delivered by supplier to lessor, supplier will then make the billing to the lessor, by attaching the following:

- Full receipt;
- Receipt of advance payment and/or receipt of advance payment;
- Confirm purchase order (the exact purchase of goods);
- Delivery proof and Goods receipt;
- Friction of the engine frame;
- Statement Letter of BPKB;
- Duplicate keys;

Delivery orders.

Before the lessor makes the capital goods payment to supplier, lessor will do so:

- To conclude insurance coverage to an insurance company that has been assigned by the lessor;
- Examination of all leasing agreement documentation by credit administration by using document check lists.

*Billing phase / monitoring payers:*

After the whole payment process to the supplier is fulfilled, the next process is lease payment from lessee to lessor. The payment system that can be done by PT. Naga Mas Bangun Reality is as follows:

- 1) Cash;
- 2) Check / bilyet giro;
- 3) Transfer;
- 4) Directly billed.

Determination of rent payment system, specified at the time of marketing process done, b. The guarantee section will monitor lease payments based on predetermined payment period and based on established payment system

*Taking collateral:*

Having the lessee repay all lease receivables to the lessor will return the following:  
Guarantees (BPKB and/or Certificates);  
Notice of the exercise of option rights

*Rights and obligations of each party in the Leasing Agreement in PT. Naga Mas Bangun Reality:*

Regarding lessor and lessee rights and obligations, based on standard agreement made by PT. Naga Mas Bangun Reality is as follows:

- Lessor Liabilities:
- Submit the leased goods or equipment to the lessee in good condition;
- Ensure a safe use of any third-party intrusion or damage to the lease object;
- Giving option rights to the lessee to determine whether the lessee will extend the lease term or purchase it at the agreement end;
- Submit ownership rights to goods or equipment purchased by the lessee at the end of the lease agreement.

*Lessor Rights:*

- Receives periodic payments from the lessee in exchange for the economic enjoyment of the lease object;
- Requesting reimbursed amount of money (license fees and tax registration fees) in connection with the holding of this agreement from the lessee.
- Requesting to submit a proof of receipt or equipment leased by the lessee;
- Request the ownership right of goods or equipment rented by the lessee;
- Demand for damages, loss or damage of goods leased to the lessee;
- Examine the condition of the equipment or leased item in location where item or equipment is placed;
- Ask the lessee to insure the leased items or equipment on behalf of the lessor;
- Requesting late interest on the matured lease installment;
- Redraw leasing goods or equipment unilaterally without going through an intermediary judge if the lessee has an injured appointment;

- The right to make every effort to recover the lessor's property rights in accordance with what is stated in the lease agreement.

*Lessee Liabilities:*

- Pay the lease installment as promised;
- Bear all registration fees, taxes, stamp duties etc. and payments made by the lessor resulting from the lessor renting the equipment to the lessee;
- Caring for and maintaining the goods or equipment that become the leasing objects is always in good condition;
- Putting up the etiquettes stating the goods or equipment belong to the lessor;
- Insuring the goods or equipment that are the leasing objects on the insurance company appointed by the lessor and transferring the temporary rights with respect to the insurance to the lessor;
- Redefine the goods or equipment leased to the lessor in good condition and proof of ownership to the lessor;
- It is not permissible to sell, rent, lease, dispose of ownership, or any other means to the goods or equipment it has leased;
- Paying late interest on overdue installment payments;
- Paying costs for the refusal to deliver the goods or equipment to the lessor;
- Provide the lessee's financial report and lessee's business activities to the lessor;
- Pay all debts, fees, expenses incurred by the lessor and all lessee's funding from the lessee's term as a result of breach of contract and result in the lease agreement terminated;

*Lessee Rights:*

- During the lease period the lessee entitled to use goods which are leased objects free from any interference;
- At the end of the lease period obtains the option to purchase the lease object or renew the agreement;
- Claims suppliers for hidden defects in the goods or equipment it receives with the lessor;
- Demands ownership of the goods or equipment it has purchased in the agreement end. '

*Guarantee of lease agreement in PT. Naga Mas Bangun Reality:*

The guarantee form provided in the lease agreement in PT. Naga Mas Bangun Reality is as follows:

- Material guarantee;
- Material guarantees are guarantee in the form of absolute right to an object having the characteristics of having a direct relationship to an object of the debtor, can be defended against anyone, always following the object and can be transferred. The granting of material guarantee always consists of isolating a portion of a person's wealth, the guarantor, and providing for the

fulfillment (payment) of a debtor's debt. Material guarantee provided by the lessee in the lease agreement in PT. Naga Mas Bangun Reality is usually a land with a mortgage guarantee for immovable objects.

Article 1 point 1 of the Act. No. Law No. 4 of 1996 provides the definition of mortgage that definition of mortgage rights on land and other land-related items, hereinafter referred to as mortgages, is a guarantee rights imposed on land rights as referred to in the Act. No. 5 of 1969 on the basic rules of agrarian subjects, included or not included, together with other objects constituting a unity with the land for certain settlements, which gives priority to a creditor to other creditors.

The mortgages provided for in the law are basically the mortgages imposed on land rights whereas the collateral granted by the lessee for movable goods is in the possession of the lessee's non-leased goods or the lessee's shares and the fiduciary guarantee.

The fiduciary guarantee is the right of ownership of an object on the basis of trust provided that the object of which the ownership rights are held remains in the possession of the object owner article 1 paragraph 1 of the Act. No. 42 of 1999 on fiducia guarantees). Preferred positions to fiducia recipients against another creditor.

The legal relationship between the fiduciary debtor and the fiducia receiver creditor is a legal relationship based on trust. Fiducia as well as other forms of collateral is accessor, so it follows a basic agreement that already exists between the creditor and the debtor. So, in a lease agreement, the lessee who provides fiducia guarantees on his moving object or what is considered a moving object (kiosk, shop, or company) can be fiducia guaranteed. Whereas the leased goods cannot be secured fiducia, because the property rights of the leased goods are still in the lessor.

#### *Insurance:*

The Insurance or *borgtocht* is a form of agreement strictly regulated in the Civil Code, so it is not merely a moral or reference warrant, but a separate form of agreement, in which a third party makes repayments, when a lessee can not fulfill his obligations (breach of contract). Thus, the accomplishment of achievement can only be maintained against certain parties, i.e. lessee or *penanggungannya*.

Article 1820 of the Civil Code provides the understanding that what is meant by *borgtocht* (insurance) is an agreement whereby a third party for the benefit of the lessee binds himself to satisfy the debtors' debts affairs.

Handling of (*iboretochf*) among others can be:

- Personal Guarantee (guarantee provided by an individual);
- Corporate Guarantee (guarantee provided by the company / business entity);
- Bank guarantee (guarantee provided by the bank).



The contract purpose is to protect the creditor's interest and is general, meaning that it can cause the entire asset to be collateral from the debtor concerned. The binding of the termination agreement in the form of personal guarantee and/or corporate guarantee is done by:

- The Insurance as an accession appointment is that the agreement is dependent on the existence of the lease agreement, therefore the termination can not arise because without the principal agreement removed, then remove the insurance as well;
- The Insurance agreement is a formal agreement, which must be stated in any notarial deed with the deed under hand.

In the leasing agreement acting as the guarantor if the lessee Nya of the company is one of the directors (e.g. director) or the shareholder of the lessee company concerned, who surely knows more about the condition and company ability, or by other third parties who generally can be guarantor. For a guarantor, a leasing company will feel safer, on the premise that a prospective surety must be a person who is well-known and has an influential reputation in the business world and will not make his own name, or he/she has valuable immovable property or other companies' shares. This should be further investigated by the lessor, because the one who has an interest in the event of breach of contract.

*Delivering the lease bills to the lessor:*

Form of this guarantee is the trust of the lessor. Where the lessee delegates/receives bills and receivables received or will be received by the lessee to the lessor. To be more secure the lessor asks to lessee a list the invoices and receivables received by the lessee, so that if the violation happens it will be easy for the lessor to contact or notify debtor of the lessee to perform the payment as agreed. The lessees' claims and receivables, or the proceeds of profits from the business and so on, whether they exist, will depend on the area in which the lessee's enterprise moves.

In the lease agreement, the warranty agreement contains clauses that the claims and receivables are still executable and accepted by lessee, but in certain cases where the symptoms of the lessee do not comply with their obligations, the lessor shall be entitled to receive the lessee's claims and receivables of the debtor goes directly to the lessor. PT. Naga Mas Bangun Reality also asks the lessee's insurance for the leased items. It is intended for the protection for lessee as a user of the goods and for the lessor as the owner of the goods. Insurance required by or obligated by the lessor is in the form of physical destruction (fire, accident and other physical damage). The lessee will bind himself to insure risks at the expense of the lessee himself regarding the goods concerned. This is specified in the lease agreement. In the said policy it is also mentioned that the lessor is stated as the insured, with other words in the insurance policy included a clause that the profits included for the lessor, are subject to the leased items leased by lessee, the proceeds of the insurance received by the lessee must be submitted to the lessee lessor.

The lessor for the following will use insurance results:

- To finance replacement of goods with better goods condition. This is done when the item is heavily damaged and can not be repaired again.
- To improve the damaged goods, it can still be repaired again. Then deliver the goods to the lessee with the costs and transportation covered by the lessee.
- In this case the lessor side can still carry out the execution of the agreement, and the lessee must still perform its obligations to pay the rent, but on the consideration that for a while the lessee's liability are reduced

*Lessee Breach of Contract and Settlement in Leasing Agreement in PT. Naga Mas Bangun Reality:*

Forms of breach of contract undertaken by the lessee in a lease agreement in PT. Naga Mas Bangun Reality is:

- The lessee does not or neglects to pay the rent as specified in the agreement between the lessor and lessee on a predetermined date;
- The lessee breaches a provision or fails to perform an obligation under the agreement between the lessor and the lessee and such fails shall not be corrected within 15 (fifteen) days after receipt date of the notice sent by the lessor to the lessee to remedy such negligence;
- The statements and guarantees provided by the lessee are proven to be false or not in accordance with actual facts;
- The lessee negligent or fails to fulfill his obligations to the lessor in other financing agreements made either before or after this agreement is signed with the lessor.

Forms of breach of contract, default, that most of the lessee undertakes is late in repayment and is not fixed within 15 (fifteen) days after receipt of the notice. To address this problem, the lessor takes action against the lessee in the form of:

- The lessor party sends legal notice to the lessee, essentially the lessee must immediately pay the arrears in installments;
- Upon a period of 7 days the legal notice is ignored by the lessee, the lessor shall send the second legal notice;
- If up to 7 days legal notice is still ignored as well, the lessor sends a third one;
- If the third party's legal notice the lessee still has not paid the arrears of the installment the lessor can call the lessee to come to the office of PT. Naga Mas Bangun Reality to hold deliberation. In the deliberation, the lessor asks the lessee, the first is to immediately pay the entire rent along with the services and fine of the indebted on the basis of the agreement made together in the agreement, the second, lessors will take the lease object or demand the return of the lessee's ruling,

In order to implement all the things asked by the lessor to the mentioned lessee, the lessee grants full rights and power as well as the substitution rights, either for the full extent to the lessor to enter the places where the equipment is located or stored in order to extract equipment from the lessee or person / other party who controls it and then sells it or otherwise disposes right on the equipment at the price, manner and terms deemed by the lessor and for that the lessor and/or purchaser of the equipment is hereby released by the lessee of any claim or suit by the lessee and/or other third parties.

The proceeds from the sale of the leased object at the whim of the lessor shall be used:

- To pay for the costs incurred by negligence of the lessee;
- To be accounted for by all liabilities under this agreement, the remainder (if any) shall be returned to the lessee, without any lessor obligation to pay any fees and/or any fees. Conversely, if the proceeds of the sale are not sufficient to cover all the lessee obligations in accordance with the agreements made between the lessee and the lessor are entitled to collect the deficit and the lessee is obliged to pay it immediately and at the same time at the first request of the lessor.

The problem of late payment of installments from the lessee according to the Legal section of PT. Federal International Finance has never filed a civil suit in court. Considering that the case cost if by using a lawyer is not proportional to the nominal amount of the lessee's remaining debts, and the length of the trial process that must be passed and possibility up to appeal, cassation and even a review (PK) to the Supreme Court, all of which can be spent a very long time.

The termination of leasing agreement in PT. Naga Mas Bangun Reality can occur because:

- The purpose of the Agreement has been reached
- After the lease period expires and after the lessee has fulfilled its obligations, the lessee has an option to purchase leased goods or equipment. After paying to the lessor, the lessee becomes goods owner. Lessee also has the right to waive its right, namely, to purchase and choose to extend the lease term on agreed terms.
- If the agreement has expired and the lessee has not exercised its option to purchase and extend the lease, the lessee shall return the goods to the lessor in good condition and to the place determined by the lessor.

*Determined in agreement by both parties:*

Usually in lease agreements, by parties are expressly defined in the form of lease contracts made about everything or circumstances that may result in the termination of the lease agreement.

In the leasing agreement made by PT. Naga Mas Bangun Reality, the end of the agreement other than those mentioned above there are some things that cause the agreement is ended, i.e.:

- Lessee pays the installment as determined in the agreed upon agreement mutually;
- Repayment of the lessee's rent before the time set in the mutually agreed upon agreement;
- Agreement termination or cancellation. This is because the lessee makes a default or breach of contract

#### 4. Conclusions

- Based on the results of the data analysis mentioned above, the authors can conclude that, the effort to resolve the occurrence of breach of contract undertaken by the lessee, in case of late payment installment that is by giving a legal notice to lessee.
- The legal notice is given for 7 days, if the lessee does not respond to the legal notice, the lessor gives the second one for 7 days. If the second legal notice of the lessee has still been responded to, then the lessor gives the third one for 7 days.
- A further call if the lessee has not fulfilled his / her obligations, the lessor shall call for a deliberative meeting of the lessee are required to pay the arrears of the following installments of services and fine, or the lessor shall take the lease from the lessee's control.

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## **Dumping in Act No. 5 Years 1999 on the Prohibition of Monopolies and Competition Practices Are Unhealthy Businesses**

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**Abstract:**

*Dumping is regulated by several laws and regulations, in this study the author will examine the regulation of dumping in Law No. 5/1999 on Prohibition of Monopolistic Pricing and Unfair Business Competition.*

*This research was conducted on normative juridical papers to collect primary and secondary legal material. From the research results, it can be concluded that, although not dumped dumping expressly but dumping meets the criteria as unhealthy competition practice mentioned in Law No. 5/1999, it is an act which is prohibited by criteria as follows: 1. Products of a traded country by another country are sold at a price lower than the normal value (LTFV), 2. the result of price discrimination resulting in material losses to industries that have been left or become obstacles to the establishment domestic industries, 3. a causal relationship between the LTFV import seller and the losses suffered by the importing country.*

**Keywords:** *Dumping, Monopoly, Injure (loss);*

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### **1. Introduction**

The introduction of the ideal International trade practice is harmonious and fair. This is as mandated in the provisions of the World Trade Organization (WTO) that the implementation is not yet optimal, as seen from the rampant protection of export destination countries by raising the issue of dumping, subsidizing and security. Indonesia is one of the exporting countries of various types of commodities that are severely disadvantaged by the protection.<sup>1</sup>

As a newly industrialized country, Indonesia is classified as a country with less use of antidumping to protect domestic products from the effects of trade liberalization.

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<sup>1</sup><http://www.nafed.go.id/indo/berita/index.php?artc=2496>

In fact, other countries that have more advanced industrial capabilities than Indonesia, use much more the safeguard instrument to protect the product from the invasion of foreign products.<sup>2</sup>

The prohibition of dumping practices applicable to WTO members is starting to come under fire. Dumping is often used as an instrument for developed countries to protect their products. Moreover, accusations of dumping against the state developing countries, including Indonesia, are increasing every year. Though such allegations are often not supported by strong supporting evidence.<sup>3</sup>

Dumping began to take effect in Indonesia as a result of the law of the ratification of the Agreement on Establishment of World Trade Organization (WTO) through Law No.7 / 1994. Until now, Indonesia does not yet have specific laws regulating dumping. Dumping is only slightly touched on in some articles of Law No.17 / 2006 of an amendment to Law No.10 / 1995 on Customs. Article 18 stipulates that Anti-Dumping Import Duty is imposed on imported goods in case the export price of the goods is lower than its normal price and the import of goods causes a loss to the domestic industry.<sup>4</sup>

Further technical dumping arrangements are regulated in Government Regulation No.34 / 1996 on Anti-Dumping Import Duty and Compensation Import Duty, plus several Decisions of the Minister of Industry and Trade. The concept of dumping is predatory pricing, that is, a manufacturer sells the loss of an item for a certain period with the aim of turning off other competitors selling the same or similar goods.

From the introduction above the author will conduct research to discuss the dumping arrangements in Law no. 5/1999 on Prohibition of Monopolistic Practices and Unfair Business Competition.

## 2. Literature review

Dumping is a term used in the international trade, it is a trade pact by an exporter by selling commodities on the international market at a lower price than reasonable or lower value than the price of the item in his own country, or from the sale price to other countries in general, the practice this is considered unfair as it can damage the market and harm the competitor producers in the importing country.<sup>5</sup>

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<sup>2</sup>Anhttp://www.tempointeraktif.com/hg/ekbis/2004/02/05/brk,20040205-17,id.htmlastasya - Tempo News Room.

<sup>3</sup>http://www.hukumonline.com/detail.asp?id=4986&cl=Fokus.

<sup>4</sup>Lihat Pasal 18 UU No.10 Tahun 1995

<sup>5</sup>Elly Erawati and J.S. Badudu, *English-Indonesian Economic Law Dictionary*, ELIPS, Jakarta, 1996, p.39.



Dumping can be regarded as price discrimination, which means selling the same goods at different prices on separate markets. This is usually in line with a monopoly position in the domestic market in question. The formation of cartels and or fees that protect against cheaper imports. Can also be interpreted as an overseas offering at a price below the cost of production in the exporting country.<sup>6</sup>

The birth of dumping practices because of the increasingly complex development of the global economy has resulted in intense competition in international trade; both trade in goods and services.<sup>7</sup> The various practices to win the competition are often done by businesspeople in various countries around the world including by using non-trade practices healthy.

The emphasis of the basic form of dumping is the imposition of price discrimination by producers of two national markets.<sup>8</sup> The intended national market is the domestic market of exporting countries and foreign markets of importing countries. Dumping refers to lower price enforcement of exported goods sold in importing foreign markets in proportion

### **3. Methodology**

The method used in this research is based on juridical norms, through library research to collect primary legal material such as law and legal secondary regulation namely literature and legal scientific work that discuss about practice dumping in Indonesian legal system, and also tertiary legal material to explain the terms relevant to the discussion.

The primary law material and secondary legal herbs collected are then processed by a data deduction and induction management technique, as follows;

- Deductively, the discussion is based on the point of things are general, then discussed a conclusion that is special.
- Inductively, the discussion that starts from the things that are specific, are discussed into a general conclusion. After processing the data, then continued by analyzing data both from primary law material and secondary law material systematically in order to get the conclusion according to the discussion.

### **4. Results and Analysis**

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<sup>6</sup>Winardi, *Economic Term, Mandar Maju, Bandung, 1996, p.112*

<sup>7</sup>A. Setiadi, *Antidumping Dalam Perspektif Hukum Indonesia, S&R Legal Co, Jakarta, 2001, hal.5.*

<sup>8</sup>Ida Bagus Wyasa Putra, *Aspects of Private International Law in Transactions International Business, Rafika Aditama, Bandung, 2000, p.12.*

Dumping pursuant to Article 20 of Law No. 5 of 1999 on Prohibition of Monopolistic Practices and Unfair Competition states that: business actors are prohibited from supplying goods and services by selling loss or setting a very low price in order to remove or shut down their competitors' business in the market concerned, which may result in monopolistic practices and unhealthy competition.

The foregoing explanation clearly governs the prohibition of dumping resulting in losses against other competitors at the lowest possible price. The reason why dumping is done, can be categorized as follows:<sup>9</sup> first, to develop the market, that is by giving incentives through the imposition of lower prices, to the intended market buyers. Secondly, there is an opportunity for market conditions that allow for more pricing in both export and in-market markets domestic market. Third, to prepare for competing opportunities and better long-term growth by utilizing a progressive pricing strategy.

Under normal conditions, dumping is normal in international trade. Dumping is a threat if the price reduction of a product is made beyond reasonable fairness or in contravention of applicable law.

Theoretically, not necessarily dumping practice is prohibited considering business actors to penetrate the market commonly do the practice. The practice is subject to sanctions only when it presents an injury threat to the domestic industry of a country producing similar goods. Determination of the occurrence of dumping is done by comparing the normal price (normal value) with the export price. Normal prices are usually based on sales in the domestic market of the exporting country. If the export price turns out to be lower than the normal price, that is indeed there has been dumping.<sup>10</sup>

Dumping may result in extensive losses to producers, communities and host countries. Due to the practice of dumping is the narrowing market share of host country producers. This narrowing can lead to a decrease in host producer revenues. The decline in revenues may further lead to a decrease in the firm's paying power to labor costs, decline in corporate financing capability, eventually decreasing production and export power. The further consequences of this condition are the unemployment and declining life of the company. Determination of losses (injure) can be explained as follows:

- Products of a country that are traded by another country are sold at a price lower than the normal (less than normal value) price or referred to as less than fair value (LTFV).

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<sup>9</sup> *Ibid.hal.13*

<sup>10</sup> <http://www.lawonline.com/detail.asp?id=4209&cl=News>

- The consequences of discriminating such price are causing material losses to industries that have been left or become obstacles to the establishment of domestic industry.
- There is a causal relationship between the LTFV import seller and the loss suffered by the importing country.<sup>11</sup>

If we review, customers can benefit from dumping practices, because consumers so have alternative goods at relatively cheap price. In this case it is indirectly dumping to provide benefits in the short term. However, if this practice is kept silent continuously, it is not impossible dumping to create unemployment due to the close of the domestic business.

So, in practice dumping in Indonesia has been prohibited under the provisions of Article 20 of Law No. 5/1999 on Prohibition of Monopolistic Practices and Unfair Business Competition. Against prohibited activities related to selling below market prices.

## **5. Conclusions**

Based on the above description, it can be deduced that Dumping, although not expressly stated, meets the criteria as unhealthy competition practice mentioned in Law No. 5/1999, is a prohibited act, with the following criteria:

- Products of a country traded by another country are sold at a price lower than the normal (less than normal value) price or referred to as less than fair value (LTFV).
- The consequences of discriminating such price are causing material losses to industries that have been left or become obstacles to the establishment of domestic industry.
- There is a causal relationship between the LTFV import seller and the loss suffered by the importing country.

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