



PROCEEDINGS

The Fourth ASEAN International Business Conference 2017

14th – 16th September, 2017

At Asian Institute of Management (AIM) Manila Philippines

‘ASEAN ECONOMIC COMMUNITY – A
COMPETITIVE, INNOVATIVE and
DYNAMIC ASEAN ’

Jointly Organized By:



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WELCOMING REMARKS FROM THE COMMITTEE

Welcome to Asean International Business Conference (AIBC) September 2017, Manila, Philippines

First and foremost, I would like to congratulate the secretariat of AIBC for successfully organizing our fourth conference at AIM, Manila. Warm welcome to all presenters and participants of the conference and we do hope this event shall provide a good platform for future academic collaboration, articulation and more importantly strategic networking. Special thanks to Universitas Pembangunan Nasional 'Veteran' Jakarta for being a great partner and for making this annual conference a success.

Let's synergize and reap the benefits of Asean Economic Community!

Assoc. Prof. Dr Abdul Razak Abdul Hadi

Director

AIBC 2017

**ASEAN International Business Conference 2017 (AIBC 2017) Conference
Proceedings**

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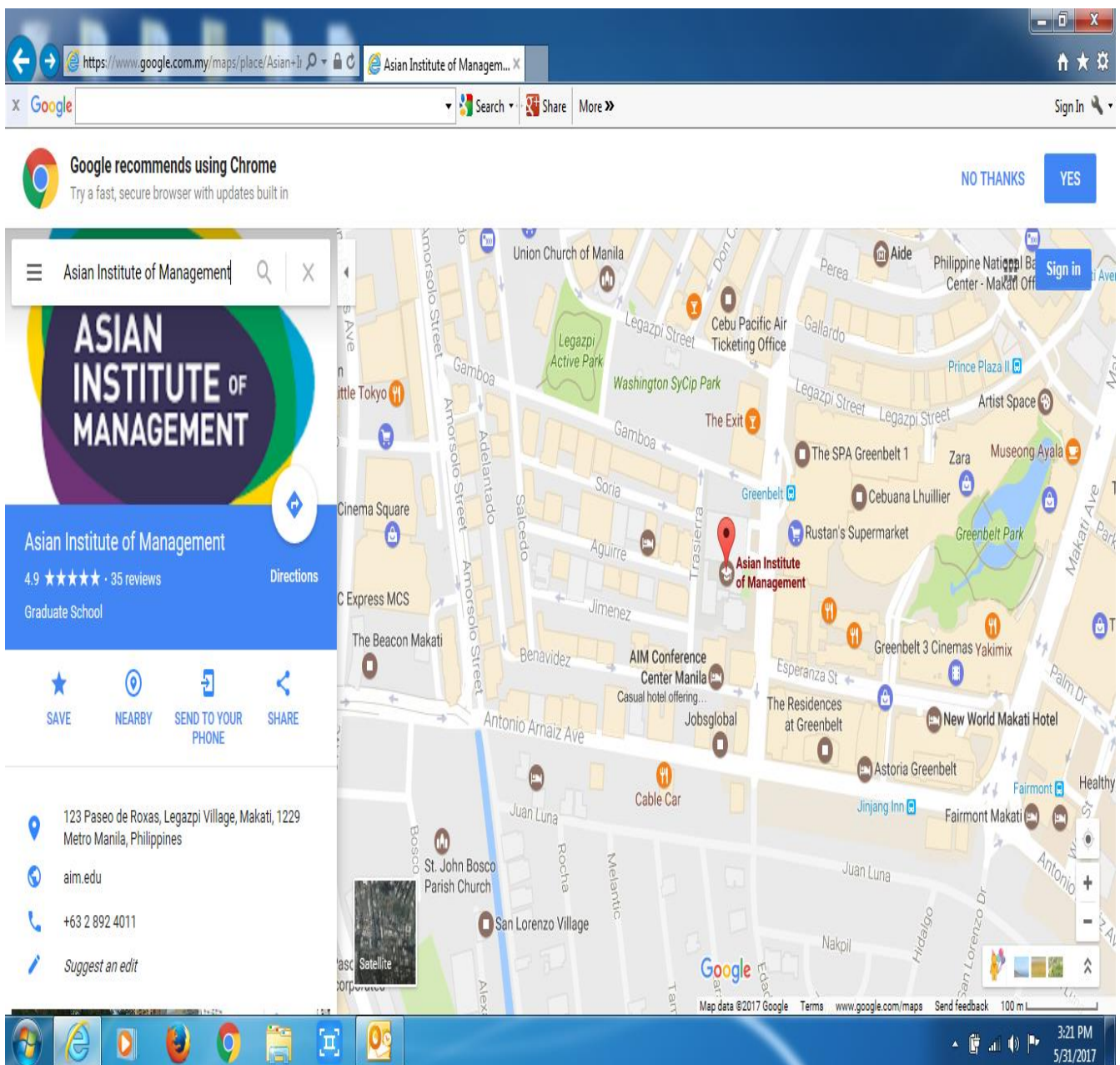
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CONFERENCE VENUE

The fourth ASEAN International Business Conference 2017 is held from 14th – 16th September at Asian Institute of Management, Manila.



PROGRAM AT A GLANCE

Day 1 (14 September)

- 12.30pm – 3.00pm : Arrival
- 3.30pm – 6.00pm : Hotel Check-In

Day 2 (15 September)

- 8.30am – 8.45pm : Registration
- 9.00am – 12.00pm : Seminar Session
- 01.00pm – 06.00pm : Concurrent Session
- 8.00pm – 11.00pm : Discover Manila City Nightlife

Day 3 (16 September)

Free & Easy: Shopping and entrepreneurial adventure (own expense).

SESSION A: SECURITY CASEROOM

1st SESSION (9.00AM – 10.30AM) : BUSINESS FINANCE

1. The Preparations of Employees Towards Retirement & Estate Planning in Malaysia
2. Entrepreneurs With Disabilities in Bangladesh: An Exploratory Study on Their Entrepreneurial Motivation and Challenges
3. Formulating Halal Hotel Marketing for Budget Hotels
4. A Comparative Study of Challenges Between Female and Male Entrepreneurs in Malaysia

2nd SESSION (11.00AM – 1.00PM) : ENTREPRENEURSHIP

1. Capital Structure Theories and Firm's Value – Evidence from Bursa Malaysia Trading and Services Sector
2. Capital Structure Theories and Firm's Value - Evidence from Bursa Malaysia Construction Sector
3. Local Economic Development Tourism Village on the slopes of Mount Merapi (Case Study In Balerante Village Community Kemalang District Klaten District)
4. Company Performance Improvement Through the Development of Competitive Strategy Driven by Resources and Attraction Market

SESSION B: YULO CASEROOM

1ST SESSION (9.00AM – 10.30AM) : CORPORATE GOVERNANCE

1. Analysis of Regional Economic Growth and Regional Inflation and its Implication on Welfare in the Aftermath of Decentralization Era in Indonesia
2. Leather Goods Marketing Strategies in Rangkasbitung District, Lebak Regency – Banten
3. The Analysis of Green Marketing of Organic Products in Super Indo Supermarket in South Jakarta
4. Performance and Ownership in Relation with the Initiation of Dividend Policy
5. Resilience Analysis of Creative Industries Marketing Performance Fashion Cluster In Depok City West Java

2nd SESSION (11.00AM – 1.00PM) : DEVELOPMENT ECONOMICS

1. Management of Marine Resources by Fishermen in Gunung Kidul Regency as Indonesia National Power
2. Strategies and Role of Local Government in Improving the Competitiveness of Traditional Fishermen in Pandeglang, Banten
3. The Effects of Perceived Value on Theme Park Purchase Intention in Malaysia
4. Sustainability and persistence : How to Developed
5. The effect of auditor's experience, task complexity, and self-efficacy to audit judgment

ENTREPRENEURS WITH DISABILITIES IN BANGLADESH: AN EXPLORATORY STUDY ON THEIR ENTREPRENEURIAL MOTIVATION AND CHALLENGES

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ABSTRACT

Bangladesh is experiencing a steady economic and per capita growth over the past few years and entrepreneurial opportunities are also increasing. However, entrepreneurs with disabilities are yet to join the mainstream economy and there is hardly any information available on them. In this paper, the motivational factors that drive the entrepreneurial endeavors of entrepreneurs with disabilities and the challenges they face are explored. The researchers collected data through in depth interviews (IDI), mini group discussions (MGD) and observation. Findings indicate that for entrepreneurs with disabilities in Bangladesh, social inclusion and acceptance, economic empowerment, breaking the social and family barrier and lack of job opportunity in traditional workforce are the key motivational drivers for embracing entrepreneurship. The entrepreneurial challenges include personal, environmental, financial, operational, infrastructural and informational constraints. The paper also suggests a strategy framework to overcome the challenges faced by entrepreneurs with disabilities in Bangladesh.

Keywords: Entrepreneurship, Entrepreneurial challenge, Entrepreneurial motivation, Entrepreneurs with disabilities (EWD), Persons with disabilities (PWD), Bangladesh

1. INTRODUCTION

Prospect for economic development in Bangladesh is promising, with the impressive growth performance of the nation's GDP and per capita income in recent years. The government is encouraging development and restructuring projects to keep up the growth momentum which will increase entrepreneurial opportunities in the economy. Entrepreneurs are driving force for economic development and job creation, simultaneously contributing to personal development and addressing social phenomena (Sarri & Trihopoulou, 2005). In recent years, governments and academics appear to be concentrating on encouraging entrepreneurship as it symbolizes innovation and a dynamic economy (Orhan & Scott, 2001). For persons with disabilities (PWD), entrepreneurship can be a viable opportunity to improve their economic standing. PWDs and professionals working to help them report that the top priority of PWDs is to be able to earn a living and support their families (Handicap International, 2004). In this regard, entrepreneurship offers them the most accessible way to earn income, be independent and be recognized as a contributing member of society. Entrepreneurs with disabilities (EWD) not only can improve their economic conditions but also can provide employment opportunities for others. They are people with immense potential and if given the right opportunity, they are capable of becoming a prominent force in social and economic development.

In this regard, the aim of this study is to explore the motivations behind starting an entrepreneurship venture and the challenges that lie in conducting an entrepreneurial business for entrepreneurs with disabilities in Bangladesh. Empirical research shows that entrepreneurs with disabilities succeed to roughly the same extent as non-disabled entrepreneurs (Larsson, 2006 as stated in Roni & Baines, 2012). To promote entrepreneurs with disabilities, it is important to understand what motivates them to become entrepreneurs and the subsequent barriers that affect their entrepreneurial ambitions.

Disability is a difficulty or limitation in activity encountered by a person in executing an action or a task; a restriction in participation or involvement in life activities (Akinyemi, 2016). Disability

can vary in types, severity, time of onset and duration. As disabilities vary, so do entrepreneurial motivations. Some enter entrepreneurship to create their separate identity, whereas some enter only as the last source of earning. For some, it is only a single person service that accommodates their disability; while others want to grow their modest business into large enterprises. Starting an entrepreneurial venture is not an easy task and for an EWD, this task is even harder. In an entrepreneurial business, some challenges are common for all; but there are some challenges that are limited only to particular groups, including EWDs (Martins et al., 2004). No matter the motivation, the challenges that EWDs face can pose a significant challenge in their entrepreneurial success.

Disability is spread worldwide. One in every ten people has a disability and four of every five disabled people live in developing countries (WHO & The World Bank 2011; ILO, 2011). For Bangladesh, professionals working in disability rights and support also follow a 10% working estimate of disability prevalence based on the estimates of WHO. In reality, there is no reliable, up to date nationwide statistics on disability in Bangladesh (SIDA, 2014). Data on PWDs is almost unavailable and the estimates of various government and non-government agencies and organizations are contradictory. For example, in a Household Income and Expenditure Survey (HIES) published by Bangladesh Bureau of Statistics (2010), the disability prevalence rate stated was 9.01%. However, the National Census of 2011 (Bangladesh Bureau of Statistics, 2015) data put overall disability prevalence rate in the country at 1.41%. Unnayan Onneshan reported a disability prevalence rate of 5.6% (Titumir & Hossain, 2005). According to Hussain (2008), the large number of people with disabilities in the country is enough to require special attention.

On the view of the above, the present paper aims to study the entrepreneurial motivations and challenges that are faced by EWDs. It is found from the study that EWDs join entrepreneurship to gain social inclusion and acceptance, to gain economic empowerment, to break social and family barrier and also for of lack of opportunities in traditional employment. In terms of entrepreneurial challenges, the constraints they face are exceptional in nature due to their impairment conditions. The objective of the paper is to bring forth the motivations and challenges of the EWDs and to also suggest a framework for overcoming the challenges.

2. REVIEW OF LITERATURE

2.1 Defining Entrepreneur

The term "entrepreneur" has its origins in the French term "entreprendre" meaning to set about or to undertake (Edelman et al., 2016). An entrepreneur is a person with the creativity and initiative to form a business to produce something new in the society (Chowdhury, 2017). Entrepreneurs are people who are able to translate thoughts into action; they are dreamers and thinkers who do (Filion, 2011). According to Rusu et al. (2012), an entrepreneur is an economic agent of innovative and active behavior assuming financial risks to develop new projects. They are persons who take calculated risks in meeting their dream of becoming self-employed (Zamore, 2014). According to Gupta et al. (2014), entrepreneurs are persons who initiate, organize, manage and control the affairs of a business unit. Dijkhuizen et al. (2016) as cited by Maziriri et al. (2017) state that an entrepreneur is a person who identifies gaps within the market environment and takes the advantage to fill the gap.

2.2 Defining Disability

The World Health Organization terms disability as an umbrella term, covering impairments, activity limitations, and participation restrictions (WHO, 2017). A disability is any continuing condition that restricts everyday activities. Disability can be defined by two concepts, the medical model of disability and the social model of disability. In the medical model, disability is treated as a characteristic and restrictions in activity are explained in terms of individuals' bodily capabilities, with impairments treated implicitly as a form of negative human capital (Halabisky, 2014). The social model of disability is in contrast of this concept. Founded by Oliver (1990), this concept defines disability as a result of the limitations imposed by social, cultural, economic and environmental barriers rather than individual characteristics. The social model of disability distinguishes 'impairment' (i.e. a limitation of the mind and body) from 'disability' (i.e. social exclusion) (Shakespeare, 2006 as cited in Halabisky, 2014).

In Bangladesh, the Disability Welfare Act (2001) states that a person with disability is one who is physically disabled either congenitally or as a result of disease or being a victim of accident, or due

to improper or maltreatment or for any other reasons has become physically incapacitated or mentally imbalanced as a result of such disabledness or one to mental impairedness has become incapacitated, either partially or fully and is unable to lead a normal life.

2.3 Entrepreneurial Motivation

There could be a number of reasons as to why a person chooses entrepreneurship. For example, it could be out of necessity, to seek advantage of an opportunity, to gain financial independence and autonomy in decision making, to improve work-life balance, to improve income or to gain material benefits. For an entrepreneur with disability, while these factors may be significant influences behind entrepreneurial motivation, there are also some other motivations found in literature. Academic literature suggests that entrepreneurship is often associated with the will to overcome a state of social marginality or discrimination (Godley, 2005 as cited in Cooney, 2008). According to literature, one greatest motivation for the EWDs is that, through entrepreneurship, they get an opportunity to enter the labor market (Blanck et al., 2000; Boylan & Burchardt, 2002; Hagner & Davis, 2002; Schur, 2003; Zamore, 2014). If the business is successful, it works as a motivation to establish a person's confidence and to secure rehabilitation (Harper & Momm, 1989). According to Boylan and Burchardt (2002), people who have had disability from a young age are likely to be disadvantaged within the education system, primarily due to lack of access to facilities. Such experience results in lower educational qualifications and it becomes even more difficult for them to find employment and join the labor market. Furthermore, people who have become disabled over their working life also find that their labor market choices are limited; due to their impairment or due to discrimination by employers. Thus, they find entrepreneurship as the only suitable option. Mishra (2005) states that discrimination in the labor market is primarily what drives persons with disabilities into entrepreneurship.

Another entrepreneurial motivation found in literature is the flexibility that comes with being an entrepreneur. For EWDs, it offers them a better adjustment between work life balance and their impairment status in term of work pacing, hours and location of work (Callahan et al., 2002; Doyel, 2002; Halabisky, 2014; Jones & Latreille, 2011; Meager & Higgins, 2011; Pagán, 2009). Owning their own business also provides people with disabilities the flexibility that is necessary for those who require frequent medical attention, flexible hours, accessible work space, and other particular needs (Cooney, 2008).

2.4 Entrepreneurial Challenges

Several studies have been conducted by researchers in different parts of the world in attempts to explore the entrepreneurial challenges of EWDs. While some of these challenges are financial and personal in nature, others are deep rooted social constructs. Starting up a business is generally a challenging process in itself and is even harder for the EWDs because of the specific challenges they face (Cooney, 2008; Renko et al., 2015). According to Mohammed and Jamil (2015), entrepreneurs with disabilities are significantly more likely to face greater challenges compared to other entrepreneurs.

Prior research indicate that access to capital is a common challenge faced by entrepreneurs with disabilities in setting up their business. EWDs often face difficulty in financing their startups as they have inadequate personal resources that is mostly limited to family, friends and personal funds (Maziriri et al., 2017; Maziriri & Madinga, 2016; Mohammed & Jamil, 2015; Mwangi, 2013). Parker Harris et al. (2013) stress that asset accumulation is a challenge for many EWDs as they do not manage their own funds and have limited financial literacy. Moreover, EWDs face more financial barriers than others, partly due to poor credit scores and high cost of impairment support devices (Foster, 2010). Banks also show disinterest in providing loans and necessary information about loans and grants (Boylan & Burchardt, 2002; Halabisky, 2014). Another problem is the "benefits trap" where PWDs do not want to risk losing government benefits when they start generating their own income (Foster, 2010; Maritz & Laferriere, 2016; Yamamoto et al., 2011).

Study of literature reveals that societal challenges and negative public attitude also create barriers for EWDs in setting up and running their entrepreneurial business. According to Maritz and Laferriere (2016), societal challenges can be viewed from the perspective of society at large and from the view of persons with disabilities. They also found that customers, suppliers and other stakeholders may not choose to purchase products or services provided by EWDs. Furthermore, market prejudices create low demand for products and services produced by EWDs (Jones & Latreille, 2011). In South Korea, female EWDs are exposed to social stereotyping; the Confucian

assumption that women will work at home and serve their families, posing even greater challenge to their entrepreneurial ambitions (Hwang & Roulstone, 2015). EWDs facing social discrimination due to their disability develop lack of confidence in pursuing business activities (Maziriri et al., 2017). According to Caldwell et al. (2016), stigma attached with disability leads to attitudinal challenges for entrepreneurship among the EWDs. Prejudice results into discrimination, which disadvantages them in business activities such as seeking funds. There is also people perception that a person with disability cannot be a business owner and also the issue of disability disclosure, where EWDs are likely not to disclose their disability to others for fear of being discriminated. Entrepreneurs with disabilities lack proper business knowledge, skills and training (Kitching, 2014). Halabisky (2014) states that people with disabilities often lack business management, legal and financial skills and knowledge due to limited relevant education and employment experience. Moreover, EWDs face obstacles in getting the appropriate training and support due to lack of disability friendly transportation system, lack of individually tailored materials (e.g., study materials not in braille) and lack of infrastructural support at the training premises (Boylan & Burchardt, 2002).

Additionally, at a personal level, entrepreneurs with disabilities sometimes need personal assistants to help them undertake day to day tasks that other entrepreneurs may be able to do on their own (e.g. moving merchandise, inputting data into computer software), which increases their labor costs and puts them at a competitive disadvantage (Caldwell et al., 2016; Roni, 2009 as cited in Halabisky, 2014). Ashley and Graf (2017) mention that the challenges of EWDs are both external and internal in nature. External challenges are lack of familial support and lack of health need related services while internal challenges are lack of motivation, depression, fear of failing, self-doubt and inability to manage time properly due to health issues. EWDs also face personal challenges in entrepreneurship in the form of lack of confidence and aspirations in sustaining a successful business venture (Kitching, 2014). According to Foster (2010), self-belief is the most significant challenge for the EWDs as they are used to hearing they are not capable enough.

Apart from financial, societal and personal challenges, entrepreneurs with disabilities also face mobility challenges. Mwangi (2013) states that EWDs face the problem of suitable premises, where their movement is restricted by the architectural design of the buildings where their business is located.

3. METHODOLOGY

This is an exploratory study with an aim to get a deeper understanding of the entrepreneurial motivations and challenges that EWDs experience. To get the data, the authors used semi structured in depth interview, mini group discussion and observation of the study participants. Serving as primary tool for data collection, in depth interviews go beyond what can be learned through focus groups; uses open ended questions to explore participant's experiences and understandings (Mears, 2012). In a semi structured in depth interview, the researcher organizes a broad set of questions around areas of particular interest, but also encourages the participant to expand upon issues of interest and let the questioning flow naturally (Coombes et al., 2008). In this study, data were gathered by interviewing the participants at their respective business premises.

The study is based on 40 EWDs, who were recruited through snowball sampling technique. The participants were located across all over Bangladesh. The inclusion criteria were entrepreneurs who had acquired visual, physical, hearing or speaking and communicating impairments. The nature of business for these participants comprised artwork, rickshaw painting, sewing, clothing, household decorative items, jewelry manufacturing, poultry, dairy farming, small shops such as chatpati, fuchka, vegetables, fruits, tea stalls and mechanic shop. Apart from the 40 EWDs, 8 expert interviews and 4 mini group discussions were also conducted to gain a deeper understanding of the motivations and challenges. The experts included disability advocacy groups and service providers; social entrepreneurs working in disability development; social workers and disability activists. Each interview spanned for about 45 minutes and group discussions were held for about 60 minutes each.

4. ETHICAL CONSIDERATION

Ethical considerations allow researchers to decide which research procedure is ethically legitimate and in human subject research, ethical considerations ensure that anonymity and/or confidentiality is guaranteed, consent is informed, dignity is maintained and individual and society receive benefit (Behi & Nolan, 1995; Neuman, 2008). The researchers were careful not to trigger emotional harm or stress to the respondents in this study. All respondents were contacted by telephone initially to explore if they would be interested in participating in the current study and to inform them beforehand about the nature and reason of the research. The credibility of the researchers were established through their current role as full time academic staff. The researchers ensured the study acts in accordance with the ethical standards of academic research, which among other things, is protecting the identities and interest of participants and assuring confidentiality of information provided by the participants.

5. FINDINGS

5.1 Entrepreneurial Motivation

Social Inclusion and Acceptance

In a developing and highly populated country like Bangladesh, persons with disability are considered to be a burden in the family and the family members prefer keeping them isolated from the rest of the society. In such a scenario, in order to prove that they are not a burden for the family and society and are as capable as anyone else, persons with disabilities develop the need for achieving something on their own. Thus entrepreneurial effort is the result of this need. The participants in the study reported that for them, entrepreneurship is the opportunity to do something for others that not only brings self satisfaction but also offers a respectful position in the society.

The authors observed that the EWDs also act as opinion leaders in their locality. These people have immense positive attitude towards life, which enables them to be seen as examples of inspiration. Moreover, non-disabled people feel comfortable sharing their stories and sufferings and seek advice from them. In words of one respondent,

"No one calls me cripple any longer, they call me Bhai (brother). This is respectable for me. Sometimes, I do attend meeting with the councilor of my locality. I do spend time with other persons with disabilities and work for overall social welfare. I have a dream to establish an organization where persons with disabilities will work and live happily."

Economic Empowerment

Persons with disabilities are amongst the most economically disadvantaged in the world (Ofuani, 2011). Entrepreneurship provides them an opportunity to overcome the economic disadvantage and be empowered at family and at social level. Economic empowerment enables people to make their own decisions, improve their economic status and to fully participate in community life. In the study, it was found that the EWDs gravitate towards entrepreneurship as it offers them the freedom of making their own decisions at home and at work. They feel that they no longer need to fully depend on others for survival and livelihood; they become independent economic actors; gain self confidence and respect in society.

"I am a tailor by profession. Through sewing, I manage my personal and family expenditure. I am the head earner of the family now. My opinion in the decision making is always respected. I also train other persons with disabilities on sewing, so that they can be empowered like me too. In future, I see myself running my business at a larger scale."

Breaking the Social and Family Barrier

Bangladesh has a patriarchal society and this society has some preset standards, norms and modes of social conduct. These norms and conducts are followed strictly by families in order to remain within the society, especially in rural and semi urban areas. Some of such norms and beliefs are sometimes prejudiced and discriminatory in nature. For example, social norms require that persons with disabilities should stay home, especially if that person is a female and lives in a rural area. Going outside of home to work or otherwise is frowned upon. Such a mindset impacts how persons with disabilities act.

From the study, it was found that to break this barrier, initially the PWDs started connecting and communicating with other PWDs with similar entrepreneurial interests. With collective support from PWDs and the help of different advocacy groups, they became aware of their rights and found

hope to break the preset standards and beliefs of the society. Consequently, they started entrepreneurial businesses as a means to breaking the social and family barrier.

Lack of Job Opportunity in Traditional Workforce

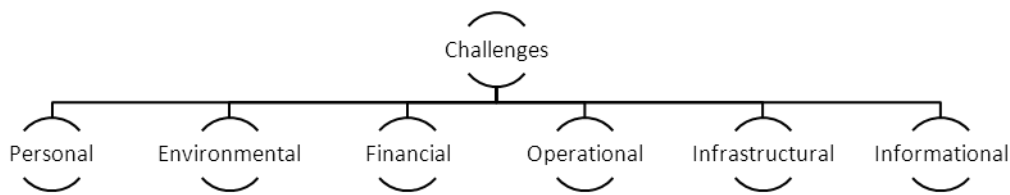
Through the interviews the participants revealed that there are a lot of misconceptions about PWDs among employers. For example, they consider PWDs as a liability who will increase organizational cost due to loss of productivity and disability related illness. Moreover, another misconception is that PWDs will require greater training and supervision. Apart from that, most PWDs lack necessary education and qualification to perform traditional jobs. Even if a PWD has sufficient qualification, employers are reluctant to hire a PWD as they feel they would need to provide special facilities for that person. For these reasons, persons with disabilities find entrepreneurship a much suitable option as a means to join the workforce.

“Although I am blind, it does not hamper my work. I own a sewing center where all my workers are also persons with disability like me. My business is to collect by-products from nearby garments factories and make trousers, t-shirts, sweaters etc. with those spare items. I no longer have any need to look for a job elsewhere. I was awarded “Shada Moner Manush” (person with pure soul) by the government authorities for my contribution to other people of my community.”

5.2 Entrepreneurial Challenges

Entrepreneurship is more than simply “starting a business” (Kaburi et al., 2012). It is a process that requires an entrepreneur to identify opportunities, allocate resources, and create value despite obstacles and adversity (Shahidi & Smagulova, 2008). Starting an entrepreneurial business is not easy and it comes with a host of challenges. For entrepreneurs with disabilities, these challenges are more pronounced and unique in nature. The authors have identified that the challenges range from personal, environmental, financial, operational, and infrastructural to informational constraints.

Figure 1: Entrepreneurial Challenges



Personal Challenges

There are certain personality characteristics that direct an individual toward entrepreneurial behavior (Westhead et al., 2011). Some of these characteristics are need for achievement, need for autonomy, risk taking propensity, creativity and self-confidence (Chell, 2008; Dollinger, 1995; Kuratko & Hodgetts, 2007). Entrepreneurial traits such as passion, strong sense of self, resilience, risk seeking are traits of successful entrepreneurs (Price, 2013; Rampton, 2014).

It was found from the study that although the entrepreneurs with disability are very passionate about their work, they lack self-confidence in undertaking risks. There is often a lack of persuasion and negotiation skill which stems from their lack of confidence. In most cases it was also found that these people do not have the technical knowhow of running a business. Lack of formal education and academic knowledge also emerged as a recurring challenge in the interviews. EWDs reported that they face great difficulty in operating as they lack sufficient experience on how to run a successful business. The only business education and experience they acquire is through trial and error while running the business.

Environmental Challenges

Managing a business successfully is fundamentally about handling environmental changes (Koornhof, 2003). Success of a business depends upon how quickly and effectively it can respond to environmental challenges (Nadler, 1995).

It has been observed in our study that most of the EWDs generally own small to medium sized businesses which are highly prone to seasonality fluctuations. Furthermore, they lack the necessary expertise in facing such uncertainties and there is also a lack of strategic guidance to them regarding how to anticipate, prepare and adjust for seasonality changes.

Financial Challenges

In terms of financial constraints, lack of access to startup capital emerged as one of the most important challenges during interviews. Majority of the participants reported that they experience hardships in obtaining startup funds, especially from financial institutions. According to the EWDs, financial institutions are reluctant to offer business loans to them as the institutions prefer safe investments. These institutions consider EWDs as poor credit prospects, thus limiting the availability of loan offerings. EWDs also stated that they face challenges in managing working capital properly. This is due to the fact that EWDs generally cannot afford issuing credit transaction to their clients/customers. Clothing based businesses require credit transaction which creates a big challenge for the EWDs as they seldom own sufficient liquid money to facilitate a credit sale. And, if they fail to offer credit to their client repeatedly, they risk losing the client and eventually the business. There is also the challenge of managing funds efficiently, as EWDs struggle maintaining proper records of transactions. This is due to poor knowledge of cost management and credit management.

Operational Challenges

According to the experts, the operational challenges faced by the EWDs are lack of finest quality manufacturing and defects in final output. Entrepreneurs with disability face major challenge to deliver quality product as opposed to general competition. This is also supported by the authors' observation of the finished products during the study. Moreover, the experts also stated that the rate of defect in the finished product is comparatively higher than the market. Producing quality product and lowering the number of defects are challenging for the EWDs as they lack sufficient training.

Infrastructural Challenges

Data from the study also reveal that infrastructural barriers pose a significant challenge for the entrepreneurs with disability. Infrastructural support for people with disability is still limited in Bangladesh. Mass transportation and architectural design of buildings are not disability friendly. Most often buildings have no support for disability, such as ramps, customized washrooms etc. Apart from that, often they are forced to hire other people to do the work as the EWDs cannot travel themselves or cannot access buildings, which in itself presents a challenge to running the business. This finding supports Mwangi (2013), who also states that mobility barriers is a significant problem for the EWDs.

Informational Challenges

A successful business is dependent upon the availability of proper and timely information. Access to information has been made easier with advancement of technology. However, in the interviews it emerged that the entrepreneurs with disability struggle to capitalize on information due to their limited educational background and limited usage of modern technology (i.e., cellphones, tablets, and computers). As a result they are not fully aware of different government and non-government support initiatives and market opportunities. Moreover, they are yet to take the advantage of e-business/e-commerce/e-banking opportunity which could be a great addition to their business endeavors. This is in accordance with the findings of Parker Harris et al. (2013) and Vaziri et al. (2014).

6. RECOMMENDATION

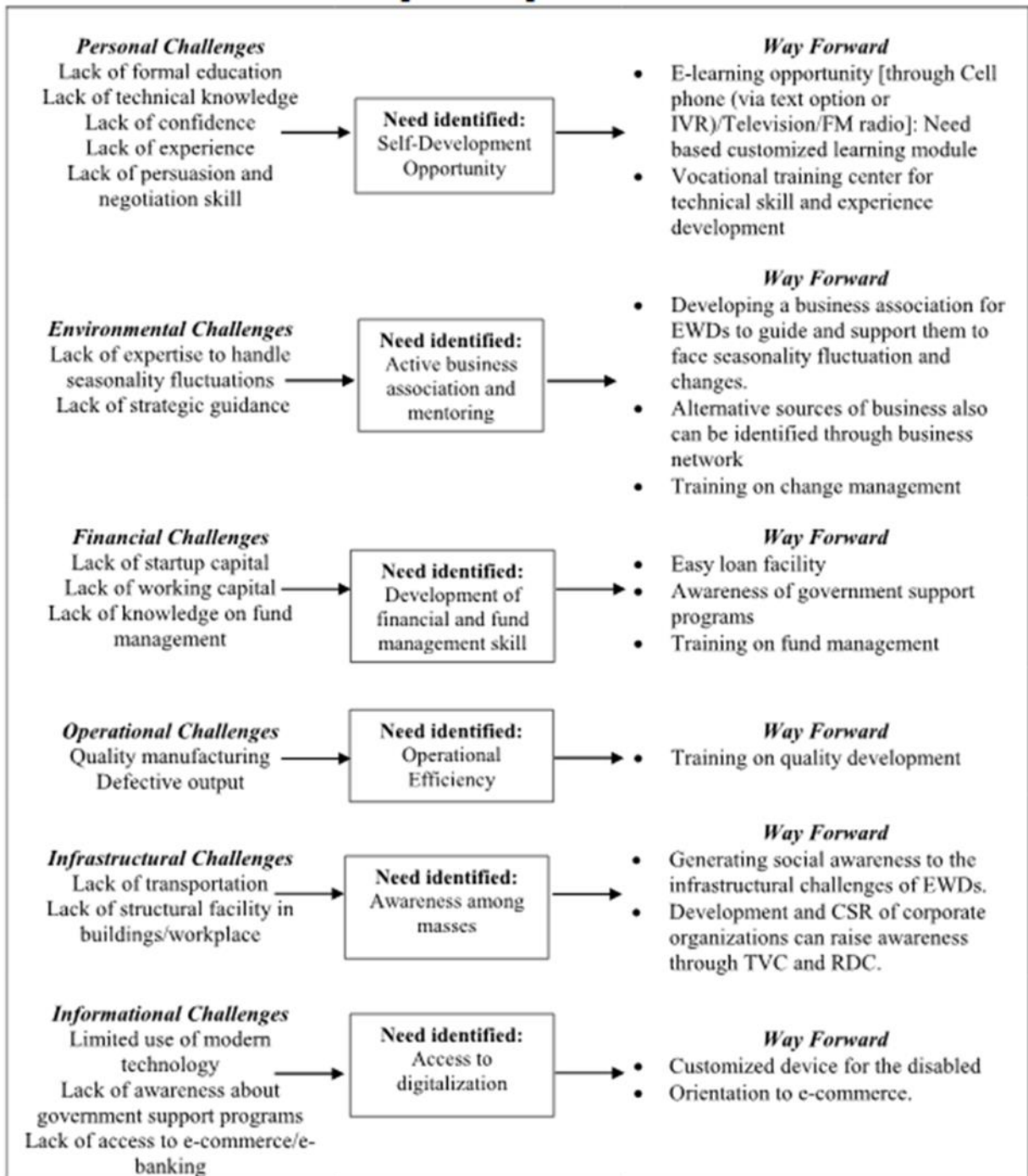
Based on the challenges identified through the study, the authors suggest a framework as a way to overcome the challenges faced by the EWDs in Bangladesh. The framework is outlined in figure 2.

The proposed framework identifies the needs of the EWDs according to their challenges and proposes a possible solution accordingly. For example, to overcome the personal challenges, a self-development opportunity could be created for the EWDs. This could be achieved through creating e-learning opportunities, such as customized need based learning modules that can be accessed via cellphones, television, FM radio channels etc. Similarly, environmental challenges can be overcome through developing an active business association and mentoring of the EWDs to train and prepare them for seasonal changes and variations. Moreover, such associations can also contribute to the EWDs by promoting their businesses. In terms of financial challenge to EWDs, the most prominent one is access to startup capital. These people mostly rely on family, friends and their own limited resources to start the business. To overcome this challenge, commercial banks can offer easy loan facilities to the EWDs. The terms and conditions of the loans granted could be flexible, so that the EWDs can easily avail them. There is a circular by Bangladesh Bank that directs

all scheduled banks to offer credit facility in favor of EWDs (SMESPD Circular No 03/2015). However, in this study the authors found that none of the participants were aware of any such facility by Bangladesh Bank. Thus, awareness about such government programs among the EWDs will encourage them to seek out funds and enable the banks to reach out with more favorable loan facilities. To overcome the challenge of fund management, customized training could be provided. The operational challenges faced by EWDs are of less than quality products and defective manufacturing; training on quality development and quality management could help the EWDs gain operational efficiency.

In Bangladesh, there is a lack of awareness on the everyday struggles of the persons with disabilities in terms of transportation and architecture of buildings. For an EWD, mobility is an everyday struggle. These challenges could be lessened by generating mass awareness about the designs of buildings and public transport. The authors suggest that to overcome the informational challenges, customized devices could be developed that are disability friendly. Furthermore, training and orientation on e-commerce usage and benefits could be offered to the EWDs.

Figure 2: Strategic Framework



7. CONCLUSION

Entrepreneurship for persons with disabilities has the potential to succeed, provided that a supportive environment exists. A supporting environment could be provided by identifying the motivations and challenges of such entrepreneurship and finding out ways to overcome them. This study on entrepreneurs with disabilities has identified the entrepreneurial motivations that drive them towards entrepreneurial actions; and the challenges they face while pursuing their business in the context of Bangladesh. Based on the findings, a strategy framework has been proposed to overcome the challenges.

It is true that entrepreneurs with disabilities have limitations and sometimes these limitations can seem overwhelming. Even then, these people are moving forward socially and economically. They are focused, determined and aspire to see themselves successful in their respective business sectors. Efforts to empower this population through education and training and the provision of accessible

public environment and transport, would promote entrepreneurship and thereby improve socio economic integration.

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FORMULATING HALAL HOTEL SERVICE MARKETING FOR BUDGET HOTELS

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ABSTRACT

There has been an increasing trend of Muslim traveling across countries. Budget hotel plays an important role to accommodate especially youth Muslim travelers and low budget travelers who are price sensitive. Muslim market has been increasingly an attractive market for tourism industry, thus this is also a big opportunity for budget hotels to offer their services. Halal tourism becomes a must have in the industry to accommodate Muslim tourists. Muslim tourists are generally concern if hotel they stay are Muslim friendly and could accommodate their halal life style. Some of the needs of Muslim visitors during their stay are: the hotel provides a sign of *qibla* direction, mat for praying, facility for ablution, wet toilet (water instead of tissue) in toilet, staff wearing modest dress, no pork on food, no alcohol, relevant music with Islamic atmosphere and no adultery entertainment. Therefore, halal hotel is far beyond halal food, but also not least to mention the segregation of public facilities for female and male as for majority of Moslem halal is a life style, including during travel. However, these facilities at budget hotels might be challenges due to several limitation faced by budget hotels such as narrow building and land size, limited resources, low price, etc. The objective of this research is to analysis the appropriateness for budget hotels to be halal budget hotels using TOWS analysis and to formulate a model for halal budget hotel service. Research methodology uses qualitative approach as this is an exploratory type of research. The analysis also equipped by both primary data through in depth interview with selected informants and secondary data from previous research and publications. Observation study was also conducted at several budget hotels at several states in Malaysia. Suggestions for future research and research implications are provided.

Keywords: Muslim tourist, Budget hotel, Halal hotel marketing, Halal tourism, Qualitative research.

1. INTRODUCTION

International tourism has become one of the largest and most vital economic sectors of the global economy driving huge flows of people, commodities, and capital. Tourism has been and continues to be an important foreign exchange earner to many countries (Samori and Rahman 2013). There has been also an increasing trend of Muslim traveling across countries. As result there has been increasing demand for Muslim traveler accommodation. The world is experiencing a rise in the number of international halal tourists, travelers who choose to abide by the guidelines of the Islamic religion with respect to appropriate behaviors whilst travelling (Abdul-Razzaq, 2016; COMCET, 2016). Tourism sector is a sector that has been identified by many governments as a catalyst for the economy. Halal industry has been becoming a lucrative market globally either for products or services. However, the services sector such as tourism has yet to tap into this lucrative market event though the halal travel is gaining popularity globally. There is a need for standard framework of halal friendly tourism (Zulkifli, *et al.*, 2013).

Nowadays, Muslim Market is growing, it is a lucrative market accounted to 1.6 billion people or 23% of the world population. In aggregate, the global expenditure of Muslim consumers on food and lifestyle sectors is being estimated to be \$1.62 trillion in 2012 and is expected to reach \$2.47 trillion by 2018. These figures form the substantial potential core markets for halal food and lifestyle sectors as it represents more than \$8 trillion in GDP (Thomson Reuters, 2013). Not just

large in number the Muslim travelers are also becoming more aware towards halal food and services while they are having their vacation (Bhuiyan, *et al.*, 2011).

Halal or Muslim-friendly accommodation establishments are defined as accommodation establishments that address some of the needs of Muslim travelers. Muslim-friendly accommodation establishments could be further segmented into those with focused offerings targeting Muslims and addressing the full range of Muslim lifestyle needs, and those with mixed offerings attempting to accommodate Muslims, however, their core consumers are non-Muslims and as such they do not address the needs of Muslim guests to the same extent as Muslim-friendly accommodations with focused offerings. There is currently no published estimate for the total number of Muslim-friendly accommodation establishments globally (COMCET, 2017).

One type of popular accommodation is budget hotel. Budget hotel plays an important role to accommodate especially youth Muslim travelers and low budget travelers who are price sensitive. This of course different with the luxury hotels and resorts, where the share of international tourism is significant, are less controlled and have a more liberal atmosphere even in Moslem majority countries (Nooraslinda *et.al.* 2010 in Samori and Rahman 2013). Budget hotel is relatively price cheaper when compared with luxury hotels and budget hotel just provide basic services and facilities (Teng, 2010 in Yu, 2012). Budget hotels are the hotels that focus on customers who are middle and small enterprise business people, leisure and self-help tourists, house prices moderate, small and medium-sized hotel (Xiao *et al.*, 2011, in Yu, 2012).

Halal tourism becomes a must have in the industry to accommodate Muslim tourists. The Success of tourist visit often depends on how acceptable is the hotel they stay with Muslim norms and the availability of facilities to conduct *ibada* (worship) such as *Sala* (praying).

Muslim tourists generally concern if hotel where they are staying are Muslim friendly and could accommodate their halal life style. Some of the needs of Muslim visitors during their stay are: the hotel provides a sign of *qibla* direction, mat for praying, facility for ablution, wet toilet (water instead of tissue) in toilet, staff wearing modest dress, no fork on food, no alcohol, relevant music with Islamic atmosphere and no adultery entertainment. Therefore, halal hotel is far beyond halal food, but also not least to mention the segregation of public facilities for female and male as for majority of Moslem halal is a life style, including during travel. However, these facilities at budget hotels might be challenges due to several limitation faced by budget hotels such as narrow building and land size, limited of resources and facilities, limited of management, low price, and limited of capital.

Samori and Rahman (2013) studied to illustrate several features and the characteristics of hospitality services which come within the Islamic context which are universally accepted and tailored with the tourist packages especially to accommodate the needs of the upcoming boom of Muslim travelers and vacationers from the Middle East West Asia and other Islamic countries.

Up to today there is no specific formulation on how budget hotel can be adjusted into halal budget hotel. In the other hand, there is a growing need of halal budget hotel service for Muslim budget travelers which in turn can also be offered and accepted by non-Muslim budget travelers.

This research focuses on the application of halal concept in budget hotel industry as research on halal application for budget hotel is still very limited. Therefore, the objective of this research are firstly to analysis the appropriateness for budget hotels as halal budget hotels using TOWS analysis (threat, opportunities, weaknesses and strength) for bases in delivering of future Halal hotel concept for budget hotels. Secondly to formulate a model for halal budget hotel service marketing using the benchmark of Sofyan hotels, a halal hotel located in Jakarta Indonesia.

2. LITERATURE REVIEW

Hotel is an establishment of the services such as accommodation, food and drinks for or temporary residents who intend to stay at the hotel (Medlik and Ingram, 2000 in Zulkifli et al., 2013). Earlier times hotel industry is commonly known as lodging industry which providing overnight accommodation to the guests who stay away from home. The halal hotel is not only concern on food and beverage but, it should precisely define on products, equipment, services and activities in the hotels itself (Jeffery, 2008 in Sabidin, 2015) and compliance with sharia principles.

Budget hotels are usually considered as the 1 star Hotel because they provide lodging at very cheaper price varies from \$30-\$40/room/night, some with breakfast offered in this price. The guest rooms are with very limited facilities, like single bed, water bottle and iron board. The location is

usually near highways and Exits. Long term lodging with cheap price is also served (Budget hotel, 2012 in Yu, 2012).

Budget Hotel is a hotel format that compare with the traditional Full Service Hotel (Markel, 2012). The Most prominent characteristics of budget hotel are the cheap prices, and its “B&B” (bed + breakfast) service mode. Budget hotel first appeared in United States in the 1950s, and it is quite a mature hotel form in European and American countries today (Budget hotel, 2012 in Yu, 2012). Another characteristic of budget hotel is the hotel that focuses on the customers who are middle and small enterprise business people (business travelers), leisure and self-help tourists (leisure travelers), it is small and medium-sized hotel with moderate house price. The “budget” means “cost” and “worth”. It refers to the “price” rather than just in the sense of “cheap” (Yu, 2012). Therefore typically they reduced facilities and services to accommodate low price offering as the main characteristic of budget hotels is the supply of a basic service with low price. Budget hotels thus focus on customers who are price sensitive, low budget, not searching for luxury rather to fit them while staying with good sleep and standard breakfast. This group of customers preferring lower price, but make a point on comfort instead of sophistication because of the efficiency reasons.

The basic characteristics of budget hotel are as follows:

Table 1: The Basic Characteristics of Budget Hotel

1. Location:	The areas along the roads close to or at the entrance of the city. Location in strategic points. In cities, in or out of commercial areas. Located close to train, bus stations or subway.
2. Size and diversity:	Facilities are limited, only the room, reception, office, a small snack bar, and a room for necessity equipment. A small laundry. As an alternative, laundry services can be contracted or a small medium laundry company which also supplies service to a group of hotels of the same chain. In order to avoid elevators, a horizontal architecture or low building when possible is preferred.
3. Lobby:	Only a reception and a small resting area.
4. Guest rooms:	The number of guest rooms ranging from 60 or less to a little more than 100 approximately. The guest rooms typically smaller than similar ones in upper categories. No special guest rooms for handicapped people. Room as well as the bathroom can be significantly smaller. Guest rooms with only one bed cannot be fitted with guest rooms containing two beds. Limited or no furniture in the guest rooms
5. Parking:	The number of parking spaces is not always enough or equivalent to the number of rooms. Mostly even no parking lot available.

Source: Adapted from Andrade *et al.*, (2000), in Yu (2012):

In the other hand, Scott (2012) in Rogerson (2013) stated that hotels are classified into two main categories, limited-service hotel and full-service hotel. A limited-service hotel is a free-standing property hotel that does not provide extra services such as restaurants, front desk staff, and

housekeeping or provide all facilities. A full-service hotel is differentiated by a variety of services when compare to budget hotel (limited service hotel). Customers at full-service properties have more choices, for instance, an extra restaurant and beverage service that consist of cocktail lounges, formal restaurants, and coffee bars and so on. The large full-service hotels may have a small shopping center with retail shops and gift boutiques to provide convenience to customers who stay at the hotel. There will be laundry service and valet service, swimming pool, fitness center, health spa and even beauty salons. A newsstand and cosmetics counter may also be offered. Even more, they may also offer more service you may have not thought about. The largest of the full-service hotels may offer a wide array or unique and accommodating services that will be good for larger groups, businesses, commercial activities and celebration event.

According to Alessandro Fiorentino (1995), TRI Hospitality Consulting (2007) and Blanco *et al.* (2011) in Rogerson (2013) the budget hotel concept shares certain strategic elements. First, budget hotels mirror the corporate culture and the values of the company they belong to. Second, the budget hotel product is different from traditional economy accommodation, which generally pursues an undifferentiated marketing strategy without making any particular effort to target selected segments of demand – budget hotels are targeted to business customers and frequent travelers, and to maximize occupancy to families, leisure travelers and VFR (visiting, friends and relatives) tourists. Third, providing a clean comfortable room is the core service element of the budget product – standard rooms with selected facilities, unique human resources policy, specific location and price. Fourth, with respect to service delivery, accommodation providers do their best to make their budget systems unique by modifying and innovating the way they work. Fifth, the budget hotel relies on a distinct image in order to be clearly positioned in the mind of customers as good products in the economy market offering consistency and value for money. Fiorentino (1995) in Rogerson (2013) further stated that the budget segment of hotels is largely located in people intensive flow areas, such as main roads, airports and busy city centers. Budget hotel customers are people belonging to all market segments and all socioeconomic groups.

The characteristics of budget hotels are commonly distinguished through the ownership and facilities in which common operators of these hotels normally involved professionals such as lawyers, engineers, accountants and doctors who basically have a very partial knowledge of the hotel operation, individuals with limited formal education or experience directly related to the hospitality industry who inherited family business as well as small investors. In terms of facilities, these hotels do not offer ancillary facilities on top of the standard basic accommodation facilities. Budget hotels could be registered as hotel, resort, lodging house, rest house, motel, hostel, chalet, guest house or inn. With an average room rate as low as RM80 per night; budget hotels are capable at holding customers with an average length of stay of 4 consecutive nights per visit (Abdullah *et al.*, 2012).

Halal or Muslim friendly hotel is one of the hotels which provide the halal services to the Muslim travelers. This type of hotel is not limited to serve halal food and beverages but the operation throughout the hotel would also be managed based on Islamic principles such as providing halal food and drink, no alcohol beverage being served in the hotel premises, qibla sign provided in each room, prayer mat, copied of holy Quran, provide ramadhan facilities, such as ramadhan buffet and also for early breakfast (sahur) during ramadhan. Halal hotel should also focus on their operation, design of the hotels and also their based financial of the hotel. Facilities at the hotel should be operating as accepted in sharia principles. For example facilities such as spa, gym facilities, swimming pool, guest and function should be separated for males and females (.Zulkifli, et al, 2013; MasterCard and CrescentRating on Global Muslim Travel Index, 2016). Therefore, Halal standard can be classified into some elements such as: quality management from perspective if Islam - food and beverages, facilities, also finance, insurance, travel package, transportation/airlines, and other travel/accommodation related activities. The word halal is an Arabic word for permissible, and is used to refer to everything that is permissible for a practicing Muslim. Conversely, the word haram, the Arabic word for forbidden, is used to signify the things that are forbidden for a Muslim to consume or engage in (Battour and Ismail, 2015).

Abdul-Razzaq (2016) and Razalli, *et al.* (2013) argued that the notion of halal encompasses all the aspects of Muslim's life. However, halal is widely associated with food and what is allowed to be consumed by Muslims. The Quran contains many food-related verses outlining the

permissible foods, such the Ayah (verse) mentioned in Surat Al Maaidah (The table) in the Quran: “All things suitable [for eating] have been permitted to you” (5:4).

Not surprisingly, the concept of Halal also extends into the realm of the tourism industry. Carboni *et al.* (2014) state that halal tourism has found a favoring amongst Muslim travelers who prefer to choose goods and services that follow the Islamic teachings so as to abide by Sharia (a set of rules derived from the Quran and the Prophet’s (peace be upon him) Sunna that dictate the daily lives and practices of Muslims whilst travelling (Abdul-Razzaq, 2016; Razalli, *et al.* 2013).

The hospitality industry has also seen a rise in the popularity of Islamic-friendly services (Battour *et al.*, 2014). Although most efforts in accommodation and lodging development in the past have been dedicated to a secular market, whilst deeming religious needs as less important, catering to religious needs has gathered in pace in recent years (Weidenfeld and Ron, 2008). Islamic hospitality has developed over the past decades and has become a valid part of the hospitality and food service industry with several recognized features (Stephenson, 2014, in Abdul-Razzaq, 2016).

3. METHODOLOGY

Research methodology uses qualitative approach as this is an exploratory type of research. The analysis also equipped by both primary data through in sessions of depth interview with selected informants and secondary data from previous research and publications (library research). Observation study was also conducted at several budget hotels at several states in Malaysia and observation to a halal hotel in Jakarta Indonesia (Hotel Sofyan Betawi) as benchmark. Data analysis is made through studying the relevant available data to match with research objectives in form of descriptive analysis. Threat, opportunity, weaknesses and Strength (Tows) analysis is also provided to support the analysis and discussion.

List hotels observed: Kop Town Hotel and Tune Hotel (Kuala Lumpur), Hotel Bahagia (Langkawi Island), Explorer Hotel (Malaka city), Traveler Hotel (Kota Kinabalu, Sabah), Malabar inn Hotel (Pulau Penang), and one halal hotel as model/benchmark: Hotel Sofyan Betawi, Jakarta Indonesia. All the budget hotels can be booked via Traveloka.

Hotel Sofyan Betawi as the halal hotel for benchmarking is a 3-star hotel with the sharia hotel theme and managed in accordance with the Islamic sharia. Guests are offered to stay with friendly services and halal facilities in a strategic location that is suitable for Muslim leisure travelers and business people. The hotel is located in Menteng Central Jakarta. It is 50 km away from Soekarno Hatta International Airport and this can be easily accessed from the airport (Hotel Sofyan Betawi, 2017).

Hotel Sofyan Betawi offers halal services and all the essential halal amenities and numerous on-site facilities to satisfy the guests starting from Muslim welcoming tradition by receptionist to the very friendly greeting and services upon arrival. In addition, all guestrooms feature a variety of comforts. Many rooms even provide towels, sofa, mirror, wireless internet access (complimentary), TV set. Hotel also provides the relaxing atmosphere of the sharia based fitness center, massage and garden view are available. Entertainment facilities are based on sharia. TV channel offers no adultery channel. Most channels are Muslim station based channels.

Hotel management believes that Sharia products are good for all, both for Muslims and non-Muslims. As for food, Muslims are the main needs of halal food and everything is lawful, therefore, halal certification is available as all of the subject matters have to be certified. Not only halal food and drinks but also restroom provides enough water for washing, whether to urinate or even to bathe. This is sometimes rarely found in conventional hotels. The ease of purification including toilets, showers, as well as the availability of rinse water, not just tissues is provided. This is to cater for Muslims also for *wudlu* (ablution). To worship in addition there is a large mosque across the hotel, but for guests who would like to worship in the hotel in each room there is also the direction of *Qibla*, prayer mat and Al-Quran. The *mushola* (small mosque) is also available.

It is hopeful that the finding of this research can provide information to indicate the importance for the budget hotel industry stakeholders to have knowledge and fully prepared with the opportunities and challenges that they might be facing prior developing Halal budget Hotel.

4. ANALYSIS AND DISCUSSION

Based on study in several budget hotels in Malaysia it was discovered that generally the budget hotels are located in the central of the city where access to public transportation is easy and convenience. Size of the budget hotel is small which contain only 30 to 100 rooms available up to two – four floors. Lifts are very limited it can be only one or two lifts for the whole hotel. In certain case such as hotels with only two up to 3 floors can be no lift at all. Breakfast is very standard with only one menu or limited choice. Certain budget hotels even do not provide breakfast at all. Room size is very limited with only 4x4 meters or 4x5 meters including bathroom and toilet. There are small empty space in between bed and the wall which might be suitable for Muslim guest to use individual praying, for one person only. AC and TV set mostly available. Price is in between RM. 75 –RM. 150 (Malaysian ringgits). There are limited promotional activities held for their hotels since their focus is to sell the room only. However, brochures or leaflet mostly are available. Since marketing and promotional activities is very limited Abdullah *et al.* (2012) found that the businesses depend highly on walk-in customers as well as word of mouths.

The budget hotel staff employees ranging from three (3) to ten (10) staffs depending on the number of room units and services provided. The staffs are in-charged in cleaning, housekeeping, marketing/reception, maintenance and handling reservation. 1 or 2 staffs are in charge as receptionist(s) with additional duties as cashier and phone operator. Operational decision making process is mostly at the owners' full discretion.

Further it was found no swimming pool is available, nor spa and gym facilities. No in room meal service order is common. No night entertainment at all, but also no public prayer facility for Muslim guests. Welcome drink or complementary drink mostly available with 1 to two bottles of water in certain budget hotels. Mostly budget hotels do not provide mini refrigerator/mini bar.

The positive side of budget hotel is that it is a type of bed and breakfast traveler activity which is fit with the budget travelers who are not searching for a luxury accommodation. Mostly the rooms are provided for rest especially to take sleep. Therefore it is understood that mostly they do not have night entertainment or pub and also alcoholic bravery is not likely available. Considering this situation making it into a halal budget hotel seems will be easier. To convert into halal budget hotel the owners need only to provide *ibada* (prayer) facilities and additional room for praying outside of the room which can accommodate 10-30 persons should be suitable, Muslim staff and to conduct standard sharia operation both for guests and staff. But challenges also arise.

Even though many (Muslim) guests do not question the availability of complete *ibada* facilities, rather they more concern on customer service and the cleanliness of the room. Formatting halal budget hotel is also an option. For many budget hotel owner, due to lack of budget, providing additional facilities for Moslem prayer practice is challenge. Especially for non Moslem Hotel owners who target their guests for every body and do not take into account any religion life style, unlike the Muslim owners.

The following is Budget Hotel Threat, Opportunity, Weaknesses and Strength (TOWS) Analysis:

Table 2: Budget Hotel TOWS Analysis

<p>Threat:</p> <ol style="list-style-type: none"> 1.The emergence of home stay alternatives, 2. Air BnB internet application based accommodation, 3. Attractiveness of the upper stars hotel for leisure. 	<p>Opportunity:</p> <ol style="list-style-type: none"> 1.The growing budget travelers who seek standard service not luxury, 2. Muslim Back packer, 3. Muslim Millennial traveler.
<p>Weaknesses:</p> <ol style="list-style-type: none"> 1. Not so convenience/the absence of luxury, 2. Limited facilities, 3. Narrow space, 4. Standard service 5. Standard Meals often no meals at all. 	<p>Strength:</p> <ol style="list-style-type: none"> 1. Location (good access), 2. Affordable price, 3. Efficient, 4. Economical.

Sourced: Data process, 2017.

Based on TOWS analysis the opportunity of budget hotel to convert into halal budget hotel is open. However, owner or management of budget hotel should take into account some limitation and challenges facing in turning it into budget hotel. Basic halal service at budget hotel can be facilitated as general budget hotel also facilitates basic services only. At least guest can exercise their duty as Muslim while staying and feel comfort with the hotel Islamic atmosphere.

There are some positive aspects in turning general budget hotel into halal budget hotel such as with limitation of budget hotel typically the hotel is not accommodated with night entertainment and alcoholic drink. Second consideration is since the option into halal budget hotel also depends on owner or management policy, especially when the owner still would like to focus to Non-Muslim market, therefore this is management policy.

With these challenges and limitations proposed model for halal budget hotel would be very standard and minimize: A *mushola* within the hotel for guests as the room is so narrow to accommodate praying especially when guests come with a partner. However, small space in the room should be allocated for individual Muslim praying. It can be a space between bed and the wall. It is understood that with this tiny space might not feel comfortable. Quran and *shala* equipment such as Mat and *Sarong/Mukena* for ladies can be still provided in each room, also *qibla* direction and running water facility for *wudlu* and ablution. There is a need of wet toilet.

Islamic greeting by staff such as *assalamua'laykum* can be use and part of the SOP, also greeting on the telephone. Also to create Islamic atmosphere the printing of mosque, soft music, adzan (prayer) calling, Islam calligraphy is suggested to hang on walls in side of and outside of rooms. Staff dress codes to adjust with Moslem appropriate dress. No smoking sign and *shala* time information is provided in each room, as well in the lobby.

Room entertainment such as TV programs, should be selected with Islamic norms. No adult movie provided, as well other programs which might unsuitable with sharia principles. Facilities such as gym (if any) can be separated between men and women, at least have a turn basis between male and female.

5. CONCLUSION AND SUGGESTION FOR FUTURE RESEARCH

The model of halal budget hotel encounters some barriers especially in term of facilities to support the required halal requirements. Some of the barriers are: the limited space of the room, limited space of hotel building for having a small mosque (*mushola*) and human resources barrier. However, despite all the challenges and barriers the budget hotel is also open for the opportunity for the halal budget hotel or at least Muslim friendly budget hotel. Standard sharia principles are already there since generally budget hotels have no alcoholic drink provided, no disco or pub, no

night club as space is very limited and no night/entertainments facilities available. As the budget hotel is merely functioned for taking a rest and sleeping comfortably, then the concept of halal budget hotel is fulfilled with a very standard service and minimize.

As this is an exploratory research with qualitative nature then future research by using quantitative method is strongly suggested.

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A COMPARATIVE STUDY OF CHALLENGES BETWEEN FEMALE AND MALE ENTREPRENEURS IN MALAYSIA

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ABSTRACT

Entrepreneurship is the opportunity driven process in order to create value through combination of various resources. However, both male and female entrepreneurs have to face various challenges in the process of entrepreneurship under various contexts. The aim of this study was not only to find out the challenges faced by male and female entrepreneurs but also to compare the challenges faced by male and female entrepreneurs in the context of Malaysia. The primary data was collected from 135 respondents. Finding revealed that both male and female entrepreneurs face a definite set of challenges in the process of entrepreneurship in Malaysia. However, only a little difference was found between the perceptions of male and female respondents regarding the challenges faced by them.

Key words: Entrepreneurship, Malaysia, Male Entrepreneurs, Female Entrepreneurs.

1. BACKGROUND OF THE STUDY

Research has found that there is a link between entrepreneurship and economic growth. Entrepreneurship has been especially crucial for developing economies, which China has often been classified as. Specifically, entrepreneurship has proved to be particularly important for Malaysia, where new venture creation and small and medium sized enterprises (SMEs) have been of significance for the country's growth, especially since the start of Malaysia's economic reforms. In 67 countries globally as of 2012, approximately 126 million women were starting or running new businesses and 98 million were running already established businesses. However, the rate of females engaged in entrepreneurship varies from 1 % to 40 % globally. Thus, women entrepreneurs' impact on innovation and job creation differs worldwide (Kelley et al., 2013). Research show tendencies for increased female entrepreneurship in the future, moving women closer to their male counterparts. Onwards, female entrepreneurs are predicted to continue to match the changing situation in terms of more gender equality in business environments and in the society (Zhang and Alon, 2010).

Since the number of female entrepreneurs in Malaysia is increasing, hence it is interesting to see how the females are making their way into the world of entrepreneurship. There are some set challenges which females have to face when making their way into the world of entrepreneurship. In Malaysia, women occupy many managerial positions, whereas in the case of start-ups, male dominate (Flannery, 2013). It has been found that research 20 % of all entrepreneurs in Malaysia are female (Ming Yen Teoh & Choy Chong, 2014). Potential reasons for this low rate of female entrepreneurs are thought to be related to culture and funding agents' preferences (Flannery, 2013). Moreover, It has also been found that despite Malaysia's growth and that the role of women is changing, Malaysian women face high levels of inequalities in business, social networks, education, and capital access ((Ming Yen Teoh & Choy Chong, 2014).

Even though some research indicate that there are no significant gender differences in entrepreneurship, many of the above mentioned obstacles for female entrepreneurs have been found in the case of Malaysia. For example, Bates (2002) has found female business owners would be

less likely to sell their services to business clients compared to their male business counterparts, even though they were operating in the same industry and had the same size of their firms. If there are obstacles specifically faced by women in business and if these are discriminatory, it results in negative consequences economically, socially and politically for a country (Kitching and Jackson, 2002).

It is interesting to observe the challenges and differences that exist between male and female entrepreneurs in Malaysia. Hence, the overall objective of this study has been circled around this theme

2. RESEARCH OBJECTIVES

The main objective of the study is to explore the challenges faced by female and male entrepreneurs in Malaysia. The specific objectives of the study are:

Objective 1: To find out the challenges faced by female and male entrepreneurs in Malaysia.

Objective 2: To compare the challenges faced by female and male entrepreneurs in Malaysia.

As an academic subject, entrepreneurship has come a long way in its 300 years of existence. Many theories have come and gone, many models and interpretations have been proposed, of which some have been accepted, some rejected. (Bjerke, 2010). The term entrepreneurship is marked by a wide range of existing definitions in the literature.

One aspect of its definition, which is of relevance within this paper is the creation of a new enterprise as stated by Low (1988). In contrast to entrepreneurial processes, which take place in already existing companies through for example new product innovations, the entrepreneurs examined in this thesis are the founders of their own businesses.

Shane (2003) mentions another facet, which is the discovery of opportunity. According to his definition, entrepreneurship means to discover, evaluate and exploit opportunities with the purpose of introducing new goods and services, processes or a whole new market.

Timmons (1999) defines entrepreneurship as a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced. Coulter (2001) says that entrepreneurship is 'the process whereby an individual or a group of individuals use organized efforts and means to peruse opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled'. Kuratko and Hodgetts (2004) perceive entrepreneurship as 'a dynamic process of vision, change and creation.'

3. LITERATURE REVIEW

MALE AND FEMALE ENTREPRENEURSHIP

Both women and men are running businesses in all sectors all around the Malaysia. Most of entrepreneurs are working for local market. Among entrepreneurs we will see that women entrepreneurs are young and educated. Most businesses in Malaysia are small. Nearly two from three enterprises are solo enterprises and 99% of businesses have less than 50 employees.

There are some interesting facts about the field of entrepreneurship in Malaysia. There is a trend that entrepreneurs are getting higher education, people who have higher education start enterprises. The number increased by several percent during a decade which is reflected positively on entrepreneurial activities. One more point that we can make here is that more women have higher education than men. The gap between men's and women's education.

The participation of women in entrepreneurship varies around the globe and thus their impact on innovation and job creation. If females are not engaged as entrepreneurs, the capacity of half the world's population in terms of job creation is lost (Kelley, Brush and Greene, 2012).

CHALLENGES FOR MALAYSIAN ENTREPRENEURS

Developing countries face different challenges in terms of entrepreneurship and small and medium enterprises than developed countries because in developing or transforming countries, integrated finance or factor markets are still incomplete and they often lack political stability (Dolles and Babo, 2003). Findings of entrepreneurial challenges generally in developing countries include unstable and highly bureaucratic business environments, complicated business registrations and taxation systems, poorly designed and enforced contract and property laws, inadequate

infrastructure, poor policies, limited access to capital, corruption and lack of managerial experiences (Moghavvemi & Akma Mohd sallah, 2014).

In Malaysia, weaknesses in institutions hinder development and setup of private firms and it prompts entrepreneurs to form political connections in order to increase their chances to succeed. The environment of Malaysian institutions differs greatly from that of the Western countries, with a very strong Asian culture.

CHALLENGES FOR FEMALE ENTREPRENEURS

Female firms are generally likely to be smaller, grow slowly, and have less collateral than male firms. This leads to women having more difficulties in raising funds for their enterprise because banks tend to be more cautious about lending to female entrepreneurs. A survey among more than 14 000 firms across 34 countries showed that female firms were charged an interest rate 0.45% higher than males and also that they were 5% less likely to even obtain a loan (Muravyev, Talavera, & Schäfer, 2009). Because of the difficulties women might face in terms of fundraising they need to turn to their families. However, due to some cultural norms families do not necessarily prioritise female entrepreneurship, but instead tend to focus on ensuring that females are wed.

One constraint found for female entrepreneurs is the lack of time to put into the firm. In societies where men do little or no unpaid household work, the women are restricted to take employment or start their own businesses because of lack of time. Another problem may be the unawareness of the particular constraints faced by female entrepreneurs (and female workers in general); long-standing cultural norms biased against women may seem ‘natural’ in the society and may thus not be perceived as discriminatory (Ming Yen Teoh & Choy Chong, 2014).

4. RESEARCH STRATEGY

Since the aim is to investigate particular challenges female entrepreneurs’ face that males do not, a qualitative and iterative study is conducted with a quantitative study as complement. This is followed by a comparative analysis.

Qualitative research is a research strategy that emphasises words rather than numbers, as is the case in quantitative research (Bryman and Bell, 2011). Since the aim of this research was to investigate what potential perceived challenges Malaysian entrepreneurs face, useful data was able to be collected through mixing qualitative and quantitative research. The qualitative part with interviews was done in order to investigate the views and opinions more deeply among the respondents, whereas the quantitative part was done to extend the data collection and identify and define the challenges among a wider crowd. When choosing between qualitative and quantitative research strategies, there is a trade-off between investigating a topic on a deep level or in a broad perspective. As the research question suggests, it was the views, opinions, and perceptions of the respondents that were the main focus. However, in order to also cover a broader view the qualitative study was complemented with a quantitative study with the aim of identifying perceptions of a larger population. This means that this research covers both perspectives (broad and deep) in a sense, even if the main focus was on the qualitative part, the case studies.

5. SUMMARY OF THE CHALLENGES FACED

The results from the interviews and the survey are presented below. The results have all been categorised into different subheadings. The coding into categories derives from the literature review and the findings and are presented in table 4.1 below.

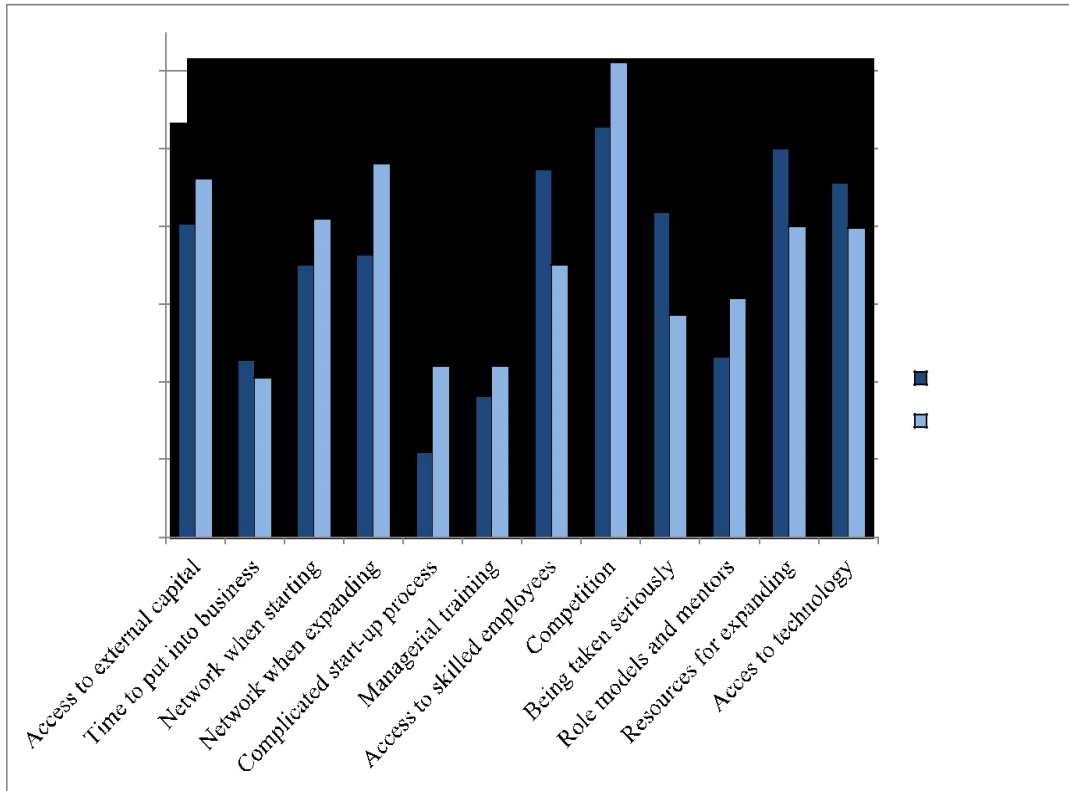
Category/subheading	Challenges
Resources	Financial resources Time to put into business Sufficient resources for expanding Access to technology Skilled employees
Personal	Network Managerial training Family support (in terms of encouragement) Confidence Role models and mentors Gender
Economic and Political Environment	Bureaucracy Institutional environment Government Economic situation Competition
Culture and Society	Seriousness Society's perceptions Culture and traditions

From the above table, it is visible that there four major types of challenges faced by entrepreneurs in Malaysia. These four categories come from both micro circumstances and macro circumstances. Entrepreneurs especially the selected and interviewed successful entrepreneurs have faced or been facing these types of challenges while performing their own part.

6. DESCRIPTIVE STATISTICS OF SURVEY RESULT

To achieve, the purpose of this study, survey method has been utilized as well. The usual respondent of the survey has been the students who are budding entrepreneurs. The respondents have been selected in a particular manner making the composition of the respondent a valid one and also the responses from the respondents varied and wide. Respondents have been chosen randomly. Even though all of the chosen respondents are students of master's level in public university in Malaysia.

Below, the results from the survey are presented as descriptive statistics. In total 135 responses have been collected in the survey, of these, 78 respondents are male and 57 are women. All surveys that have been handed out to the MBA students and all the surveys have been also filled out, making the response rate 100 percent.



Potential Challenges (Females and males who have rated aspects as 4 or 5 (>3) on a five-point scale)

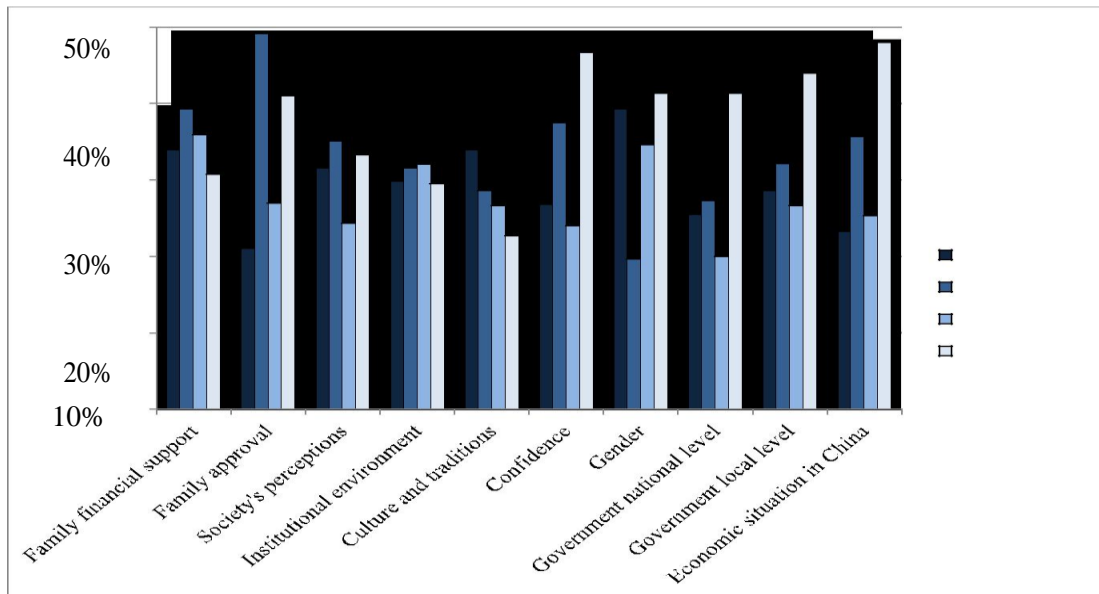
In figure above, the results from the first section of the survey are presented. The results included are the rates from females and males who have answered 4 or 5 on the questions (see appendix 8.1 Survey) on a five-point scale, where 1 represent “not at all a challenge”, and 5 “very much a challenge”. This means that the figure represent those who see these aspects as challenges.

In most cases the perceived challenges are similar between the genders, however there are some differences. For instance, women tend to see it as more of a challenge than men to be taken seriously as entrepreneurs. 42 % of the women have answered a 4 or a 5 on this question whereas 29 % of the men have given answers that indicate that this is a challenge. Another aspect where there are differences between the female and male respondents in answers is the access to skilled employees. For this challenge, 35 % of the men answered a 4 or a 5, while the equivalent percentage rate among the women is 47 %, indicating that women see this as a greater challenge than men do.

There is almost no notable difference in finding it a challenge to have enough time to put into the business. For this challenge 23 % of the women and 21 % of the men rated it with a 4 or a 5. This is however an aspect that neither of the genders has rated as very much a challenge compared to many of the other aspects.

Access to technology seem to be very challenging for both men and women, even if there is 6 percentage points more women rating it with a 4 or a 5.

Too much competition seems to be the most prominent challenge for both males and females. 55 % of the female respondents put 4 or 5 this challenge and 61 % of the males.



Factors affecting entrepreneurship (Females and males who have rated aspects as 4 or 5 (>3) or as 1 or 2 (<3) on a five-point scale)

In figure above, the results from the second section of the survey are presented. The results included are the rates from females and males who have answered 1 and 2 (<3), or 4 and 5 (>3) on the questions (see appendix 8.1 Survey) on a five-point scale, where 1 represent “very much a challenge”, and 5 “very advantageous”. This means that the figure represent those who consider these aspects as challenges and those who consider them as advantageous.

There are, as the graph shows, some differences in how beneficial or challenging males and females perceive certain aspects to be for them as entrepreneurs or future entrepreneurs. Simultaneously, as figure 4.2 describes, female and male responses do not differ remarkably in certain areas, and within some fields the number of people who see aspects as challenging do not differ greatly.

Confidence and *Governmental local level* show similar response patterns from male and female students; there is a larger share of males and females who think that the aspects mentioned are advantageous rather than challenging. For instance, 47% of the male respondents and 38% of the female respondents respectively perceive their own confidence to be advantageous for them as entrepreneurs while 24% of the men and 27% of the women perceive it to be challenging or very challenging. It should be noted however, as the figure shows, that there is only 2 % more females that perceive the *Government on a national level* to be advantageous for them rather than challenging. In all of the mentioned aspects, the share of females and males who perceived them to be challenging did not differ greatly.

Within the aspect *Family financial support*, a higher percentage of the responding women perceive it to be advantageous than the percentage who perceive it to be challenging, at the same time as a higher percentage of the males perceive it to be challenging than the share who perceive it to be advantageous. When it comes to *Family approval* however, both more women and more men perceived it to be advantageous for them as entrepreneurs as opposed to challenging, with the percentage points differing as much as 28 for females. A higher share of males than females perceived family approval to be challenging.

Both a higher share of female and male respondents perceive society’s perceptions to be advantageous than challenging, however as the graph describes, there is almost as many females perceiving this aspect to be challenging, the difference being only 3 percentage points. 32 % of the females believe that society’s perceptions would be challenging for them, while the percentage for men is 24 %.

There are only two aspects that females perceive to be more challenging or very challenging than advantageous; *Culture and traditions* and *Gender*. 34 % of the respondent women perceive culture and traditions to be challenging while 29 % perceive it to be advantageous. Simultaneously, 27 % of the males perceive it to be challenging and 23 % it to be advantageous. There are thus more females than men who believe culture and traditions in Malaysia to be challenging. The answers collected for the aspect *Gender* differ from the other aspects since, as can be read out from the figure, the replies of the males and females differ just as the answer rates of the females. 39 % of the females perceive this aspect to be challenging while only 20 % perceive it to be advantageous. As opposed to this, more males perceive it to be advantageous, 41 %, than those who think it is challenging, 35 %.

There are thus a higher percentage of males who perceive gender to be advantageous while a higher percentage of females perceive it to be challenging than males.

Culture and traditions and *Gender*. *Family financial support*, *Institutional environment* and *Gender* have the highest rate of responses among men in terms of challenges. *Family financial support* has the highest male response rate in terms of challenge and *Gender* the highest female response rate, with 36% respectively 39%. None of the aspects were perceived to be challenging or very challenging by a majority of the genders.

The responses to the question “Do women face different challenges than men in entrepreneurship in Malaysia?” divided by gender.

Male	Female
No – 38%	No- 23%
Yes- 62%	Yes- 77%

23 % of the women and 38 % of the men state that there are no differences in challenges between the genders in entrepreneurship in Malaysia. In total, 32 % of the respondents state that there are no differences for men and women in entrepreneurship in Malaysia. The rate of women who state that there are differences is 77 % compared to 62 % of the men. There are thus more women who perceive gender differences in terms of challenges in Malaysia, however as the charts shows, there is a majority of both men and women who perceive these differences.

87 males and females answered yes to the question in the survey if they think that women face different challenges than men in entrepreneurship in Malaysia.

7. CONCLUSION AND FINDINGS

Entrepreneurship has been topic of research for many studies. Sadly, there is less significant number of studies looking into the matter of female entrepreneurship. There is also lesser number of studies available for female entrepreneurship in the developing countries around the world.

Malaysia is one of the most promising countries in today’s world. In Malaysia, the number of entrepreneurs are on increase. Of them, the participation of female entrepreneurs is the most striking one.

Although there are studies available discussing entrepreneurship, there are less number of significant studies exploring the challenges faced by male and female entrepreneurs in Malaysia. In this study, the challenges faced by male and female entrepreneurs have been studied with the means of qualitative research with a major extent and the later one quantitative research with a lesser extent.

Primary data have been utilized for this study and the collected data have been analysed using statistical means.

The first objective of this study has been set up to find out the challenges faced by female and male entrepreneurs in Malaysia.

In order to realize the objective, data have been collected in organized matter and analysed systematically by following interview and then later on survey. Based on the results obtained, it is visible that both male and female entrepreneurs in Malaysia face some definite set of challenges.

The second objective of this study has been set up to compare the challenges faced by male and female entrepreneurs in Malaysia.

This study contributes to the existing literature as empirical evidence for further research. Since businesses nowadays entrepreneurial initiatives are becoming more famous, hence it will be more beneficial for the coming as well as existing entrepreneurs. The study has added a new dimension to the previous findings since this study is of new nature in Malaysian context.

8. RECOMMENDATION FOR FUTURE RESEARCH

Future researchers may improve the results of the study by adding the number of respondents in the study. Furthermore, it could be good to include samples in more than one country in order to remove the systematic risk of investigating only one particular country.

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CAPITAL STRUCTURE THEORIES AND FIRM'S VALUE – EVIDENCE FROM BURSA MALAYSIA TRADING AND SERVICES SECTOR

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ABSTRACT

This paper examines the relevance of Capital Structure theories to the performance of Trading and Services firms at Bursa Malaysia. Within the framework of Modigliani-Miller and Trade-Off theories, this paper uses Generalized Method of Moments as an estimation model employing quarterly panel data over the observed period from 2014 through 2017. The test results from GMM indicate that earnings per share (EPS) and debt-equity ratio (D/E) concluded that the Static Theory and Modigliani-Miller theory are valid here. Moreover, all variables are significantly influencing the share price of the public listed companies in Trading and Services sectors.

1. INTRODUCTION

Malaysia is a middle-economy country which has one of the highest standards of living in South East Asia, largely because of its expanding industrial sector. The Malaysian economy is an open economy where the economic activities involve both domestic community and the international community. Malaysia has a fast growing economy as the country transformed itself since the 1970's from a producer of raw materials into an emerging multi-sector economy due to the Asian financial crisis during year 1997 – 1998. In year 2015, as a major producer and exporter of crude oil, natural gas and palm oil, Malaysia's economy was bound to be affected by the plunge in demand and prices for hydrocarbons and other commodities. Net external demand dragged down Gross Domestic Product growth in the first half of 2015. As such, during third quarter of 2015, Malaysia's currency has shown the worst performer against the dollar in Asia. Malaysia has become the worst performer among 11 major Asian currencies tracked by Bloomberg. This situation has certain effect towards the concerns among foreign investors to pull out their money and invest their funding in other countries. Prospects for weaker growth threaten to add to the gloom.

The above situation becomes a great challenge to most of the companies in Malaysia on how to sustain their business especially in maintaining the cost of financing at the lowest possible level. The cost of financial has become one of the main issues in business activities as it could lead to the increase in overall cost of doing business if it is not being well considered. Thus, it requires the business owner to systematically analyze the right combination of portfolio financial. The well diversified portfolio of financing will be able to minimize the cost involved in business operations and at the same time leading towards follows: the next section provides problem statement and literature review. The following section describes the data and methodology used. Finally, the last section provides the empirical findings and concludes the discussion.

2. PROBLEM STATEMENT

Capital Structure is considered as one of the important elements that require careful consideration as it could contribute significantly to business performance. The structure of the sources of capital need to be determined in strategic manner in order to minimized the overall cost of financing as well as maximizing the wealth of the shareholders. In other words, the issue of optimal capital structure is very crucial to be determined as it could leads to positive impact particularly towards lowering the cost of capital and enable the firm to achieve maximum return with certain acceptable risk level. However, wrongly combined sources of capital could also result in negative impacts as each of courses of capital has its

own advantages and disadvantages which requires well balanced combination of the portfolio financing.

In relation to that matter, several studies have tested the hypothesis of finding relationship between characteristics of capital structure and performance. However, few studies has been conducted in the context of companies particularly in Trade and Services sector as categories by Bursa Malaysia. It is indeed important to examine the characteristics and the structures of the capital financing as applied by companies in trading and services sector. Generally, companies in different sectors are expected to have different characteristics and structure with regards the capital financing as they have different characteristics and structures with regards the capital financing as they have different characteristics and structures with regards the capital financial as they have different risk background. Therefore, this paper examine the issue of companies performance in relation to the application of different combination of capital structure financing among companies in construction sector as listed at Bursa Malaysia.

3. LITERATURE REVIEW

There are several significant theories of capital structure in financial management have emerged (Kovenock and Phillips, 1995; Kovenock and Phillips, 1997). The traditional Theory of capital structure tells us that wealth is not just created through investments in assets that yield positive return on investment, purchasing those assets with an optimal blend of equity and debt is just as important. This theory believes that when the Weighted Average Cost of capital (WACC) is minimized, thus the market value of assets are maximized, an optimal structure of capital exists. In sum it says that a firm's values of assets are maximized, an optimal structure of capital exists. In sum it says that a firm's value increases to a certain level of debt capital, after which it tends to remain constant and eventually begins to decrease. The modern theory of capital structure began with the celebrated paper of Modigliani and Miller. A firm's capital structure is the relative proportions of debt, equity and other securities in the total financing of its assets. A business needs to plan its capital structure to optimize the application of the funds and also to be able to adjust easily to the changing environments. From their analysis, they have pointed the direction that such theories must take that capital structure irrelevance proposition. Essentially, they hypothesized that in perfect markets, it does not matter what capital structure a company uses to finance its operations. They theorized that the market value of a firm is determined by its earning power and by the risk of its underlying assets, and that is value is independent of the way it chooses to finance its investments or distribute dividends. The basic M&M proposition is based on the key assumptions; (1) No taxes (2) No transaction cost (3) No bankruptcy costs (4) Equivalence in borrowing costs for both companies and investors (5) Symmetry of market information, meaning companies and investors have the same information (6) No effect of debt on a company's earnings before interest and taxes.

In addition, another theory of capital structure that very much relates with the theory proposed by Modigliani and Miller is the trade-off theory. The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. This theory is often set up as a competitor theory to the pecking order theory of capital structure. The term trade-off theory is commonly used to describe a group of associated theories. In all these theories, a decision maker examines the different costs and advantages of alternative leverage plans. The trade-off theory assumes that you can get benefits to leverage within a capital structure until the optimum capital structure is achieved. The theory acknowledges the tax advantage from interest payments. A major objective of the trade-off theory is to explain the fact that businesses generally are funded partially with debt and partially with equity.

The relationship between capital structure and company performance is still debatable as many studies which have been conducted revealed various findings. Some of the studies (Krishnan and Moyer, 1997; Zeitun and Tian, 2007) where significantly found out that there were negative relationship between leverage and the firm's performance. The findings with regard the negative relationship between firm's performance and financial leverage from the capital structure were also been identified in several countries as conduct by the researchers (Brigham & Gapenski, 1996; Majumdar and Chhibber, 1997; Rao, Al-Yahyaee and Syed, 2007). Specifically, Gleason, Mathur and Mathur (2000) have found out that the same findings with regard the negative relationship between firm's performance and types of combination in capital structure. In addition, the issue of the relationship between the firm's performance and different combination in capital structure has also been analyzed in relation to the changes in economic condition especially during Asian financial crisis (Tan, 2012). The study has been conducted and the finding revealed that the negative relationship between the firm's performance and the financial risk from using leverage in financing has been magnified negatively by the financial crisis.

However, there are many studies which have been conducted and the findings revealed different direction of the relationship between the firm's performance and financial leverage from the capital structure. Most of the studies found out that financial leverage would contribute positively towards increasing the performance of the firms as reflected in improving in the productivity level, enhancing the profitability as well as prospering the EPS value (Huyghebaert, 2006; Titman & Wessels, 1998; Myers, 2001; Ross, 1977; Noe, 1988). Most of the previous studies have similar findings in confirming the results that value of firms have positively influenced by certain combination of capital structure which closer to the optimum level category (Maksimovic, Stomper and Zechner, 1999; Barclay, Smith and Watts, 1995). Generally, an optimum capital structure with certain amount of leverage financing will enable the firm to minimize the overall cost of financing as well as maximizing the portfolio return from business investment activities (Hadlock & James, 2002; Corriceli, Driffield, Pal, and Roland, 2011). Other researchers have also supported the findings from the studies as debt financing has positive influenced in increasing the firm's value as well as profitability which directly reflect the issue of strong establishment in financial sustainability and better position in maintaining the stability of growth in productivity (Roden and Lewellen, 1995; Sharma, 2006; Ehrhardt and Brigham, 2006).

4. DATA

This paper focuses on the companies in the Trading and Services industry that are listed at Bursa Malaysia. For analysis, the quarterly data from 2014 through 2017 were extracted from the companies' annual report. In order to analyze the panel data, the SAS program is employed.

5. METHODOLOGY

Generalized Method of Moments (GMM) value and their relation with the firm's closing depshloyreed riinc testing thetidetenninand determinants of firm's data with efficient econometric estimators. GMgM is anp e—eic..entistemst method tO3rortllatescatnrepdaunceel and ease endogeneity problem. Endogeneity is the correlation between the parameters or variables with the error term. This test controls the endogeneity problem by employing unobservable shocks in the cross-sectional component. The research instruments used in this study involve diagnostic tests for GMM validity which are tests of the non- existence of serial correlation of the error terms using the first and second order serial correlation, test for exogeneity of instruments that ensures the consistency of estimates using the Sargan tests. This test is also employed to find out the relation between capital structure determinants and debt equity ratio (D/E). The research framework of the GMM test is shown in Figure 1 below. It is developed to test the determinants of capital

structure. To depend on the GMM results, different diagnostic tests are conducted. Sargan test is employed to measure the exogeneity and validity of instruments, while the serial correlation is examined by Autocorrelation test. The panel data increases the number of observations. This set improves efficiency by reducing the multicollinearity problem and increasing the degree of freedom between the explanatory variables. Firms are different in their capital structure choice. Cross-sectional data do not cope with this problem. Thus, panel data approach has the advantage of solving the unobserved firm-specific effects. Moreover, compared to cross-sectional data, choosing variables and instruments is easy and more flexible. The endogeneity problem is one of the factors that support the implementation of GMM. Observable as well as unobservable shocks affect corporate capital structure decisions and firm-specific characteristics.

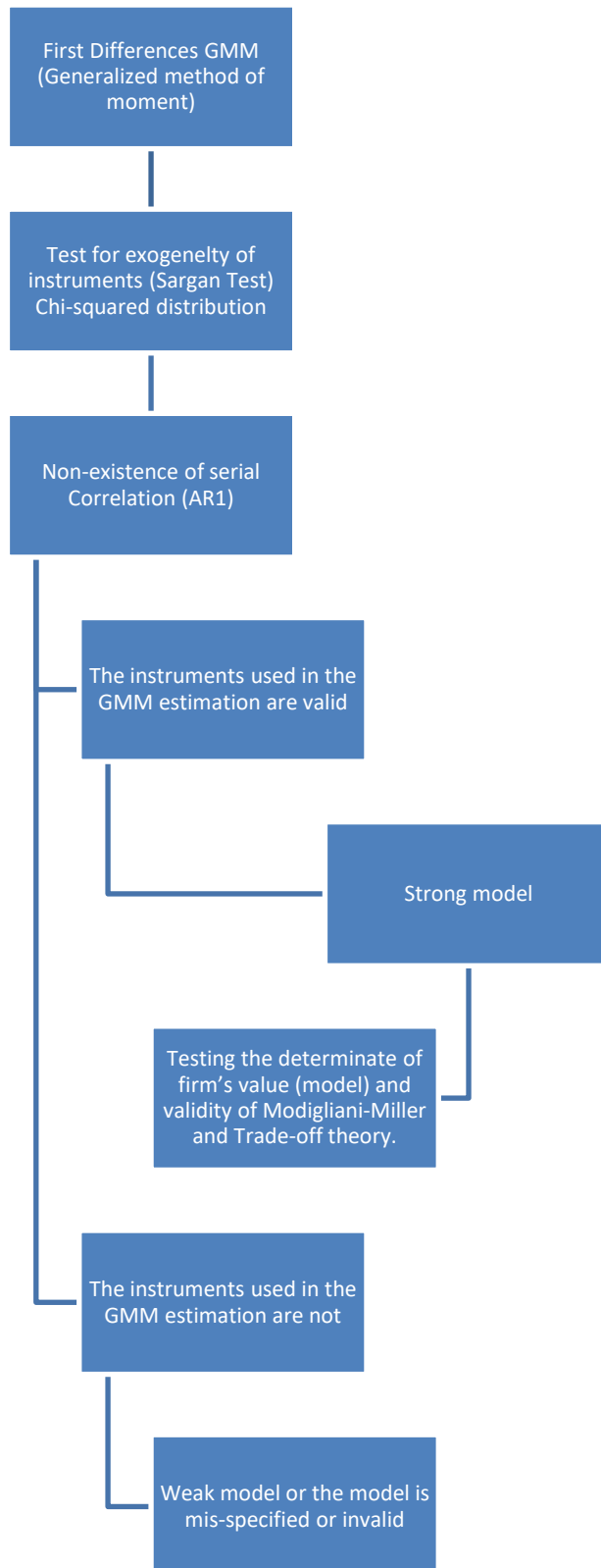
The GMM research framework process is summarized by the following steps. It starts with the diagnostic tests, then to the main research method of GMM, a method that alleviates the deformation caused by fixed effects, simultaneity and endogeneity. The study applied the GMM on a panel data that considers both dimensions of cross-sectional and time-series estimates. The GMM model structure is discussed in the following paragraphs:

Consider the Single Equation Linear GMM as:-

$$Y_t = \beta_0 + \beta_1 z_t + \epsilon_t, \quad t = 1, \dots, n \quad (1)$$

Where z_t is an $L \times 1$ vector of explanatory variables, β_0 is a vector of unknown coefficients and ϵ_t is a random error term. In this model elements of z_t may be correlated with the error term ϵ_t . In case of the existence of endogenous variables in z_t , the least squares estimator of β_0 is biased and inconsistent. Related to the model, a $K \times 1$ vector of instrumental variables x_t is assumed that many contain elements of z_t . Let w_t represent the vector of unique and non-constant elements of (y_t, z_t, x_t) . It is assumed that (w_t) is a stationary and ergodicstochastic process.

Testing the determinants of firm's value



The instrumental variables x_t satisfy the set of K orthogonality conditions

$$E [gt(wt, 60)] = E[x_t E_t] = E [x_t (y_t - 430)] = 0 \dots\dots\dots (2)$$

where: $gt(wt, \infty 0) = x_t E_t = x_t(YI - \infty 0)$. Expanding (2), gives the relation

$$\sum xy = \sum xz \infty 0 \quad (3)$$

where: $\sum xy = \sum [x_t y_t]$ and $E_{xz} = E [x_t z_t]$. For identification of $\infty 0$, it is required that the $K \times L$ matrix $E[x_t z_t]$ be of full rank L . Note, if $K = L$, then E_{xz} is invertible and $\infty 0$ may be determined using $\infty 0 = \sum -lxz \sum xy$

A necessary condition for the identification of $\infty 0$ is the order condition

$$K \geq L \dots\dots\dots (4)$$

Above equation simply states that the number of instrumental variables must be greater than or equal to the number of explanatory variables. If $K = L$ then $\infty 0$ is said to be (apparently) just identified; if $K > L$ then $\infty 0$ is said to be (apparently) over-identified; if $K < L$ then $\infty 0$ is not identified.

To solve the problem of endogeneity of independent and explanatory variables, a two-step GMM method is used to control the correlation error over time that is, mitigating the effect of orthogonality conditions on errors, and heteroskedasticity across firms. Observed and unobserved firm-specific determinants determine the optimal capital structure. These firm and time specifics do changes on capital structure and the optimal leverage point. Depending on the determinants of capital structure, the following GMM model is developed:

$$Y^*_{it} = \phi + \sum_k \beta_k \times kit + \alpha_i + \alpha_t + \epsilon_{it} \dots\dots\dots (5)$$

Where: Y^* = the dependent variable
 $i=1, \dots, N$.

Firm-specific characteristics are measured by $\sum_k \beta_k X_{kit}$, the result of it varies from time to time and from firm to other.

α is the unobserved firm- specific effect.
 α captures the time effect.

The lagged values of the dependent variable of the GMM model are examined to evaluate the consistency and the validity of the other explanatory variables. The error terms must not exhibit any serial correlation. The diagnostic tests that evaluate the validity of the GMM panel data model are (1) Test of exogeneity of instruments; (Sargan test) measured via Chi-squared distribution (2) Non-existence of the serial correlation AR1 & AR2. Serial correlation is often observed in time series data, but not in cross-section. Due to this limitation, the panel data approach is recommended. In order to avoid the problem of serial correlation, the first and second order serial correlation test is conducted. The AR1 and AR2 must provide a negative significant results and no evidence of second order autocorrelation. The error is assumed to be independent of its past; it has no memory of its past values. See equations 6, 7, 8 below.

Error Tenn has a mean of zero:
 $E(e) = 0 \quad E(y) = b_1 + b_2 x \dots\dots (6)$

Error term has constant variance: $Var(e) = E(e^2) = cr^2 \dots\dots\dots (7)$

Error term is not correlated with itself (no serial correlation):

$$\text{Cov}(e_i, e_j) = E(e_i e_j) = 0 \quad i \neq j \dots\dots\dots(8)$$

The autocorrelation coefficient must lie between —1 and 1:
 $-1 < \rho < 1$,

Anything outside this range is unstable and unacceptable good for economic models. The Sargan test is proposed by John Denis Sargan in 1958, sometimes called the Hansen test or J-test. It is used to examine the exogeneity of the instruments and their consistency. It is aimed at exploring variables and finding if they are uncorrelated to some sets of residual. If the Sargan test is not valid, the model is classified as weak. Under the null-hypotheses the chi square is employed test the overall validity of the instruments and the existence of over-identifying restrictions. The degrees of freedom are found by calculating the difference between the number of instruments and the number of regressors. The GMM is used to generate consistent and efficient estimators of the parameters and study. That consistency is not achieved if the error term exhibits serial correlation.

6. EMPIRICAL FINDINGS

All of the datasets, namely closing price (CP), earnings per share (EPS), Debt/Equity ratio (DE) were extracted from Dynaquest publications and analysed by SAS Program. In order to get the statistical results of GMM, the data were coded into SAS Program. In order to get the statistical results of GMM, the data were coded into SAS Program and analyzed. The results of the panel GMM2 are reported below.

Relationship Between Firms Value and Earning plus Company Stock

The PANEL Procedure Pooled (OLS) Estimates

Model Description	
Estimation Method	Pooled
Number of Cross Sections	22
Time Series Length	12

Table 2

Fit Statistics			
SSE	1143.4374	DFE	261
MSE	4.3810	Root MSE	2.0931
R-Square	0.2216		

Table 3

Table 4

Parameter Estimates						
Variable	DF	Estimate	Standard Error	t Value	Pr > t	Label
Intercept	1	1.395177	0.1906	7.32	<.0001	Intercept
eps	1	0.20454	0.0250	8.18	<.0001	earnings per share
de	1	0.182675	0.0645	2.83	0.0050	debt equity ratio

Pooled OLS is adopted here to provide the base-line analysis. Looking at the statistical results from POOLED OLS (table4), it is evident that EPS and DE are statistically significant in influencing the firm's value as proxied by individual firm's closing price. Interestingly, the parameter estimate for each explanatory variable is positive indicating direct relationship firm's value and its explanatory variables.

Relationship Between Firms Value and Earning plus Company Stock

The PANEL Procedure GMM: First Differences Transformation

Model Description	
Estimation Method	GMM2
Number of Cross Sections	22
Time Series Length	12
Estimate Stage	2
Maximum Number of Time Periods (MAXBAND)	5

Fit Statistics			
SSE	39.0414	DFE	217
MSE	0.1799	Root MSE	0.4242

Table 6

The result of panel procedures via GMM shows that the number of companies in the analysis is twenty-two. The size of time-series data is 12. The results of Fit Statistics in Table 6 explain the goodness-of-fit statistics reported to measure how well different model fit the data. The value of SSE indicated that the model has a random error component, and also fit will be more useful for prediction. However, this is not suitable to do prediction as the value is greater than 0. Hence, it applies to MSE, DFE, and Root MSE, where the value closer to 0 has greater potential for prediction.

Sargan Test		
DF	Statistic	Prob > ChiSq
36	434.19	<.0001

Table7

The Sargan test (Table 7) is a test of the validity of instrumental variables. It is a test of the over identifying restrictions in a statistical model. The hypothesis testing on the Sargan test specifies that the instrumental variables are uncorrelated to some set of residuals, and therefore they are accepted as valid and credible instruments. From the diagnostic test, the null hypothesis is accepted which confirms that the instrumental variables are valid.

Table 8

Parameter Estimates					
Variable	DF	Estimate	Standard Error	t Value	Pr > t
lcp_1	1	0.713223	0.00616	115.86	<.0001
lde	1	-0.14483	0.00337	-42.93	<.0001
leps	1	-0.02168	0.00196	-11.08	<.0001

Parameter estimation is a discipline that provides measures for the efficient use of data for aiding in mathematical modelling of phenomena and the estimation of constants appearing in the model. It can thus be visualized as a study of inverse problems (Zhang, 2004). The coefficient for DE is -0.14483. For every unit increase in D/E, a -0.14483 drop in price is predicted, holding all other variables constant. Furthermore, the coefficient for EPS is -0.02168. Therefore, for every unit increase in EPS the price is expected to decrease -0.02168 times, while holding all other variables constant. However, from the p-values reported in the table above, none of the explanatory variables is significant in influencing the firm's value, including the lag one closing price (Lcp). It is worthy to note that these findings support the efficient market hypothesis at semi-strong level. The published information on companies such as their EPS are immaterial in influencing their future values.

Table 9

AR(m) test		
Lag	Statistic	Pr > Statistic
1	-3.02	0.9987

AR(m) test is a representation of a type of random process; as such, it describes certain time-varying processes in nature. The autoregressive model specifies that the output variable depends linearly on its own previous values. It is a special case of the more general ARMA model of time series. The p-value of AR(m) test is 0.9987, and it is greater than alpha of 5%. This implies absence of autocorrelation problem.

Table 10

Relationship Between Firms Value and Earning plus Company Stock

The MEANS Procedure

Variable	Label	N	Mean	Std Dev	Minimum	Maximum
company	company	264	11.5000000	6.3563387	1.0000000	22.0000000
date		264	20377.42	315.9311433	19875.00	20879.00
cp	closing price	264	2.5340610	2.3632949	0.1940000	11.9330000
de	debt equity ratio	264	1.3469242	2.0021110	0.1240000	10.5870000
eps	earning per share	264	4.3650758	5.1627351	0.0600000	53.7100000
lcp		264	0.5195979	0.9597798	-1.6398971	2.4793077
lde		264	-0.1854480	0.8962425	-2.0874737	2.3596268
leps		264	0.9734859	1.0718860	-2.8134107	3.9835992
lcp_1	Lagged 1 log cp	264	0.5268313	0.9642860	-1.6398971	2.4793077

The means procedure explains the descriptive statistics of the given data sets. Based on Table 10, the average DE is 1.3469 and this is considered relatively low for construction industry. It is interesting to note that the EPS is moderately high with an average of 4.3650 cents.

7. CONCLUSION

This paper aims to develop in-depth understanding on the relationship between firm's value and its capital structure which is generally reflected by profit and leverage as the determinants of the company's performance. The study involves a total of 22 companies from Trade and services sector and each company's value (firm's value) is measured by its closing prices, while the company's profits and leverage are provided by EPS and DE ratio respectively. From the findings, it can be concluded that the Static Theory is valid (as the P-value D/E is less than 0.0001). It has been observed that Modigliani-Miller theory is also valid here (as P-value EPS is less than 0.001). Perhaps, future research should consider incorporating more companies in the analysis. From the Sargan test, all the instrumental variables are uncorrelated to some set of residuals, and therefore they are proven to be acceptable valid instruments. This is confirmed from the acceptance of null hypothesis. As a whole, the empirical findings from the study on Trading and services sector at Bursa Malaysia supports the essence of Modigliani-Miller and Trade-Off theories. Therefore, all variables are significant in influencing companies share price in the Trade and Services Sector.

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CAPITAL STRUCTURE THEORIES AND FIRM'S VALUE - EVIDENCE FROM BURSA MALAYSIA CONSTRUCTION SECTOR

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ABSTRACT

This paper examines the relevance of Capital Structure theories to the performance of construction firms listed at Bursa Malaysia. Within the framework of Modigliani-Miller and Trade-Off theories, this paper uses Generalized Method of Moments as an estimation model employing yearly panel data over the observed period from 2010 through 2015. The test results from GMM indicate that earnings per share (EPS), dividend per share (DPS) and debt-equity ratio (D/E) have no significant relationship with firm's value as represented by market price per share (MPPS). Even though the findings are rather shocking, one must admit there is an absence of Modigliani-Miller and Trade-Off theories in those construction firms at Bursa Malaysia. Obviously, this is an indication that the efficient market hypothesis prevails to a certain level at Bursa Malaysia.

Keywords: Modigliani-Miller Theory; Trade-Off Theory; Generalized Method of Moments; Panel Data Analysis; Efficient Market Hypothesis.

1. INTRODUCTION

Malaysia is a middle-income country which has one of the highest standards of living in South East Asia, largely because of its expanding industrial sector. The Malaysian economy is an open economy where the economic activities involve both domestic community and the international community. Malaysia has a fast growing economy as the country transformed itself since the 1970's from a producer of raw materials into an emerging multi-sector economy due to the Asian financial crisis during year 1997–1998. In year 2015, as a major producer and exporter of crude oil, natural gas, and palm oil, Malaysia's economy was bound to be buffeted by the plunge in demand and prices for hydrocarbons and other commodities. Net external demand dragged down Gross Domestic Product growth in the first half of 2015. As such, during third quarter of 2015, Malaysia's currency has shown the worst performer against the dollar in Asia. Malaysia has become the worst performer among 11 major Asian currencies tracked by Bloomberg. This situation has certain effect towards the concerns among foreign investors to pull out their money and invest their funding in other countries. Prospects for weaker growth threaten to add to the gloom.

The above situation becomes a great challenge to most of the companies in Malaysia on how to sustain their businesses especially in maintaining the cost of financing at the lowest possible level. The cost of financing has become one of the main issues in business activities as it could lead to the increase in overall costs of doing business if it is not being well considered. Thus, it requires the business owner to systematically analyze the right combination of portfolio financing. The well diversified portfolio of financing will be able to minimize the costs involved in business operation and at the same time leading towards maximizing the wealth of the shareholders and company's value. This paper is organized as follows: the next section provides problem statement and literature review. The following section describes the data and methodology used. Finally, the last section provides the empirical findings and concludes the discussion.

2. PROBLEM STATEMENT

Capital structure is considered as one of the important elements that requires careful consideration as it could contribute significantly to business performance. The structure of the sources of capital need to be determined in strategic manner in order to minimize the

overall cost of financing as well as maximizing the wealth of the shareholders. In other words, the issue of optimal capital structure is very crucial to be determined as it could lead to positive impact particularly towards lowering the cost of capital and enable the firm to achieve maximum return with certain acceptable risk level. However, wrongly combined sources of capital could also result in negative impacts as each of sources of capital has its own advantages and disadvantages which requires well balanced combination of the portfolio financing.

In relation to that matter, several studies have tested the hypothesis of finding relationship between characteristics of capital structure and performance. However, few studies have been conducted in the context of companies particularly in construction sector as categorized by Bursa Malaysia. It is indeed important to examine the characteristics and the structures of the capital financing as applied by companies in Construction sector. Generally, companies in different sectors are expected to have different characteristics and structures with regards the capital financing as they have different risk background. Therefore, this paper examine the issue of companies' performance in relation to the application of different combination of capital structure financing among companies in construction sector as listed at Bursa Malaysia.

3. LITERATURE REVIEW

There are several significant theories of capital structure in financial management have emerged (Kovenock and Phillips, 1995; Kovenock and Phillips, 1997). The Traditional Theory of Capital structure tells us that wealth is not just created through investments in assets that yield positive return on investment, purchasing those assets with an optimal blend of equity and debt is just as important. This theory believes that when the Weighted Average Cost of Capital (WACC) is minimized, thus the market value of assets are maximized, an optimal structure of capital exists. In sum it says that a firm's value increases to a certain level of debt capital, after which it tends to remain constant and eventually begins to decrease. The modern theory of capital structure began with the celebrated paper of Modigliani and Miller. A firm's capital structure is the relative proportions of debt, equity, and other securities in the total financing of its assets. A business needs to plan its capital structure to optimize the application of the funds and also to be able to adjust easily to the changing environments. From their analysis, they have pointed the direction that such theories must take that capital-structure irrelevance proposition. Essentially, they hypothesized that in perfect markets, it does not matter what capital structure a company uses to finance its operations. They theorized that the market value of a firm is determined by its earning power and by the risk of its underlying assets, and that its value is independent of the way it chooses to finance its investments or distribute dividends. The basic M&M proposition is based on the key assumptions; (1) No taxes (2) No transaction costs (3) No bankruptcy costs (4) Equivalence in borrowing costs for both companies and investors (5) Symmetry of market information, meaning companies and investors have the same information (6) No effect of debt on a company's earnings before interest and taxes.

In addition, another theory of capital structure that very much relates with the theory proposed by Modigliani and Miller is the trade-off theory. The trade-off theory of capital structure refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. This theory is often set up as a competitor theory to the pecking order theory of capital structure. The term trade-off theory is commonly used to describe a group of associated theories. In all these theories, a decision maker examines the different costs and advantages of alternative leverage plans. The trade-off theory assumes that you can get benefits to leverage within a capital structure until the optimum capital structure is achieved. The theory acknowledges the tax advantage from interest payments. This theory mainly refers to the two concepts; cost of financial distress,

and agency costs. A major objective of the trade-off theory is to explain the fact that businesses generally are funded partially with debt and partially with equity.

The relationship between capital structure and company performance is still debatable as many studies which have been conducted revealed various findings. Some of the studies (Krishnan and Moyer, 1997; Zeitun and Tian, 2007) were significantly found out that there were negative relationship between leverage and the firm's performance. The findings with regard the negative relationship between firm's performance and financial leverage from the capital structure were also been identified in several countries as conducted by the researchers (Brigham & Gapenski, 1996; Majumdar and Chhibber, 1997; Rao, Al-Yahyaee and Syed, 2007). Specifically, Gleason, Mathur and Mathur (2000) have found out that the same findings with regard the negative relationship between firm's performance and types of combination in capital structure. In addition, the issue of the relationship between the firm's performance and different combination in capital structure has also been analyzed in relation to the changes in economic condition especially during Asian financial crisis (Tan, 2012). The study has been conducted and the finding revealed that the negative relationship between the firm's performance and the financial risk from using leverage in financing has been magnified negatively by the financial crisis.

However, there are many studies which have been conducted and the findings revealed different direction of the relationship between the firm's performance and financial leverage from the capital structure. Most of the studies found out that financial leverage would contribute positively towards increasing the performance of the firms as reflected in improving in the productivity level, enhancing the profitability as well as prospering the EPS value (Huyghebaert, 2006; Titman & Wessels, 1998; Myers, 2001; Ross, 1977; Noe, 1988). Most of the previous studies have similar findings in confirming the results that value of firms have positively influenced by certain combination of capital structure which closer to the optimum level category (Maksimovic, Stomper and Zechner, 1999; Barclay, Smith and Watts, 1995). Generally, an optimum capital structure with certain amount of leverage financing will enable the firm to minimize the overall cost of financing as well as maximizing the portfolio return from business investment activities (Hadlock & James, 2002; Corriceli, Driffield, Pal, and Roland, 2011). Other researchers have also supported the findings from the studies as debt financing has positive influenced in increasing the firm's value as well as profitability which directly reflect the issue of strong establishment in financial sustainability and better position in maintaining the stability of growth in productivity (Roden and Lewellen, 1995; Sharma, 2006; Ehrhardt and Brigham, 2006)

4. DATA

This paper focuses on companies in the construction industry that are listed in Bursa Malaysia. For the analysis, the data were extracted from Stock Performance Guide Handbook, published by Dynaquest. To analyze all the companies in the construction industry, annual data from 2010-2015 were chosen. The main measures that are analyzed in this study are the firm's value, profits, leverage ratio and dividend per share. In order to analyze the panel data, the SAS program is employed.

Below are the companies which have been identified for further analysis:

Table 1

NO	COMPANY NAME	PRODUCT
1	AHMAD ZAKI RESOURCES BHD	Construction
2	BENALEC HOLDINGS BHD	Construction
3	BREM HOLDINGS BHD	Construction
4	CREST BUILDER HOLDINGS BHD	Construction
5	EKOVEST BHD	Construction
6	GADANG HOLDINGS BHD	Construction
7	GAMUDA BHD	Construction
8	IJM CORPORATION BHD	Construction
9	KIMLUN CORPORATION BHD	Construction
10	MELATI EHSAN HOLDINGS BHD	Construction
11	MITRAJAYA HOLDINGS BHD	Construction
12	MUHIBBAHENGINEERING (M) BHD	Construction
13	PROTASCO BHD	Construction
14	WCT HOLDINGS BHD	Construction

5. METHODOLOGY

Generalized Method of Moments (GMM) is deployed in testing the determinants of firm's value and their relation with the firm's closing share price. This method provides the panel data with efficient econometric estimators. GMM is an efficient test and tool that can reduce and ease endogeneity problem. Endogeneity is the correlation between the parameters or variables with the error term. This test controls the endogeneity problem by employing unobservable shocks in the cross-sectional component. The research instruments used in this study involve diagnostic tests for GMM validity which are tests of the non-existence of serial correlation of the error terms using the first and second order serial correlation, test for exogeneity of instruments that ensures the consistency of estimates using the Sargan tests. This test is also employed to find out the relation between capital structure determinants and debt equity ratio (D/E). The research framework of the GMM test is shown in Figure 1 below. It is developed to test the determinants of capital structure. To depend on the GMM results, different diagnostic tests are conducted. Sargan test is employed to measure the exogeneity and validity of instruments, while the serial correlation is examined by Autocorrelation test. The panel data increases the number of observations. This set improves efficiency by reducing the multicollinearity problem and increasing the degree of freedom between the explanatory variables. Firms are different in their capital structure choice. Cross-sectional data do not cope with this problem. Thus, panel data approach has the advantage of solving the unobserved firm-specific effects. Moreover, compared to cross-sectional data, choosing variables and instruments is easy and more flexible. The endogeneity problem is one of the factors that support the implementation of GMM. Observable as well as unobservable shocks affect corporate capital structure decisions and firm-specific characteristics.

The GMM research framework process is summarized by the following steps. It starts with the diagnostic tests, then to the main research method of GMM, a method that alleviates the deformation caused by fixed effects, simultaneity and endogeneity. The study applied the GMM on a panel data that considers both dimensions of cross-sectional and time-series estimates. The GMM model structure is discussed in the following paragraphs:

Consider the Single Equation Linear GMM as:-

$$Y_t = \alpha + \beta X_t + \varepsilon_t, t = 1, \dots, n \dots \dots \dots (1)$$

Where z_t is an $L \times 1$ vector of explanatory variables, δ_0 is a vector of unknown coefficients and ϵ_t is a random error term. In this model elements of z_t may be correlated with the error term ϵ_t . In case of the existence of endogenous variables in z_t , the least squares estimator of δ_0 is biased and inconsistent. Related to the model, a $K \times 1$ vector of instrumental variables x_t is assumed that many contain elements of z_t . Let w_t represent the vector of unique and non-constant elements of $\{y_t, z_t, x_t\}$. It is assumed that $\{w_t\}$ is a stationary and ergodicstochastic process.

Testing the determinants of firm’s value

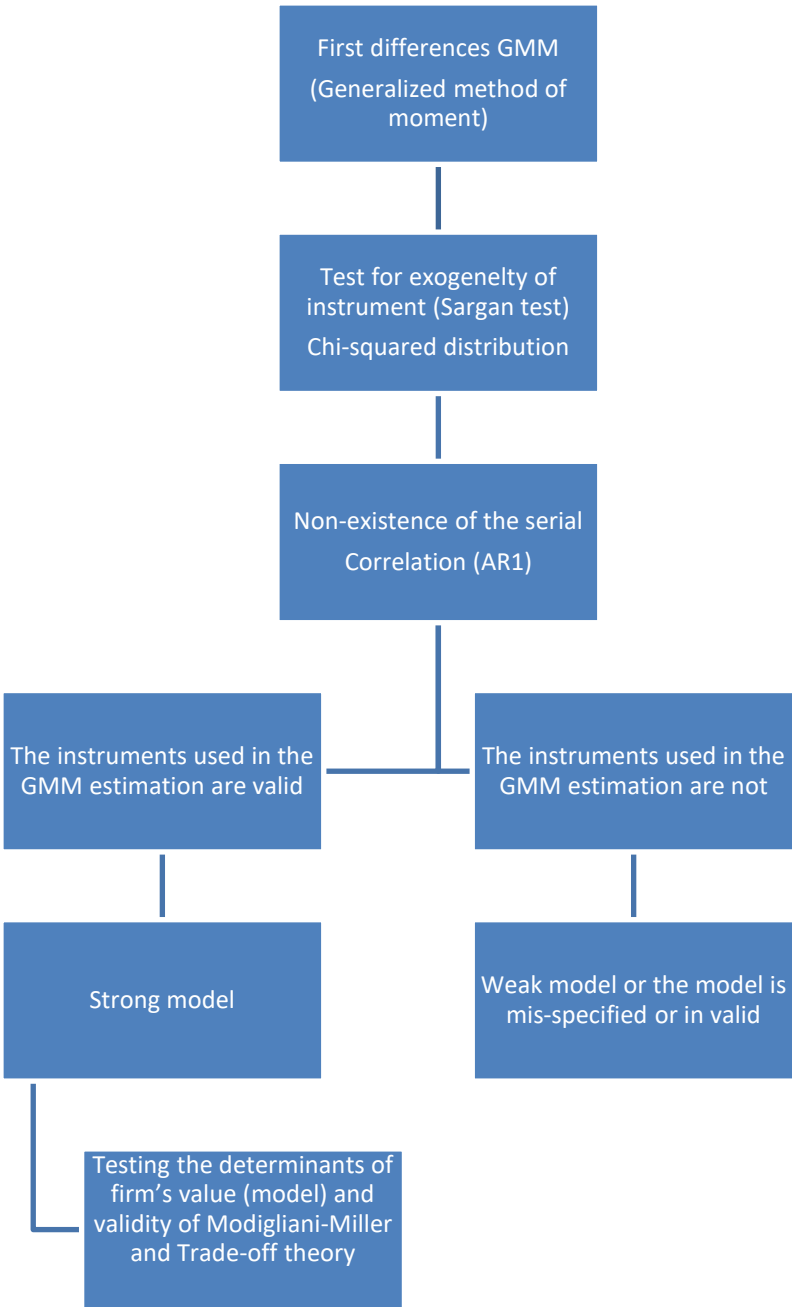


Figure 1: Generalized Method of Moments (Framework).

The instrumental variables x_t satisfy the set of K orthogonality conditions

$$E [g_t(w_t, \delta_0)] = E[x_t \varepsilon_t] = E [x_t (y_t - z_t \delta_0)] = 0 \dots\dots\dots (2)$$

where: $g_t(w_t, \delta_0) = x_t \varepsilon_t = x_t(y_t - z_t \delta_0)$. Expanding (2), gives the relation

$$\Sigma_{xy} = \Sigma_{xz} \delta_0 \dots\dots\dots (3)$$

where: $\Sigma_{xy} = E[x_t y_t]$ and $\Sigma_{xz} = E [x_t z_t]$. For identification of δ_0 , it is required that the $K \times L$ matrix $E[x_t z_t] = \Sigma_{xz}$ be of full rank L . Note, if $K = L$, then Σ_{xz} is invertible and δ_0 may be determined using $\delta_0 = \Sigma_{xz}^{-1} \Sigma_{xy}$

A necessary condition for the identification of δ_0 is the order condition

$$K \geq L \dots\dots\dots (4)$$

Above equation simply states that the number of instrumental variables must be greater than or equal to the number of explanatory variables. If $K = L$ then δ_0 is said to be (apparently) just identified; if $K > L$ then δ_0 is said to be (apparently) over-identified; if $K < L$ then δ_0 is not identified.

To solve the problem of endogeneity of independent and explanatory variables, a two-step GMM method is used to control the correlation error over time that is, mitigating the effect of orthogonality conditions on errors, and heteroskedasticity across firms. Observed and unobserved firm-specific determinants determine the optimal capital structure. These firm and time specifics do changes on capital structure and the optimal leverage point. Depending on the determinants of capital structure, the following GMM model is developed:

$$Y_{it}^* = \alpha_0 + \sum_k \beta_k X_{kit} + \alpha_i + \alpha_t + \varepsilon_{it} \dots\dots\dots (5)$$

Where: Y^* = the dependent variable
 $i=1, \dots, N$.

Firm-specific characteristics are measured by $\sum_k \beta_k X_{kit}$, the result of it varies from time to time and from firm to other.

α_i is the unobserved firm- specific effect,
 α_t captures the time effect.

The lagged values of the dependent variable of the GMM model are examined to evaluate the consistency and the validity of the other explanatory variables. The error terms must not exhibit any serial correlation. The diagnostic tests that evaluate the validity of the GMM panel data model are (1) Test of exogeneity of instruments; (Sargan test) measured via Chi-squared distribution (2) Non-existence of the serial correlation AR1 & AR2.

Serial correlation is often observed in time series data, but not in cross-section. Due to this limitation, the panel data approach is recommended. In order to avoid the problem of serial correlation, the first and second order serial correlation test is conducted. The AR1 and AR2 must provide a negative significant results and no evidence of second order autocorrelation. The error is assumed to be independent of its past; it has no memory of its past values. See equations 6, 7, 8 below.

Error Term has a mean of zero:
 $E(e) = 0 \rightarrow E(y) = b_1 + b_2 x \dots\dots (6)$

Error term has constant variance:
 $Var(e) = E(e^2) = \sigma^2 \dots\dots\dots (7)$

Error term is not correlated with itself (no serial correlation):

$$\text{Cov}(e_i, e_j) = E(e_i e_j) = 0 \quad i \neq j \quad \dots\dots\dots (8)$$

The autocorrelation coefficient must lie between -1 and 1:

$$-1 < \rho < 1,$$

Anything outside this range is unstable and unacceptable good for economic models. The Sargan test is proposed by John Denis Sargan in 1958, sometimes called the Hansen test or J-test. It is used to examine the exogeneity of the instruments and their consistency. It is aimed at exploring variables and finding if they are uncorrelated to some sets of residual. If the Sargan test is not valid, the model is classified as weak. Under the null-hypotheses the chi square is employed test the overall validity of the instruments and the existence of over-identifying restrictions. The degrees of freedom are found by calculating the difference between the number of instruments and the number of regressors. The GMM is used to generate consistent and efficient estimators of the parameters and study. That consistency is not achieved if the error term exhibits serial correlation.

6. EMPIRICAL FINDINGS

All of the datasets, namely closing price (CP), earnings per share (EPS), Debt/Equity ratio (DE) and dividend per share (DPS) were extracted from Dynaquest publication and analysed by SAS Program. In order to get the statistical results of GMM, the data were coded into SAS program and analyzed. The results of the panel GMM2 are reported below.

The PANEL Procedure Pooled (OLS) Estimates
Dependent Variable: lcp (closing price)

Table 2

Model Description	
Estimation Method	Pooled
Number of Cross Sections	14
Time Series Length	6

Table 3

Fit Statistics			
SSE	34.4417	DFE	74
MSE	0.4654	Root MSE	0.6822
R-Square	0.6402		

Table 4

Parameter Estimates						
H ₀ : Absence of significant relationship between dependent variable and independent variable.						
H ₁ : Presence of significant relationship between dependent variable and independent variable.						
Variable	DF	Estimate	Error	t Value	Pr > t	Label
Intercept	1	0.156178	0.1888	0.83	0.4109	Intercept
EPS	1	+0.062316	0.0131	4.77	<.0001*	Earnings per share
DE	1	+0.402612	0.1637	2.46	0.0162*	Debt equity ratio
DPS	1	+0.148704	0.0266	5.60	<.0001*	Dividend per share

*significant at 5% level

Pooled OLS is adopted here to provide the base-line analysis. Looking at the statistical results from pooled OLS (Table 4), it is evident that EPS, DE and DPS are statistically significant in influencing the firm's value as proxied by individual firm's closing price. Interestingly, the parameter estimate for each explanatory variable is positive indicating direct relationship firm's value and its explanatory variables.

The PANEL Procedure
 GMM : First Differences Transformation
 Dependent Variable: lcp (lagged closing price)

Table 5

Model Description	
Estimation Method	GMM2
Number of Cross Sections	14
Time Series Length	6
Estimate Stage	2
Maximum Number of Time Periods (MAXBAND)	5

Table 6

Fit Statistics			
SSE	17.3810	DFE	45
MSE	0.3862	Root MSE	0.6215

The result of the panel procedures via GMM shows that the number of companies in the analysis is now just fourteen instead of the initial eighteen. The size of time-series data remains 6, from year 2010-2015. The results of Fit Statistics in Table 6 explain the goodness-of-fit statistics reported to measure how well different models fit the data. The value of SSE closer to 0 indicates that the model has a smaller random error component, and also the fit will be more useful for prediction. However, this is not suitable to do prediction as the value is greater than 0. Hence, it applies to MSE, DFE, and Root MSE, where the value closer to 0 has greater potential for prediction.

Table 7

Sargan Test		
DF	Statistic	Prob > ChiSq
5	9.93	0.0772

The Sargan test (Table 7) is a test of the validity of instrumental variables. It is a test of the over identifying restrictions in a statistical model. The hypothesis testing on the Sargan test specifies that the instrumental variables are uncorrelated to some set of residuals, and therefore they are accepted as valid and credible instruments. From the diagnostic test, the null hypothesis is accepted which confirms that the instrument variables are valid.

Table 8

Parameter Estimates					
H ₀ : Absence of significant relationship between dependent variable and independent variable.					
H ₁ : Presence of significant relationship between dependent variable and independent variable.					
Variable	DF	Estimate	Error	t Value	Pr > t
Intercept	1	0.075622	0.0816	0.93	0.3587
Lcp_1	1	0.157671	0.2181	0.72 ^{ns}	0.4735

LDE	1	-0.26024	0.42223	-0.62 ^{ns}	0.5408
LEPS	1	0.060881	0.0675	0.90 ^{ns}	0.3716
LDPS	1	0.103826	0.1302	0.80 ^{ns}	0.4292

ns = not significant

Parameter estimation is a discipline that provides measures for the efficient use of data for aiding in mathematical modeling of phenomena and the estimation of constants appearing in the model. It can thus be visualized as a study of inverse problems (Zhang, 2004). The coefficient for DE is -0.26024. For every unit increase in D/E, a -0.26024 drop in price is predicted, holding all other variables constant. Furthermore, the coefficient for EPS is 0.060881. Therefore, for every unit increase in EPS the price is expected to increase 0.060881 times, while holding all other variables constant. However, from the p-values reported in Table 8, none of the explanatory variable is significant in influencing the firm's value, including the lag one closing price (Lcp). It is worthy to note that these findings support the efficient market hypothesis at semi-strong level. The published information on companies such as their EPS and DPS are immaterial in influencing their future values.

Table 9

AR(m) test (Auto Regressive)		
H ₀ : There is no serial correlation or autocorrelation on residuals.		
H ₁ : Serial correlation is found on residuals.		
Lag	Statistic	Pr > Statistic
1	-1.21	0.8877

AR(m) test is a representation of a type of random process; as such, it describes certain time-varying processes in nature. The autoregressive model specifies that the output variable depends linearly on its own previous values. It is a special case of the more general ARMA model of time series. The p-value of AR (m) test is 0.8877, and it is greater than α of 5%. This implies absence of autocorrelation problem.

Table 10

The MEANS Procedure: Descriptive Statistics						
Variable	Label	N	Mean	Std Dev	Minimum	Maximum
CP	Closing price (RM)	78	1.7596154	1.1149252	0.2900000	5.3600000
DE	Debt equity	78	0.6216667	0.4819129	0.0100000	1.8600000
EPS	Earnings per share (Cent)	78	11.6243718	7.4339695	0.0010000	31.4000000
DPS	Dividend per share (Cent)	78	4.2282564	3.6163843	0.0010000	15.0000000

The means procedure explains the descriptive statistics of the given data sets. Based on Table 10, the average DE is 0.6216 and this is considered relatively low for construction industry. It is interesting to note that the EPS is moderately high with an average of 11.62 cents. The average DPS of 4.22 cents is deemed low and perhaps this could be due to low dividend pay-out ratio as companies in construction industry prefer to capitalize their net profits.

7. CONCLUSION

This paper aims to develop in-depth understanding on the relationship between firm's value and its capital structure which is generally reflected by profit and leverage as the determinants of the company's performance. The study involves a total of 14 companies from construction sector and each company's value (firm's value) is measured by its closing prices, while the company's profits and leverage are provided by EPS and DE ratio respectively. From the findings, it can be concluded that there is no significant relationship between the firm's value and its DE and EPS. It is shocking to observe an absence of any relationship with Trade-Off theory and Modigliani-Miller theory. Perhaps, future research should consider incorporating more companies in the analysis. From the Sargan test, all the instrumental variables are uncorrelated to some set of residuals, and therefore they are proven to be acceptable valid instruments. This is confirmed from the acceptance of null hypothesis. The result of AR (m) confirms the absence of autocorrelation in the estimation model. As a whole, the empirical findings from the study on construction sector at Bursa Malaysia do not support the essence of Modigliani-Miller and Trade-Off theories.

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LOCAL ECONOMIC DEVELOPMENT TOURISM VILLAGE ON THE SLOPES OF MOUNT MERAPI

(Case Study In Balerante Village Community Kemalang District Klaten District)

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ABSTRACT

The eruption of Mount Merapi in 2010 makes the landscape of the southern slopes have uniqueness and natural charm that encourages people to develop tourism. Tourist developments tend to decline as a result of the management is done by partial and not yet included the community as the main actor. The study was conducted in Balerante village located on the South slope of Merapi. Objective: identify tour players, of the economic potential of local and formulate strategies Balerante Village travel development. The research is done through Descriptive, Qualitative and Case Studies. The analysis focuses on the principles and stages screwed Local Economic Development (LED) or a *Local Economic Development (LED)*. The results showed, the position Balerante village and tourist resort located in disaster prone areas and special areas so that the model developed travel to be part of the mitigation and conservation, and increasing the competitiveness of the local economy. To that end, the vision of its development strategy to be achieved is Brought Desa Balerante As Desatinasi Community-Based Ecotourism, through three strategies, namely: Developing a Tourism Village Nature and Culture, Creating Sustainable and Resilient Balerante Village Disaster and Achieve Competitive Local Economy. Key to the success of the development is the commitment of the Government and Parties, the ability of managers to innovate through the differentiation and diversification of tourism products, as well as integrated promotion.

Keywords: Ecotourism, mitigation, Local Economic Development, integrated campaign

1. INTRODUCTION

Merapi eruption has changed the landscape which very different from the previous forms. Pile of material in the form of a sea of sand and rock, along the Gendol River, Kali Woro, and a new ecosystem has formed an amazing natural hue in the appeal compared to the eruption of Merapi natural conditions in 2010. The changes itself encourage the community initiatives of Kepuharjo Village, Pentingsari, Petung, and Glagaharjo village in the district of dives, and Sidomulyo also Klaten district Balerante which develop the region as a tourist's village nature with travel Icons of Merapi. The "Volcano Tour" Travel, Umbulharjo Village Government administered together with other developing villages' "Merapi Tour Icons". Similarly, the natural tourism that thrives in Desa Balerante, Deles and Sidorejo has become a tourist destination which includes the mountain bike, climbing including its natural attractions. The growth of these activities is capable of creating and expanding business opportunities for the people who work either through car and motorcycle rentals, tourist guides and food stalls and retribution in order to increase the income of citizens and the competitiveness of the region.

In the development of "Volcano Tour" which is the main tourism on the slopes of Merapi and its tourism activities have tended to decrease. Likewise, villages that only rely on the uniqueness of Merapi's charm tend to experience its slow development. On the other side,

on the slopes of Merapi, there are varieties of economic potential which can be used as tourist attractions, unfortunately; it has not been managed optimally.

Some of the factors that make the decrease and underdeveloped villages Merapi travel due to: *first*, as time goes by, the ecosystem of Merapi experience its recovery. *Second*, tourism management is done partially. *Third*, tourist attractions "volcano tour", agro tourism, culinary, disaster museum and home stay is still managed partially and not yet integrated into one or several tour packages. *Fourth*, the development of tourism in the institutional Merapi is not structured to forge any collaborations and partnerships between government, community and specialty travel agencies as well as with other parties. *Fifth*, the lack of promotion and marketing needs to be facilitated with the right **marketing strategy** (Edy Susilo, M., Prayudi and Heti Erawawi, 2016).

The research result Andrej Udovc, Anton Perpar (2007), shows that the development or diversification of products tourist village does not guarantee a higher stability, robustness, and integrity but also influenced by the size of the region and the diversity of actors involved (*partnership*) and developed governance. This is confirmed by Irshad, Humaira (2010), that the success of rural tourism besides influenced by the role of local community, but also determined by the structured network and collaborative or partnership agreement between the public sectors and private as well as the promotion and intensive marketing challenge to develop tourist villages with an object diversity as one of the pillars of national travel industry (Indonesia) are competitive through the management of tourist villages with a variety of potential natural, social and community-based environment.

Tourism Village is one form of initiative and creativity of the community who develops the potential of the village resources and aims to improve the economy and competitiveness of the region. Tourism Village is tourist destination/destinations, which integrate tourist attraction, public facilities, tourism facilities, accessibility, the structured society that is fused by the procedures and the prevailing tradition (**Law 10/2009**, the Ministry of Cooperatives and SMEs 2015). The Growth of interest in the people/travelers who travels to the remote areas to enjoy and learn about nature, history, and helping the local people's economic community and supporting the conservation of the environment or known as Ecotourism. This activity is not limited by the interest to enjoy the attractions, but also as an opportunity to make observations, meaning a thorough observations research on the uniqueness of the village as a tourist destination (Dep. Of Culture and Parwisaya and WWF, 2009).

General characteristics of eco-tourism agreed upon by several parties are as follows: to appreciate the nature and culture of indigenous, minimizing negative environmental and socio-cultural impacts, to help the economy directly and create an expansion of the local people's work, containing education and interpretation as part of deals, as well as raising the awareness local and conservation visitors (Ministry of Culture and Parwisaya and WWF, 2009, Suansri, P. 2003, Ministry of Cooperatives and MSMEs, 2015) Responding from the issue of the perpetrators and tourism activists agreed to emphasize that eco-tourism patterns should minimize negative impacts on environment (culture, physical economy) but also able to increase income and prosperity of society and contain conservation value or Community-Based Ecotourism Model.

Conceptually, Community-Based Ecotourism is used to describe various tourism models that involve the community participation and aim to generate benefits for local communities. Therefore, community participation (from cooperatives, individual companies, joint ventures between individuals between the public and other public private sectors) in tourism is the key word for the entire definition in Community-Based Ecotourism. Thus, local communities have a great control and involvement in the development and management, and most of the benefits remain in society (Lucchetti, Veronica Garcia, Xavier Font. 2013, Denman, Richard 2001).

Looking from some models of tourism development since the decade of the 90's, some people give a strong impetus through initiatives approach Local Economic Development (LED) or a *Local Economic Development (LED)* as an effort to putting local people as actors and the main beneficiaries of the developed activities (Pose , Rodríguez, Sylvia Tijmstra 2005)

There are various definitions of LED from various circles. World Bank (2010), defines LED is a local economic development process aimed at building the economic capacity of a region to improve its economic future and quality of life for all. The process is implemented in partnership with the public sector, business and non-governmental sectors to work collectively to create better conditions for the growth of the economic and job creation (WORLD BANK, 2010). According to the Ministry of Public Works in the References of Local Economic Development (2012), who defines LED as the establishment of collective cooperation between government, business and non-government sectors and communities to identify and optimally utilize the resources they possess in order to stimulate and create a strong local economy, independent and sustainable. In practice, LED can be implemented on different geographical scales. In stages, the government can develop a LED strategy for the Regency/City region, while the village area can be the target area of LED for the Local Government/district in order to enhance the competitiveness of the region/village within its territory. LED as the strategy for regional development should ideally become one part of a regional development plan (World Bank 2010). Viewed from the stage, LED stage is divided into five stages: Stage I: Organizing the effort, Phase II: Assessment of local potential, Phase III: Strategy Preparation, Phase IV: Implementation of the strategy, and Phase V: Review of strategy (monitoring and evaluation).

Balerante Village is located on the slopes of South Merapi and its territory is included in Disaster Prone Areas (KRB) since 2016 developed a tour that occupies the area of Mount Merapi National Park and has not been referring to the model in accordance with local character and environment.

Formulation of the problem :

- a. What is the local economic potential of Balerante Village?
- b. Who has the role as a tour manager?
- c. What are the obstacles and challenges?
- d. What is the development strategy?

The purpose of this research are:

- a. Know the potential of Balerante's local economy as the basis for strategy development.
- b. Knowing the role of each stake holder that exists in developing tourism economy of Balerante Tourism Village.
- c. Knowing the problems and challenges of developing tourism economy in Balerante Tourism Village.
- d. Prepare the strategy of developing the tourism economy in Balerante Tourism Village.

2. METHODOLOGY

This research uses Descriptive and Qualitative approach Methods Case Studies. In this study, Descriptive Method is designed to collect information about the real and present situation (while underway). The use of this method aims to describe the nature of a state which is running at the time and check the cause of a particular symptom (Travers, 1978 *in* Sevilla et al, 1993).

According to Amirin (2000), Qualitative Methods are research related to qualitative data, ie data expressed in symbolic forms such as statements of interpretation (perception), literal oral responses and graphs. Given the data that is natural (reasonable), it will provide the possibility of reflecting the very relationships that occur in certain situations. One approach to obtaining qualitative information can be made using selected or selective individuals in discussion groups and directed at discussions focused on specific topics (Coeder,

1977, in Daim Sudarwan, 2000). Sevilla further explained that the case study is a detailed study of a particular case of research over a certain period. In this study, the case to be studied is emphasized on the analysis of Local Economic Development as a process of development of Balerante Village. The focus of the study is focused on the analysis of the resources potential of Balerante Village, stakeholders, development challenges and development strategies it needs to be taken by every involved actor.

The type of data needed in this study is secondary data and primary data. Secondary data retrieval technique is done through literature study and recording that has been done by various parties related to the topic. While at the secondary data location level obtained from the Office District and village. The primary data is done through group discussions involving interested parties (*stakeholders*) are Local Government through the relevant technical agencies, the private sector, and NGOs element selected communities. Primary data collection is also done through structured interviews with agency officials and related parties using questionnaires/interview guides. In addition to structured interviews, there will also be in-depth interviews of key informants and field observations.

In this research the analysis focused on 3 stages of LED that is stage To formulate development strategy of development of Tourism Village in Balerante (Phase III from LED) will be done qualitative analysis to vision, strategy, objective, program, and activity of purpose based on local economic appraisal result, development challenges taking into account local environmental conditions. Given the concept of LED has a wide scope to sharpen its development strategy formulation through limited discussions with key figures at the village / local level and related institutions, as well as other parties with special competence and knowledge in the field of tourism and disaster.

3. RESULTS AND DISCUSSION

LED as a development strategy is a process for optimizing local resources and having an impact on sustainable economic and social growth. Implementation of LED through the 5 stages performed is a step by step process that must be executed as a precursor to the success of the goals and objectives set. In order to accelerate the development of Balerante Village tourism, this discussion will describe the steps of LED: Institutional covering: identification of the parties involved and their roles and functions, identification of local economic potentials, development challenges. The results of the analysis on the LED aspects are taken into consideration for the development strategy of accelerating the development of Balerante Tourism Village.

3.1. Organizing Enterprises

To plan and implement LED, the process of identifying the offender is the first step to be taken. Perpetrators are organizations or individuals who have the competence and commitment will contribute in generating strategic planning as the basis for achieving the goals that will be achieved. Successful collaboration between actors (government, private and non-governmental) is one of the key successes of LED to generate a profitable long-term partnership (Swinburn, G. 2006).

Implementation of the parties as actors in Balerante Village Development can be grouped into 4 groups, namely the local level as the main actors consisting of Dea Government, Community Groups led by the village youths who are members of the DRR and POKDRWIS groups, the household economic business group led by housewives, and village economic institutions, namely Village Owned Enterprise (BUMDES). At the local level actors identified to have a role as a facilitator for the acceleration is technical agencies. Non-governmental groups are individuals and groups committed to tourism development in Balerante. The category is a network formed through personal relationships with community leaders.

Table 1. Identify Actors of Acceleration of Balerante Village Tourism Development

Local Level	District government	Non Government	Private
<ul style="list-style-type: none"> • Balerante Village Government • Aware Awareness Group (POKDARWIS) • Disaster Risk Reduction Group (DRR) • Economic Business Group • Conservation Groups • Public figure • BUMDes • Manager of Mount Merapi National Park (TNGM) • Kemalang Resort 	<ul style="list-style-type: none"> • Regional Development Planning Agency (Bappeda) • Government tourism office • Office of Small and Medium Business Development (UMKM) • forestry Service • Government tourism office • Regional Disaster Management Agency (BPBD) 	<ul style="list-style-type: none"> • Mountain Bike Community 10 AM (Klaten) • SPEKHAM (Surakarta) • Tourism activist • Researchers 	Electronic Media District

Source: Primary Data Analysis

3.2. Assessment of Local Economic Potential of Balerante Village

- Village Authority

With the enactment of Law No. 6 of 2014 on Villages (Law 6/2014), all villages including Balerante have the authority and authority to plan and implement development in accordance with the potential resources and needs of the community (Chapter IV Article 19 through Article 22 of Law 6/2014). As a form of recognition and appreciation of the village, each village gets the allocation of development costs in the form of financial transfers through the Village Fund (DD) as well as financing the government (district / city, central and sector) devolved development, as well as village original income (PA Des).
- Geographic and Administrative Territories

Balerante Village is one of the villages included in Kemalang District, Klaten Regency, Central Java Province. Area of 831.1230 ha, and located at an altitude of approximately 1.050m above sea level (asl). The boundaries of Balerante Village are as follows: West side: bordering Glaharjo Village Sleman Province Special Province of Yogyakarta, North: bordering Mount Merapi National Park, East: bordering on Woro River, West side: bordering Panggang Village.

Administratively it consists of 15 hamlets namely: Balerante, Banjarejo, Banjarsari, Bendorejo, Bendosari, Guwosari, Gondang, Kaligompyong, Karangrejo, Ngelo, Ngipikari, Pusung, Sambungrejo, Sukorejo, Tegalweru. The Balerante village has open accessibility, can be reached by 4-wheel vehicles through paved roads from Yogyakarta and Klaten. In the framework of tourism development, located in the area of Yogyakarta's natural tourist area connected to Kaliurang tourism destination, Kepuharjo (Vulcano

Tour), and adjacent to Glaharjo Village, cultural tourism area of Prambanan Temple and Boko Site, and the attractions of Deles Village, Sidomulyo as the starting point climbing Mount Merapi. After the eruption of Merapi in 2010, through Presidential Peratran No. 70 of 2014 on Reberca Spatial Area Strategic. The Balerante Village is included in the Raan Bencana III, and 5 Dusun areas: Sambirejo, Ngipiksari, Gondang, Banjarsari and Sambung Rejo are in the Directly Affected Area (ATL).

- Environment

Balerante Village as one of the highest on the southern slopes of Merapi has a diversity of potential resources. After the eruption of 2010, the new landscape impact of the eruption formed a different landscape. The Woro River in the eastern part of the village becomes one of the tourism potentials, as well as the biodiversity (orchids, moss, endemic flower and eagle and Merapi tiger), are scattered wealth and become part of the new ecosystem formed by eruptions.

- d. Social Capital

Social capital in the form of customs, local wisdom, community beliefs, internal interaction and the ability to build networks and collaborate with outsiders is a force factor in the development of the local economy. Similarly, the ability of the community to adapt to the environment (hazard) and able to rise from the downturn due to disaster is the basic capital to achieve the success of development programs. The recovery of settlement, economic and social conditions is a reflection of their resilience arising from the catastrophic eruption of Merapi eruption that has destroyed their lives.

- e. Economic and social institutions

There is one economic institution and two social groups that until this time developed in Balerante Village. BUMDES as a new village economic institution established in mid-2016 BUMDES 2017 and plans to develop business wings in the field of clean water management, savings, and loan, and the development of outlets in the tourist area as a means of promotion with local products of the culinary business group and Balerante creative industry. Pokdarwis is a local institution formed to manage Balerante tourism, while DRR is a relatively old local community and has the role and function of disaster reduction. The group is one of the institutions that has produced youth as a cadre in the field of disaster in 15 hamlets.

- f. Transport and Infrastructure

The Balerante Village can be accessed by four wheel passenger vehicles through paved roads from Yogyakarta, Klaten, and Solo. Transportation between hamlets in Balerante village is almost entirely asphalted since the roads in the village beside functioning as economic lane also has functioned as the evacuation route to evacuation places. All households have got connected to the government electricity grid. To meet the needs of clean water so far has been established cooperation between villages Glagaharjo, Balerante, Deles, and Panggang village to manage the needs of clean water sourced in Kali Bebeng Glaharjo region. Through the partnership of four villages, the institute formed an institute called "Paguyuban Bebeng" which coordinated the maintenance of water installation through the contribution mechanism. As a village belonging to disaster-prone areas, Balerante Village has also built early warning system (EWS) in the form of tower buildings, building observations that serve as a tool for detection of Merapi activity.

- g. Tours

Balerante Village is currently one of the tourist destinations that come from outside the region. There are several attractions that become a mainstay, namely: Kali Talang River Area (Talang River), mountain bike trails, and disaster museum. Kali Talang Tourist Area which is currently an "Ikon" Balerante Tourism Village, occupies an area of approximately 3 hectares, located on the edge of the Woro River and located inside within the TNGM. Attractions in the complex area are 2 units of a bamboo building (gazebo) that protrudes over the lip Kaliworo cliffs with a depth of approximately 25 meters. The

two bamboo bridges in addition to functioning as a place to selfie, as well as the most strategic location to see the figure of Merapi and the basic beauty of Kali Talang flanked by displaying upstream. Another interesting attraction is the bamboo bridge (bamboo bridge) that crossed above the tourist area, so it becomes an attraction when the community bikes down the bridge with high speed across the bridge. Tourism Object Kali Talang in addition to the basic beauty and cliff figure flanking it, there is a giant water channel that resembles a gutter of water with andesite stone base. Track Bicycle Gunung Kali Talang (Kali Talang Bike Parak) in Balerante which extends from TNGM area and finish Posko Merapi Observation Station is one of favorite track for mountain bike community. The mountain bike community apart from Yogyakarta and Klaten areas also comes from Java Island and Sumatera, considering that Kalitalang Bike Park is in the same area as *Klangon Gravity Park* which is the track that belongs to Glagaharjo area of DIY Province.

h. Economic institutions and business groups

From the results of the study shows that after the eruption of Merapi eruption in 2010 occurred the transformation of women's work in some villages affected by Merapi. Women-dominated women (housewives) who initially worked in the plantation sector and took care of households, as family economic pressures shifted to developing various types of food and handicraft businesses. From the identification, results indicate that there are 15 groups of a various food business in Balerante Village, including criping (miscellaneous, mushroom, banana, cassava), mini rempeyek, wet cakes, soy milk drink industry, in 9 hamlets. Problems faced by such household scale industries include the limited production aids (oil drainage, plastic cup cover, plastic cover/packing branch), and marketing of the product. Efforts made to promote the production of the group include the exhibition, culinary festival at the district level, and entrusted in the stalls of tourist areas.

i. Farms

Before the eruption, Merapi, farms, and plantations became a major commodity in Balerante. Almost all households cultivate cattle Until now the number of cattle a number of approximately 3000 head and 200 tail of them is an aid for the community in 5 hamlets affected directly.

j. Population

The results of the identification showed the number of Balerante population in 2017 (July 2017) of 1950 consisting of 980 people (50.3%) and the female population 970 people (49.7%), 41.5% of the population were concentrated in 2 hamlets Balerante 25.4 % (495 people / 1 616 households) and side scattered in 12 other villages. Based on the type of work, 32.56% (635 people) of the population worked as farmers/planters with 16% (312 male) and 16.56% (323 female) female proportions. Another fact shows the proportion of unemployed people reaching 31.74% (619 people) of the total population, so it should be considered to create and develop productive enterprises according to their capacity as well as the potential of available natural resources. Judging from the education level 21.68% of Balerante residents finish primary school or the equivalent, education level 14, 26% not / not yet in school. The level of junior high school education is 7.95%, SLTA 3, 3% Adapaun residents who have education up to university (strata I, II, III, and Strata) 0.46% (9 persons)

3.3. Problems and Challenges of Development

Based on the identification of perpetrators of PEL and identification of local potential, and the results of a series of discussions with the parties at the village and district there are problems that can reconsideration as a road map to accelerate the development of tourism village Balerante. Some of these problems are: a) the geographic position within the KRB and adjacent to TNGM, b) the legality manager tours, c) a partnership, d) has not integrated

the industry as part of tourism development, e) the limited capacity of local human resources (see Table.)

Table 3. Problems and Challenges of Development

No.	Problems and Challenges	Solution
1.	Balerante Village is located in Disaster Prone Area III and 5 Dusun is ATL area.	Develop the preservation of disaster mitigation function
2.	Tourism Object Kalitalang as tourism icon Balerante Village is in Disaster Prone Areas and located within the area of Mount Merapi TN which is a limited area.	Making Kali Talang Tourism area as part of plasma conservation nuftah Merapi, Mitigation and conservation and education
3.	The main perpetrators of Balerante Village development are still dominated by community groups namely POKDRWIS, DRR group	Establish a management institution that involves stakeholders and establishes collaboration and partnerships
4	Village government that has authority as planners and development actors has not fully played an active role and make the village tourism as the theme of development	<ul style="list-style-type: none"> ▪ Set Ecotourism as the theme of Balerante Development ▪ Village planning and budget documents accommodate the needs of village tourism development programs and activities
5.	Forum "Sahabat Balerante" as a partner to establish cooperation and function to provide means of opinion and provide solutions has not played a maximum role	Establish legally as a Balerante Friendly Forum to be part of the Balerante Village tourist management structure
6.	Manager of Mount Merapi TN (joined in the forum) as the authority of the management of the Region has not empowered the community	Community empowerment in economy, conservation (ecosystem conservation community of Merapi) Improved tourism management capability that has a vision of sustainable tourism management
7.	Management of Kali Talang Wisat Area Balerante Village has not considered the safety element to change the activity of Merapi and the aspect of environmental function preservation.	Capacity Building Manager as conservationist, mitigator to change of nature
8.	Domestic-scale economic enterprises managed by women's groups have not been involved as one of the supporters of the development of Tourism Village	Gender mainstreaming, as a driver of economic, family, and village improvements is part of economic and toughening mitigation

3.4. Strategy

The LED strategy for accelerating Balerante's development as a Tourism Village is based on the development of theory and analysis results on the organization of the business or the parties involved, local potential and development challenges and challenges. Some considerations of strategy development are as follows.

- a) The Village Authority has the authority to plan and implement the development
- b) Geographical position of the village which is located in KRB Merapi and in direct contact with Mount Merapi National Park (TNGM)
- c) Tourism Area (tourism object) which is located in TNGM Area
- d) Open acceptance and position of Balerante Village within the Tourism Destination Region of Yogyakarta and Central Java Provinces
- e) The uniqueness of the attractions
- f) The diversity of local economic enterprises and the existence of BUMDes Institutions

Based on the description above, the strategy developed rural tourism development in Balerante not concentrated on selling the beauty and uniqueness of the landscape, but also develop the local economy, conservation and mitigation activities. All four of these activities into the supporting pillars of the development of the Tourism Village Balerante, interlinked and as a form of participation and involvement local communities, increase community resilience and disaster risk facing the Merapi ecosystem conservation and increasing the competitiveness of the local economy. Meanwhile strategy formulation that is structured in the vision, strategy, programs and activities described as follows.

a. Vision

Realizing Balerante as a Community-Based Ecotourism Destination.

b. Strategy

1) Strategy I: Developing natural and cultural tourism

The main objective of the Strategy 1 is Developing the potential of natural selection and Museum Site Disaster Revitalization through program planning, partnership, and revitalization of museums disaster (Table 2).

Table 2. Strategy I: Building a Region Nature and Culture

No.	Aim	Programs and Activities
1.	Developing the potential of natural selection Revitalization Disaster Site and Museum	<p>A. Planning</p> <ol style="list-style-type: none"> 1. Develop plans and financing activities in the tourist village and RAPBDes RKPDes 2. Assembles Spatial Plan (travel zones, transit zones, zones promotion, accommodation-restaurant, inn) <p>B. Increasing the capacity of travel managers: training, courses travel managers, drafting standard of service and travel security</p> <p>C. Partnership Building partnerships with tour players</p> <p>D. Tourism Regional Revitalization Kalitalang</p> <ol style="list-style-type: none"> 1. Zoning and development view of the observation zone and selfie spot, a conservation zone (endemic plants Merapi), travel icon park zone, zone / special interest sports lane) 2. Construction and development of facilities and infrastructure: watchtowers visitors, the installation of early warning signs, evacuation routes, parking lot, guard house, food stalls, souvenir, Toilet, gazebo/building transit, trash,

		waste management, development of tourist paths and footpaths E. Revitalization museum disaster
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- 2) Strategy II: Delivering sustainable environment and disaster resilient village
II Strategy objectives to achieve this goal is a program that will develop environmental conservation and disaster mitigation (Table 3).

Table 3. Strategy II: Delivering Environment Balerante Lestar i and Resilient Village Disaster

No.	Aim	Programs and Activities
1.	Conduct environmental activities and Mitigation	a. Conservation <ol style="list-style-type: none"> a. Develop zoning map of conservation areas (areas prone to flooding, landslides, heat clouds, settlement/yard, and the area of protection of sources/springs, rare plant locations) b. Assembles document execution plan (needs seeds/seedlings, the plants are endemic, the implementing organization, place, and time of execution) c. Increased capacity: socialization, courses, training participants (target group) conservation d. Make hatchery and nursery plants e. Implement planting
2.		b. Mitigation <ol style="list-style-type: none"> a. Revitalization Group DRR Disaster Risk Reduction b. Establishment of PRB Forum c. Develop Disaster Document (map vulnerability, early warning systems, evacuation plans and contingency plans d. Revitalization of evacuation routes, signs, and installation of early warning

- 3) Strategy I II: developing competitiveness of the local economy
The goal of this strategy is to develop micro and medium enterprises as one part of tourism village products with appropriate marketing strategies. The program that will be developed is the development of local economy, especially small scale home industry which is supported by the village economic institution that is BUMDes. (Table 4)

Table 4 STRATEGY III: Developing Local Economic Competitiveness

No.	Aim	Programs and Activities
1.	Develop micro and medium-sized groups	A. Local economic development <ol style="list-style-type: none"> a. The formation of groups and subgroups of enterprises (institutions) b. Develop business profile (location, type of business, employment, production technic, marketing results, and problems) c. Assembles capital aid scheme and equipment, marketing results d. Increased capacity of business manager

		<ul style="list-style-type: none"> e. Fasilitasi capital and equipment f. Kiosk development marketing/promotion. <p>B. BUMDes</p> <ul style="list-style-type: none"> a. Increased capacity of managers b. Equity village c. Build a network of business branches d. The marketing of local economic groups
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3.5. Key Success Factors

LED as a development strategy is a process that prioritizes the involvement of local community actors as development actors in collaboration and partnerships with other parties (private sector, NGOs, PT and other business actors) to optimize local potentials. The success of LED will be indicated through the creation of an expansion of employment and striving opportunities while maintaining environmental preservation. In the context of realizing the vision and mission in the development of Balerante Tourism Village, several key success factors are as follows. *First*, the commitment of the Balerante Village Government as the main actors. The commitment is reflected in the development of Tourism Village as part of the village development plan. This will be reflected in the document of the Village Development Planberifat, both medium and annual. Second, active involvement of local communities in various tourism activities. *Third*, the ability of managers in (branding of attractions, culinary and creative industries, festivals and promotions). *Fourth*, provide facilities and infrastructure to create comfort and security of tourists.

4. CONCLUSION

Merapi charm, nature landscape is the local economic potential Desabalerante which can be used as a tourist attraction. Balerante village layout that is in the development of Disaster-Prone Areas (KRB) and is bordered by Mount Merapi National Park, the Travel models that can be developed as part of education mitigation of disaster risk reduction, ecosystem preservation trim and improving the competitiveness of the local economy.

Local economic potential includes ease of accessibility, to be located in Yogyakarta-Central Java travel destinations, creative industries (culinary, batik) be the primary consideration for the integrated campaign for the actors and stakeholders involved.

LED as a development strategy is a process that prioritizes the active involvement of local communities as development actors establish collaboration and partnership with other parties (private sector, NGOs, university and other businesses) to optimize local potential. PEL sustainability will be indicated through the creation of the expansion of employment and business opportunities while promoting environmental conservation. Referring to the principles and stages of LED then Wisa Balerante village development strategy is as follows:

- Establish a vision as a goal to be achieved, namely: Delivering Rural-Based Ecotourism Balerante As the Ecotourism Destination to achieve its visions.
- To achieve realize the vision, the strategy which will be pursued are: Developing a Tourism Village Nature and Culture, Creating Sustainable, Resilient Balerante Village Disaster and Achieve the Competitive Local Economy.

5. SUGGESTIONS

1. Balerante Village Government as the main actors must have a commitment to put the development of Tourism Village as part of village development plan and structure in the document of Village Development Plan both medium and annual.
2. The Balerante Village Government shall legally stipulate the Tourism Manager with the local leaders as representatives of the community representatives, especially the women's groups.

3. Tourism Village Management should always innovate by developing diversification and defensins tourism products (branding and differentiation of attractions, diversification of culinary products and creative industries, promotions through print media and social media, and festivals).
4. District Government and Village Government should facilitate the development and development of tourism facilities and infrastructure to provide tourist convenience, comfort, and security.

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COMPANY PERFORMANCE IMPROVEMENT THROUGH THE DEVELOPMENT OF COMPETITIVE STRATEGY DRIVEN BY RESOURCES AND ATTRACTION MARKET

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ABSTRACT

The business performance of based-defense strategic industries which is not optimal yet today is believed due to the industry's weakness in the design of competitive strategy which tends to be not fully refer to the demands of the market, and not maximum in business performance of strategic industries, is also due to the inability of management in exploring market attractiveness in the area of operation, and many business opportunities that seem still difficult to exploit. This research aims to explore and assess data and information about the effect of market attractiveness, company's resources to competitive strategy, and the implications on business performance of based-defense strategic industries in Indonesia. As for the type of investigation used causality which test the relationship and effect between the independent variables and the dependent variable. Analytical approach and technical solutions used as a tool of analysis in this study is the Partial Least Square (PLS). PLS is an alternative method of analysis with Structural Equation Modelling (SEM) variance-based and qualitative analysis for reaching in depth interview in relation to the result of the thesis. Verification of the hypothesis testing results reveals that the resource of based-defense strategic industries has a dominant effect when compared with the effect of market attractiveness in developing competitive strategy to support business performance.

Keywords; Market Attractiveness, Resources, Competitive Strategy and Business Performance.

I. INTRODUCTION

A. Research Background

The defense industry is an industry that has an important role to maintain the stability of national security and defense. Defense industry plays a role in supporting and strengthening the defense forces, especially in terms of technology that includes infrastructure and a main weaponry system. Along with the passage of time in which the condition of the Defence Industry in the period 2007 to 2011 experienced a period which is quite difficult in terms of gaining companies' profit income and its production process. It is essential to review how the development of Strategic Industry mainly after the enactment of Act No. 16 year 2012 on the Defence Industry in which

includes the management of the defense industry in Indonesia, especially in the aspect of resource, market attractiveness, competitive strategy and company performance.

The industry of defense strategy must be promoted and enhanced for the needs of nation to create independence as a sovereign nation. Previously, Indonesia almost always buy main weaponry system from abroad, whereas beside it is expensive it is too intrusive as a sovereign state, such conditions related to the competitive strategy applied improperly.

According to Wheelen et al. (2015) aimed to outperform other companies in an industry, in which the three generic strategies include overall cost leadership, differentiation, and focus. Cost leadership is the ability of company or business unit to design, manufacture, and market products more efficiently than its competitors. Differentiation is the company's ability to provide superior value and unique to the buyer in terms of product quality, special features, or after sales service. Focus is a company's ability to provide superior value and unique to a particular buyer group, certain market segments, and specific geographic market.

If we observe the competitive strategy with the management capabilities in monitoring market attractiveness tend to have a strong correlation, where the competitive strategy is heavily influenced by the ability of management in monitoring market attractiveness, for example; one dimension of competitive strategy is move faster that in fact the speed of the management to anticipate and examine the condition of the business environment is still relatively low, so in other words the management is still relatively difficult to move faster when compared with the competitors in anticipation of market demands, technology change adaptation and the acceleration in developing organizational capabilities as well as speed of the production process.

On the dimension of intangible asset ownership tends to be weak, relatively low human resource capabilities. Work culture as a company that is not based on competence. Indonesia does not have the ability to test a weapon, in the form of technology-impermeable, ballistic test equipment, speed and pressure measurements, as well as international standard human resource in operational. Brands and patent rights owned are also not yet well-known. Some Indonesian companies are able to make Landing Ship Dock Warship, Fast Ship, Boat Patrol, Catamaran, et cetera. Unfortunately the product has not been the target crosshairs consumer countries, compared with Brazil and Korea or Spain whose products are well known. This is due to the products are not optimal in utilizing the exhibition or cooperation with other third parties in marketing the products.

Beside, the management has not been able to take advantage of market opportunities which is actually relatively large: in Indonesia alone primary user of the defense tools and weapons is consisted of TNI (army, navy and air force), police, BNPT, BNN, et cetera. The fact is, in the last 5 years military consumption on the domestic products of the defense industry has not been reached 10% of all main weaponry system utilized each year. In addition there are market opportunities in the Asian and South East Asian countries such as Nepal, Laos, Ceylon, Bangladesh, Vietnam, Cambodia, Myanmar, PNG and Timor Leste as well as Brunei and Malaysia which do not have classy defense industry. Not to mention the countries of the 3rd world in Africa and middle east, among others, Bahrain, Qatar et cetera as potential buyers so that the management need to design competitive strategy for entry in the broader market.

Based on the above phenomenon, it is very important and crucial for research on market attractiveness and resources in improving the company's business strategy to enhance the performance of the defense industry in Indonesia.

B. Literature Review

1. Market Attractiveness

According to Hubbard and Beamish (2011) market attractiveness can be analyzed through four factors namely: the condition of the company's competitors, customer demand, conditions of relation and infrastructure support, as well as supplier condition factor.

Meanwhile, according to Wheelen et al. (2015) in observing the industry, companies must examine the importance of the six powers, namely: the threat of new entrants, rivalry among competitors, the threat of substitution product or service, the strength of buyers' bargaining power, the strength of suppliers' bargaining power, as well as the relative strength of the stakeholders, which devoted to the company's success. The stronger each of the power, will lead to the weaker the company's ability to raise prices and earn greater profits.

Best (2013) explained that "*market attractiveness is the relative attractiveness of a market based on market forces, competitive environment and market access*" (p.411).

Walker, Jr. & Mullins (2011, p. 89) explains market attractiveness factor consists of:

- a. Customer behavior and customer needs that can be fulfilled;
- b. The size and growth rate of the market segment that includes market potential in unit, income levels, and the number of prospective customers, the possibility of the target segment establish a platform for expansion into related segments in the overall market;
- c. Macro aspects, namely: demographic, social, cultural, economic, political / legal, technological, and natural environment.

2. Company's Resources

Thompson et al. (2014) mentions that the company's resources and capabilities represent competitive assets and determinant of competitiveness and its ability to succeed in the market. Resources are productive inputs or competitive assets owned and controlled by the company. The capability or competence is the capacity of the company to perform internal activities competently. Thompson divides resources into two main categories: tangible resources and intangible resources.

According to Hitt, Ireland, Hoskisson (2015), the resources, capabilities, and core competencies are the foundation of competitive advantage. Resources create organizational capabilities. While capabilities are the source of the company's core competence that become the basis for building a competitive advantage. Resources consist of tangible resources, and intangible resources.

David (2013) states that resources shall fulfill three requirements referred to as *empirical indicators*, namely *rare*, *hard to imitate*, and *not easily substitutable*.

Wheelen et al. (2015) says that resources are organization assets and become a basic building for the organization. The resources consist of tangible assets (plant, equipment, financial, and location), human assets (the number of employees, employees' skills and motivation), as well as intangible assets (such as technology -patents and copyrights-, culture, and reputation) , While capabilities refers to the ability of company to exploit the resources, ie business processes and routines that manage the interaction between the resources to transform inputs into outputs. While competence is coordination and cross-functional integration of capabilities.

Pearce and Robinson (2015) argues that each company has a unique set of resources that consist of tangible assets, intangible assets, as well as organizational capability in utilizing these assets.

3. Competitive Strategy

According to Thompson et al. (2014) related with the planning of the management game to compete successfully, that are specific efforts to serve customers, strengthen its market position, facing competitors' maneuvers, responds to the movement of market conditions, and to achieve a certain kind of excellence.

Wheelen et al. (2012) states that a business strategy focused on improving the competitive position of a product or service from a business unit or company in a particular industry or a particular market segment where the company or business unit to compete. The business strategy is important because research shows that the effect of the business unit has a double impact on the performance of the overall company rather than the influence of industry or company. Business strategy in the form of competitive strategies (competing against all competitors in excellence) and or cooperative strategies (in cooperation with one or more companies to achieve advantages over competitors).

Porter's three generic competitive strategies aimed to outperform other companies in an industry, in which the three generic strategies include:

- a. *Cost leadership*, ie the ability of the company or business unit to design, manufacture, and market products more efficiently than its competitors.
- b. *Differentiation*, ie the company's ability to provide superior value and unique to the buyer in terms of product quality, special feature, or after sales service.
- c. *Focus*, ie the company's ability to provide superior and unique value to specific group of buyers, specific market segment, and specific geographic market.

Similar to Wheelen et al. (2015), Pearce and Robinson (2013) also suggests generic strategy as the core idea about how company can best competes in a market. Based on the scheme developed by Michael Porter, according to Pearce & Robinson (2015), any long-term strategy must come from the company's efforts to seek a competitive advantage based on one of the three generic strategies:

- a. Endeavor to overall low cost leadership in the industry;
- b. Endeavor to create and market unique products for varying customer groups through differentiation.
- c. Endeavor to have special attractiveness to one or more groups of consumers or industrial buyers, focusing on the issue of cost or differentiation.

Pearce and Robinson (2015) suggested several sources of competitive advantage that can be evaluated:

- a. *Low cost strategy*: build long-term competitive advantage by emphasizing and enhance the value chain of activities that can be achieved at a cost that is far below the cost that can be achieved by competitors, on an ongoing basis. This in turn allows the company to compete primarily with lower prices below competitors who still stay in business.
- b. *Differentiation*: build long-term competitive advantage with products and services that is different than the existing competitors' products in terms of features, performance, or other factors not directly related to the price and cost. The difference is generally difficult to be created and difficult to be imitated.
- c. *Speed based strategy*: build functional capabilities and activities that enable company to be faster than its main competitors in meeting customer needs, directly or indirectly.
- d. *Market Focus*: generic strategy to employ differentiation strategy approach, or low-cost strategy approach, or a combination of both is only in a narrow market niche. The focus of

the market can be defined geographically or defined by the features of the type of product, type of target customers, or some combination of both of these.

4. Company performance

Wheelen et al. (2015) suggests that performance is end result of an activity. In assessing performance, use the goals that have been formulated in the formulation of strategies as part of the strategic management process (ie related to profitability, market share, price reductions).

David (2013) suggested the financial ratios as quantitative criteria commonly used to evaluate strategy for three reasons: first, to compare the performance of companies in several periods; second, to compare the company performance with the performance of competitors; and the third, to compare the company performance against the average in the industry. Some financial ratios used to evaluate strategy are: return on investment (ROI), return on equity (ROE), profit margin, market share, debt to equity, earnings per share, sales growth, assets growth.

Hubbard & Beamish (2011) developed a performance measurement for different types of companies as follow:

Table 1. Type of Organization

Factors	Non Profit	State Owned Enterprises		Private Enterprises	Companies listed in the stock exchange
		Non commercial	Commercial		
Measurement Accuracy	Customer Satisfaction	Stakeholders Satisfaction	Sales	Market Share	Shareholder value
	Efficiency	Customer Satisfaction	Net profit	Sales	ROE
	Quality	Efficiency	Customer Satisfaction	Net Profit	Growth
	Break-even	Quality	Efficiency	Growth	Market Share
		Break-even	Quality	ROA	Sales
			Net Cashflow	ROE	Net Profit
			ROA	Customer Satisfaction	ROA
				Efficiency	Customer Satisfaction
				Quality	Efficiency
				Quality	

Source: Hubbard & Beamish (2011, p. 135).

Based on the concept of corporate performance above, and the results of discussion in form of in-depth interviews and focus group discussion (FGD) with elements of the users consisted of the leadership ranks of naval, air and army, the directors of the strategic defense industries companies, the Minister of Defense, TNI Commander, Assistant Logistics of Army, the Ministry of industry, Deputy Governor of LEMHANAS, TNI's KABABEK, as well as strategic industries experts and observers, then the dimensions of the company performance most suitable for measuring the performance of the company's business units defense industry is the aspect of sales volume, profitability, and market share.

The construct of company performance consisted of the following dimensions and indicators:

1. Sales is the total sales achieved within a specific time period.

2. Profitability, measured by the growth of profit in a particular period.
3. Market share, measured by the percentage of growth in market share.

C. Research Objectives

The performance of defense industry companies is indicated as still low. The low performance of these companies allegedly caused by the weaknesses in the implementation of competitive strategies due to the weaknesses in the company's resources and adaptation of market attractiveness. Based on the problem theme above, then the problem examined in this study is formulated as follows:

1. How does market attractiveness, corporate resources, competitive strategy and company performance in the strategic defense industry in Indonesia.
2. How does the influence of market attractiveness and company's resources to the competitive strategy in the strategic defense industry in Indonesia either simultaneously or partially.
3. How does the influence of market attractiveness and company's resources on the performance of companies in the strategic defense industry in Indonesia either simultaneously or partially.
4. How does the influence of competitive strategy on the company performance in strategic defense industry in Indonesia either simultaneously or partially.
5. How does the influence of market attractiveness and strategic defense industry in Indonesia either simultaneously or partially through competitive strategy.

II. METHODS

This study uses Mix Methods Research (MMR), a methodology that provides a philosophical assumption in showing the direction or giving instructions on how to collect and analyze data as well as a blend of quantitative and qualitative approaches through several phases of research process to find the better results than if using one approach only (Creswell, 2003).

This study used Mix Methods Research (MMR) with explanatory strategy design which is a design that uses two phases, namely quantitative research design as the key design and then the results of qualitative research used to explain and interpret the results of quantitative research (Creswell, 2003).

Explanatory research can be conducted to test the hypothesis with inferential statistics to generalize the sample data on the population by drawing a random sample from a population. Due to the type of research that consisted of descriptive and verificative through data collection in the field, this study applied two methods of survey namely descriptive survey and explanatory survey.

A. Source and determination of Data

Unit of analysis according to Sekaran (2010; 132) "unit of analysis refers to level of aggregation of the data collected during the subsequent data analysis stage". The unit of analysis in this study is strategic defense industry where the unit of observation is the management of the company.

The type of data in this study consisted of data on the general characteristics of strategic defense industry as well as data about each variable studied, with sources of data used as follows:

Table 2. Types and Sources of Data

Type of Data	Explanation	Source of Data
Secondary Data	Profile of strategic defense industry	Ministry of Defence
Secondary Data	Growth of strategic defense industry	Ministry of Defence
Primary Data	Response of the management on the market attractiveness of strategic defense industries	Management of Company
Primary Data	Response of the management on the company's resources of strategic defense industries	Management of Company
Primary Data	Response of the management on the competitive strategy of defense industries	Management of Company
Primary Data	Response of the management on the company performance of the strategic defense industries	Management of Company

Unit of analysis in this study is strategic defense industries. Hence, the population in this study are all strategic defense industries. The following table is about ownership distribution of business unit in this study.

Table 3. Ownership Distribution of Business Unit

Ownership	Business Unit	%	Sample
Government	7	14.9	4
Private	41	85.1	39
Total	48	100	43

Source: Indonesia strategic industry companies, Ministry of Defence (2011)

Based on the above conditions, the number of samples taken is 48 companies drawn randomly based on the list. But in the reality (in the field) only 43 companies' data collected and 2 samples among it are in doubt so that the number of data processed is only 41 data.

Data Collection Method

Primary and secondary data required in this research as well as to see the concept of this variable, the data collection method utilized can be obtained using the technique as follows:

Questionnaire, is a list of questions as the result of operationalization of variables and used to collect data and information directly from the object under study.

Interviews, are conducted to capture information from sources in-depth. Especially for qualitative methods to support research.

Observation, is directly observing activities in order to obtain more accurate information about the actual condition of the object under study.

Data Analysis Technique

Descriptive analysis is the analysis that aims to obtain a description about characteristics and conditions of each variable (for the formulation of the problem No. 1).

Hypothesis 1 is tested using one sample average test. This test is used to figure out whether the average of a population equal to a certain value or if the average of the two populations alike / differ significantly from the mean of the data sample. This test is used on data that have a minimal scale interval (Walpole and Meyers, 1993).

The scale of answers in the questionnaire is Likert scale (a scale of 1 to 5), which is ordinal data. Ordinal data have character which can not be applied mathematical operations on it. It is then necessary to convert the ordinal data into interval data using software MSI (Method of Successive Interval).

Quantitative Data Analysis

Hypothesis 2, 3, 4, and 5 is tested using Partial Least Square (PLS) model, which is one of the multivariate techniques for checking dependency relationships series between variables that do not require the number of samples. PLS is also typically used when one dependent variable becomes independent variable in the next dependence relationship.

Here are described the steps undertaken in using Structural Equation Model with variant or components-based ie PLS (Vinzi *et al.*, 2010, p.50) as follow:

Structural Model Specification with PLS

(Vinzi *et al.*, 2010, p. 50) explained that the path analysis model of all latent variables in PLS consists of three sets of relationships, namely (1) the outer model that specifies the relationship between latent variables and indicators or its manifest variables (measurement model), (2) inner model that specifies the relationship between latent variables (structural model), and (3) weight relations in which the case value of latent variables can be estimated.

In accordance with the paradigm of the research described in the framework, the draft analysis using PLS which indicates that the market attractiveness and resource companies can improve competitive strategy as well as have implications on the company performance, can be seen in the structural equation model component or variant-based (PLS) which is visualized in the following diagram:

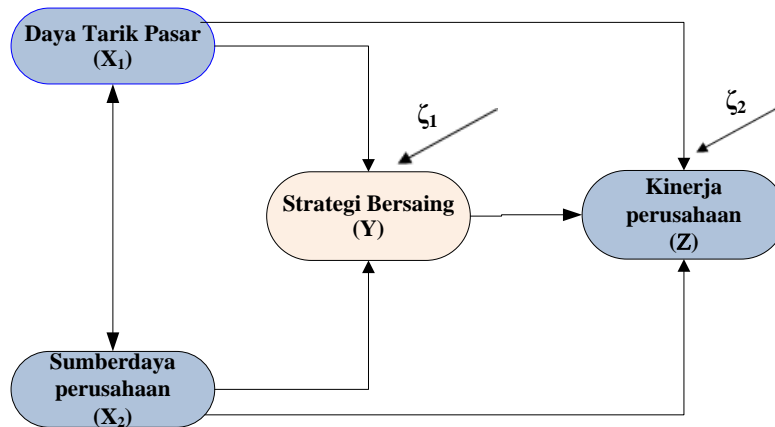


Diagram 1
Structural Equation Model with Component or Variant Based (PLS)

F statistical test and student’s t statistical test.

For simultaneous testing utilized F statistical test using criteria:

1. If the value of $F_{count} > F_{table}$ then H_0 is rejected and H_1 is accepted

2. If the value of $F_{\text{count}} < F_{\text{table}}$ then H_0 is accepted and H_1 is rejected

$$F = \frac{(n - k - 1)R^2_{y(x)}}{k(1 - R^2_{y(x)})}$$

As for the partial test, performed using Student's t-statistic, with criteria:

1. If the value of $T_{\text{count}} > T_{\text{table}}$ then H_0 is rejected and H_1 is accepted
2. If the value of $T_{\text{count}} < T_{\text{table}}$ then H_0 is accepted and H_1 is rejected

$$T = \frac{P_{YX_i}}{\sqrt{\frac{(1 - R^2_{YX_i})C_{ii}}{(n - k - 1)}}}$$

Furthermore, based on the structural equation model component or variant-based (PLS) in Diagram 1, then sub-structures is made in the path diagram of research variables and statistical hypothesis testing is established for testing of each research hypothesis.

B. Research Model

Regression method used to estimate an econometric model for the purpose of this study is to observe the influence of the independent variables on the dependent variable. From the results of hypothesis testing model can be concluded the relationship between the dependent and independent variables.

Econometric model used in this study is formulated as follows:

$$PBV_{it} = \beta_{02} + \beta_{2.1}ROA_{it} + \beta_{2.2}STDTA_{it} + \beta_{2.3}LTDA_{it} + \beta_{2.4}Kurs_{it} + \beta_{2.5}INF_{it} + \beta_{2.6}BIR_{it} + \epsilon_{2it} \dots$$

Description:

KURS	=	Exchange rate
INF	=	Inflation
BIR	=	Interest Rate of Bank Indonesia (BI Rate)
STDTA	=	Short Term Debt to Total Asset
LTDA	=	Long Term Debt to Total Asset
ROA	=	Return on Asset
PBV	=	Price Book Value
$\beta_n ; \gamma_n$	=	Regression Coefficient
ϵ	=	error
	=	1,2...N
t	=	1,2...T

III. DISCUSSION

The average index of all research variables have not yet reached the index value of 4.00 as shown in Table 4, so that it can be concluded that in general the market attractiveness is not attractive, the company's resources have not been good, competitive strategy is not appropriate, and the company performance has not been optimal within the strategic defense industries in Indonesia. Competitive strategy reach the highest index (3.774), while the company performance obtained the lowest index, or equal to 3.488.

Hypothesis testing

Ho: $\mu_i = 4$

- Market attractiveness within strategic industries in Indonesia has been attractive
- Companies' resources within strategic industries in Indonesia has been unique.
- Competitive strategy within strategic industries in Indonesia has been appropriate.
- Companies' performance within strategic industries in Indonesia has been good.

Ho: $\mu_i < 4$

- Market attractiveness within strategic industries in Indonesia has not been attractive.
- Companies' resources within strategic industries in Indonesia has not been unique.
- Competitive strategy within strategic industries in Indonesia has not been appropriate.
- Companies' performance within strategic industries in Indonesia has not been good.

Table 4. Average Testing Result

Variable	Average	SE	t _{count}	Conclusion
Market attractiveness	3.757	0.0210	-11.546	H ₀ rejected
Companies' resources	3.768	0.0258	-8.997	H ₀ rejected
Competitive strategy	3.774	0.0274	-8.241	H ₀ rejected
Companies' performance	3.488	0.1462	-3.503	H ₀ rejected

Conclusions:

- Market attractiveness within strategic industries in Indonesia has not been attractive.
- Companies' resources within strategic industries in Indonesia has not been unique.
- Competitive strategy within strategic industries in Indonesia has not been appropriate.
- Companies' performance within strategic industries in Indonesia has not been good.

Compatibility/Fitness Test of Model

This section will discuss about research results verificatively through hypothesis testing using the Partial Least Square. Prior to discuss the hypothesis, we will analyze the fitness test results of the models. In PLS, evaluation of model estimation conducted through two analysis, namely inner model and outer model.

Analysis of Structural Model (Inner Model)

To indicate whether the overall model can be accepted or not, we conduct goodness of fit model. Goodness of fit model is to prove the hypothesis that the theory used is in accordance with empirical data, or the theories are supported by the data (model fit to the data).

Inner model is evaluated using Goodness of Fit Model (GoF), which shows the difference between the observed values and the values predicted by the model. Value of R Square is the coefficient of determination on the endogenous constructs. According to Chin (1998), the value of R square of 0.67 (strong), 0:33 (moderate) and 0:19 (weak). Prediction relevance (Q square) or known as the Stone-Geisser's. This test is performed to determine the predictive capabilities with blindfolding procedure. If the value obtained 0.02 (low), 0:15 (medium) and 0:35 (high). Can only be performed for endogenous constructs with reflective indicators. Here is the value of R square, GoF and Q-Square on the constructs:

Table 5. Structural Model Testing (Inner Model)

Variable	Communality	R Square	GoF	Q-Square
Market attractiveness	0.565		0.628	0.835
Companies' resources	0.691			
Competitive strategy	0.654	0.626		
Companies' performance	0.747	0.560		

Source: Primary data, processed using Smart PLS 2.0

The table above gives some value of R^2 on strong criteria (to be around 0.6 = strong), and the value of Q-square above large (> 0.35), so it can be concluded that the research model supported by empirical conditions or model fit.

The following diagram shows the results of testing the model using Smart PLS 2.0 as follows:

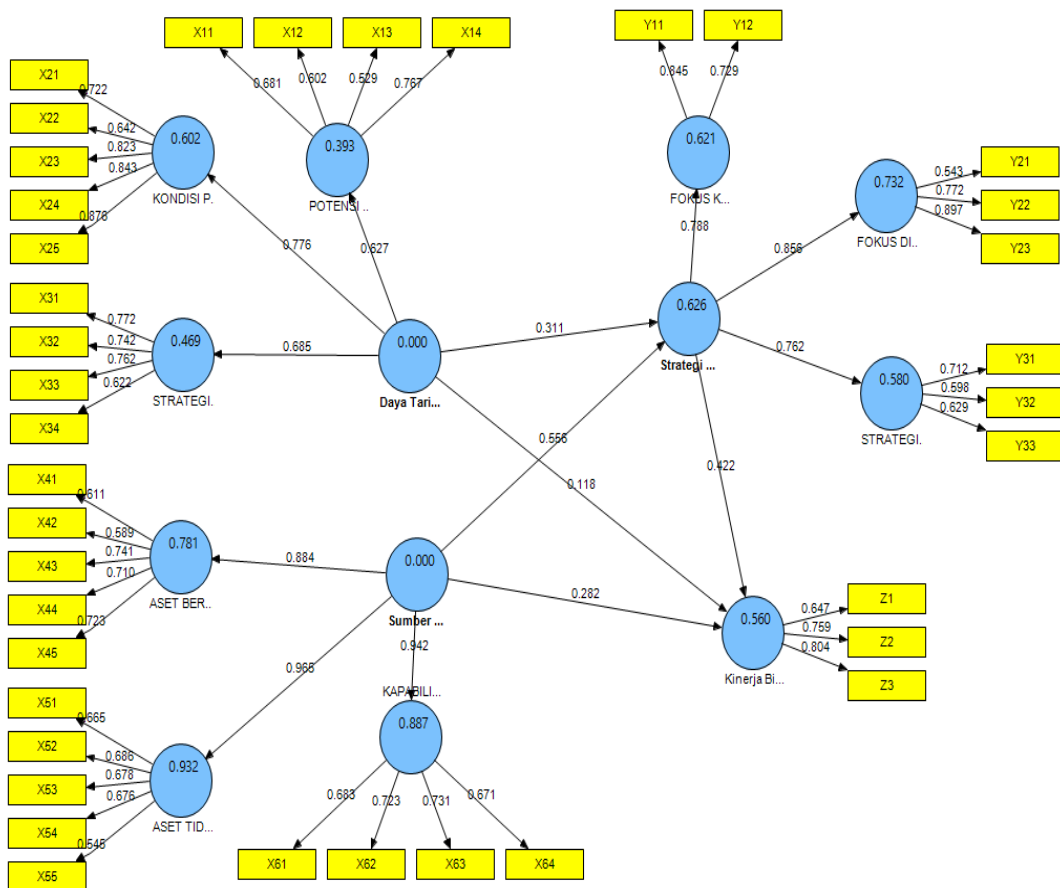


Diagram 2. Test Result of Research Model

a. Analysis of Measurement Model (Outer Model)

The measurement model shows a relation model between manifest variable (indicator) and latent variable. Measurement model analysis aims to analyze the validity of the dimensions and indicators used in measuring each research variable that is construct. Measurement model analysis involves the value of discriminant validity, loading factor, construct validity and composite reliability.

The methods to figure out the discriminant validity is to look at the value of the square root of average variance extracted (AVE) > 0.5. Chin (2000) said that if loading factor of the measurement model is higher than 0.50 or the value of t_{count} of the loading factor is higher than t_{table} at the 5% significance, the dimensions can be declared as valid in measuring variables. Composite Reliability and Cronbachs Alpha is used to view the reliability or the level of reliability in measuring the dimensions of research variables. If value of Cronbachs Alpha is higher than 0.70 (Nunnaly, 1994) then the dimension and its indicator is declared as reliable in measuring the research variables. The following is the measurement model testing in this study:

Table 6. Analysis of Measurement Model (Outer Model)

Variable	AVE	Composite Reliability	Cronbachs Alpha
Market attractiveness	0.265	0.816	0.753
Companies' resources	0.391	0.899	0.879
Competitive strategy	0.340	0.800	0.714
Companies' performance	0.547	0.782	0.586

Source: Primary data, processed using Smart PLS 2.0

From the table above can be seen that the root of AVE value > 0.5, it shows that all variables in the estimated model fulfills the criteria of discriminant validity. Composite reliability of each variable > 0,70 thus can be concluded that all variables have good reliability.

Dimensional Measurement Model Analysis on the Indicator

Analysis of dimensional measurement model on the indicators carried out to determine the extent of the validity of the indicators in compiling dimension that constructs research variables. The following table presents the results of the analysis of the measurement model for each dimension on the indicator.

Table 7. Analysis of Measurement Model Indicator-Dimension

Indicator <- Dimension	Loading Factor	Varians error	SE	t_{count}	Remark
X11 <- POTENTIAL MARKET OPPORTUNITIES	0.681	0.536	0.155	4.404	Valid
X12 <- POTENTIAL MARKET OPPORTUNITIES	0.602	0.637	0.134	4.505	Valid
X13 <- POTENTIAL MARKET OPPORTUNITIES	0.529	0.721	0.177	2.994	Valid
X14 <- POTENTIAL MARKET OPPORTUNITIES	0.767	0.412	0.078	9.848	Valid
X21 <- COMPETITION CONDITION	0.722	0.479	0.065	11.103	Valid
X22 <- COMPETITION CONDITION	0.642	0.587	0.075	8.613	Valid
X23 <- COMPETITION CONDITION	0.823	0.323	0.066	12.484	Valid
X24 <- COMPETITION CONDITION	0.843	0.290	0.060	14.086	Valid
X25 <- COMPETITION CONDITION	0.876	0.233	0.061	14.332	Valid
X31 <- MARKET ACCESS STRATEGY	0.772	0.405	0.077	9.957	Valid
X32 <- MARKET ACCESS STRATEGY	0.742	0.450	0.168	4.411	Valid

X33	<-	MARKET ACCESS	0.762	0.419	0.165	4.613	Valid
STRATEGY							
X34	<-	MARKET ACCESS	0.622	0.613	0.136	4.591	Valid
STRATEGY							
X41	<-	TANGIBLE ASSETS	0.611	0.626	0.072	8.441	Valid
X42	<-	TANGIBLE ASSETS	0.589	0.654	0.080	7.330	Valid
X43	<-	TANGIBLE ASSETS	0.741	0.451	0.059	12.642	Valid
X44	<-	TANGIBLE ASSETS	0.710	0.496	0.083	8.527	Valid
X45	<-	TANGIBLE ASSETS	0.723	0.477	0.076	9.564	Valid
X51	<-	INTANGIBLE ASSETS	0.665	0.557	0.065	10.158	Valid
X52	<-	INTANGIBLE ASSETS	0.686	0.529	0.060	11.350	Valid
X53	<-	INTANGIBLE ASSETS	0.678	0.541	0.065	10.437	Valid
X54	<-	INTANGIBLE ASSETS	0.676	0.544	0.065	10.445	Valid
X55	<-	INTANGIBLE ASSETS	0.545	0.703	0.097	5.604	Valid
X61	<-	ORGANIZATIONAL CAPABILITIES	0.683	0.534	0.063	10.768	Valid
X62	<-	ORGANIZATIONAL CAPABILITIES	0.723	0.478	0.055	13.203	Valid
X63	<-	ORGANIZATIONAL CAPABILITIES	0.731	0.466	0.057	12.922	Valid
X64	<-	ORGANIZATIONAL CAPABILITIES	0.671	0.549	0.066	10.229	Valid
Y11	<-	COST LEADERSHIP FOCUS	0.845	0.287	0.042	20.070	Valid
Y12	<-	COST LEADERSHIP FOCUS	0.729	0.469	0.066	10.963	Valid
Y21	<-	FOCUS DIFFERENTIATION	0.543	0.705	0.097	5.611	Valid
Y22	<-	FOCUS DIFFERENTIATION	0.772	0.404	0.054	14.291	Valid
Y23	<-	FOCUS DIFFERENTIATION	0.897	0.195	0.021	41.965	Valid
Y31	<-	FAST-MOVE STRATEGY	0.712	0.493	0.066	10.859	Valid
Y32	<-	FAST-MOVE STRATEGY	0.598	0.643	0.121	4.945	Valid
Y33	<-	FAST-MOVE STRATEGY	0.629	0.605	0.087	7.230	Valid
Z1	<-	COMPANY PERFORMANCE	0.647	0.581	0.065	10.010	Valid
Z2	<-	COMPANY PERFORMANCE	0.759	0.423	0.049	15.447	Valid
Z3	<-	COMPANY PERFORMANCE	0.804	0.354	0.037	21.870	Valid

Source: Primary data, processed using Smart PLS 2.0

The result of the measurement model analysis of indicators forming the dimensions indicates that the indicators are valid with loading factor value higher than 0.50 and the value of t_{count} is higher than the value of t_{table} (2.02).

Analysis of Latent Variables Measurement Model on Dimensions

The analysis of latent variables measurement model on the dimensions is carried out to determine the extent of the validity of the dimensions in measuring the latent research variables. The following table presents the result of analysis of the measurement model for each latent variable on its dimension.

Table 8. Analysis of Research Variables Measurement Model on its Dimensions

Variable <- Dimension	Loading factor	Varians error	SE	t _{count}	Remarks
Market Attractiveness -> Competitive Condition	0.776	0.398	0.085	9.084	Valid
Market Attractiveness -> Potential Market Opportunities	0.627	0.607	0.100	6.297	Valid
Market Attractiveness -> Market Access Strategy	0.685	0.531	0.055	12.528	Valid
Company's Resources -> Tangible assets	0.884	0.219	0.020	43.404	Valid
Company's Resources -> Intangible assets	0.965	0.068	0.007	138.931	Valid
Company's Resources -> Organizational Capability	0.942	0.113	0.010	92.609	Valid
Competitive Strategy -> Focus Differentiation	0.856	0.268	0.020	42.788	Valid
Competitive Strategy -> Cost Leadership Focus	0.788	0.379	0.040	19.591	Valid
Competitive Strategy -> Fast-move strategy	0.762	0.420	0.041	18.496	Valid

Source: Primary data, processed using Smart PLS 2.0

Result of the outer model (measurement model) analysis to the research variables on its dimensions shows that all of the dimensions can be declared as valid because the value of t count is higher than the value of t table (2.02) and the value of loading factor is higher than 0.50 which strengthen the declaration that all of the dimensions are valid.

4.5. Effect of Market Attractiveness and Company's Resources to Competitive Strategy

The second hypothesis testing, conducted to examine the effect of Market Attractiveness and Company's Resources on Competitive Strategy within the Strategic Defence Industry in Indonesia. The following diagram shows the path diagram of the second hypothesis testing results.

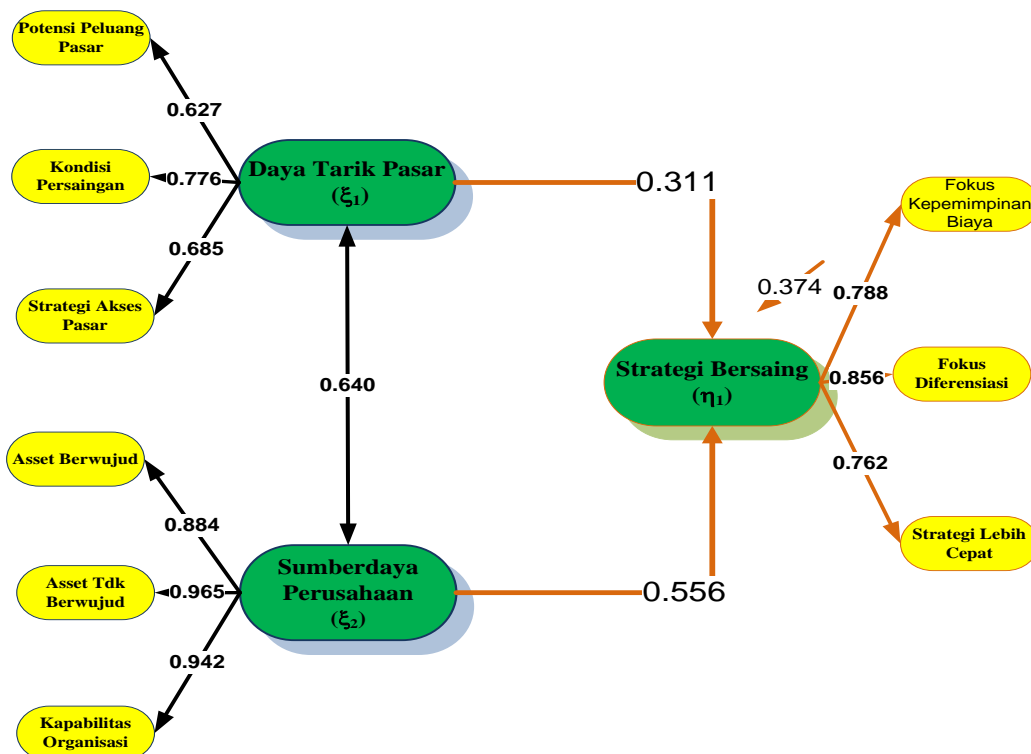


Diagram 3. Hypothesis 2 Testing Result

Structural model for the diagram above is:

$$\eta_1 = 0,311\xi_1 + 0,556\xi_2 + \zeta_1$$

a. Simultaneous Testing

For more detail, the result of data processing either simultaneously or partially presented in the table as follows:

Table 9a. Hypothesis 2 Simultaneous Test

Relation	R-Square	F _{count}	Remarks
Market Attractiveness and Company's Resources → Competitive Strategy	0.626	34.366	Hypothesis is accepted

The test results show that simultaneously there is influence of market attractiveness and corporate resources on the competitive strategy ($F_{count} > 3.226$). The coefficient of determination R² shows that the market attractiveness and the company's resources have an influence on the competitive strategy equal to 62.6% and the remaining 37.4% influenced by other factors.

b. Partial Testing

The table below displays partial testing of hypothesis 2 as follows:

Table 9b. Hypothesis 2 Partial Test

Relation	Inner Coefficient (γ)	Standard Error	Value of t-statistic	R-Square
Market Attractiveness → Competitive Strategy	0.311	0.089	3.501*	0.207
Company's Resources → Competitive Strategy	0.556	0.093	5.968*	0.419

*Significant at $\alpha = 0.05$

The table above shows that the influence of Market Attractiveness and Company's Resources to Competitive Strategy is significant with t-statistic higher than 2.02 (t table at $\alpha = 0.05$). The coefficient of determination R² shows that the company's resources have a higher influence, equal to 41.9%.

Company's Resources assessed from the dimensions of tangible assets, intangible assets, and organizational capabilities. From the test results of the three-dimensional revealed that the intangible assets is the most affecting on competitive strategy, followed by the organizational capabilities, and tangible assets. While in terms of competitive strategy, reflected more by differentiation focus, followed by focus on cost leadership, and fast-move strategy. So that the optimization in the aspect of intangible assets can improve the competitive strategy mainly differentiation focus. This is not in accordance with the descriptive test results in which management put more emphasis on the implementation of tangible assets, whereas intangible assets is the most affecting dimension.

The company's resources is a set of resources that are owned and developed by the company which includes tangible assets, intangible assets, and organizational capabilities. The intangible assets provide a higher increase to the competitive strategy, rather than organizational capabilities and tangible assets. So in this case, the company should be more intense in optimizing

the development of customer care, creating brand of quality products, develop patents and brands, develop an information center about the profile of the business units, and developing the company's reputation.

The results are consistent with the empirical conditions experienced by strategic defense industries which still have a disadvantage in the ownership of intangible assets of which include customer care, quality brand products, patents and brands, development of an information center about the profile of the business unit. Even the domestic market preferences also tend to favor foreign brands. Meanwhile, according to Ting Chi (2012) strategic approach needs to be done to analyze how the companies technically manage the business asset and to determine the competitive priorities.

How the role of the resources for the company is, has been described by Thompson et al. (2014) that the company's resources and capabilities represent a competitive asset and a determinant of competitiveness and its ability to succeed in the market. So as to increase its resources, as a means for companies to find the right competitive strategy that is able to outperform its competitors.

In relation to organizational capability, at present the strategic defense industries organization tend to not reliable as indicated by planning, coordination and supervision in the development of organizational culture, improving the quality of internal business process, that are still weak, indicated by ineffective and inefficient in use of working capital, as well as there is no adequate career development program. On the other hand, today the quality of intangible assets of strategic defense industries in general is still relatively low, characterized among others by the weak control of more modern technology, the means of production owned relatively older when compared with competitors coming from other countries, and yet fully supported by ownership of production facilities and infrastructure as well as a more adequate capital.

The role of company's resources in supporting competitive strategy, also has been demonstrated in previous studies such as Doğan et al. (2014) which shows that it is necessary for selecting strategy of differentiation with applying HR policies that are participatory, proactive and generous. Similarly Karami et al. (2015) shows a close relationship between business strategy and HR practices; and also there is a positive correlation between the practice of integrated HR and business strategy and company performance. Therefore, it is concluded that implementing suitable HR practices and in accordance with the company's strategy will result in improved organizational performance.

In setting competitive strategy, the industry is also demanded to follow the development of defense policy. For example, the maritime industry in Russia, where the industry is demanded to enhance the capabilities of the making of new ships as the demands of its Navy that includes: activities of cooperation with other armed forces, intensify the use of weapons sejis precision-guided weapons, the use of the latest system and information technology (Sakaguchi, 2014).

While the market attractiveness, which can be observed through three aspects: market forces, competitive intensity and market access (Best, 2013), also has significant impact on the competitive strategy. Which in this study, the market attractiveness is a level of scrutiny and adapting the company on the strength of the market, the intensity of competition and market access in the industry. In this case, the measurement of market attractiveness of strategic defense industries are rated on a three-dimensions, namely potential market opportunity, competitive conditions and market access strategy.

From the market attractiveness' three dimensions, we obtain the test result that the competition condition dimension had the highest contribution in influencing the competitive strategy, followed by market access strategy, and then potential market opportunities. So that to optimize the competitive strategy, efforts are required to optimize management adaptation of the competition

condition, namely with regard to the customer condition, product substitution condition, ease of market entry, price competition, and the growing number of competitors.

The role of the market attractiveness in supporting competitive strategy, has also been demonstrated in the results of research of Chang and Horng (2010) about Nokia's strategy to penetrate the mobile phone market in China, where the strategies adopted based on Chinese market condition is by integrating the supply chain, local R & D, build marketing channels to small towns and villages and the low cost model.

Additionally, Pallapothu and Evans (2013) found that market and non-market forces formed the structure of the industry, play roles in determining the strategic position for any company in the market. Market forces, includes sensitivity of buyer price, replacement, and the benefits of complementors were found to be the dominant factors in the industrial culture of India. Similarly, Samuel Obino Mokaya, Beatrice Wakhungu, Raphael Mwiti Gikunda (2012) with different analysis unit where the industry attractiveness significantly affect the company's competitive strength.

Market demands need to be continually adapted in line with the increasing needs of countries for the defense of its own. Weapons of Mass Destruction (WMD) is a modern weapon in the 20th century, where up to now, give a serious impact on the international security environment. International security paradigm has changed drastically since the September 11 attacks, in which it took a serious concern that the proliferation of the WMD among players beyond the countries, such as terrorists. This has change the focus of the international community that WMD threats are no longer limited by nuclear, biological, or chemical, but broader than that (Sukeyuki Ichimasa, Yasushi Wada, Shuji Sue, Yasuyuki Sugiura, 2014).

Such conditions, demanding strategic defense industries of our country to always follow the changes and developments taking place in other parts of the world.

Although from the results of descriptive test shows that the management of strategic defense industries in Indonesia tend to not yet fully capable in scrutinizing market attractiveness properly, but this variable is significant in determining the competitive strategy, including the ability of the management to take advantage of market opportunities, either potential domestic markets or overseas markets, movements in capturing market opportunities are still often less rapidly with rival companies coming from other countries. Besides the ability of management in market access is also important in winning the competition. Where such efforts need to be supported by the ability of management in monitoring the competition condition of strategic defense industries, although it is still difficult to have a product in a superior position in the eyes of its customers either to customers in domestic as well as overseas.

Referring to the situation, the management should be more keen in monitoring potential market opportunities towards the global market, not only targeting the national market as applicable so far, so that there is standardization of products that can be absorbed by the world market.

4.6 Effect of Market Attractiveness and Company's Resources on the Company Performance

The third hypothesis testing, conducted to examine the effect of Market Attractiveness and Company's Resources on the company performance in Strategic Defence Industry in Indonesia. The following figure shows the path diagram of the third hypothesis testing result.

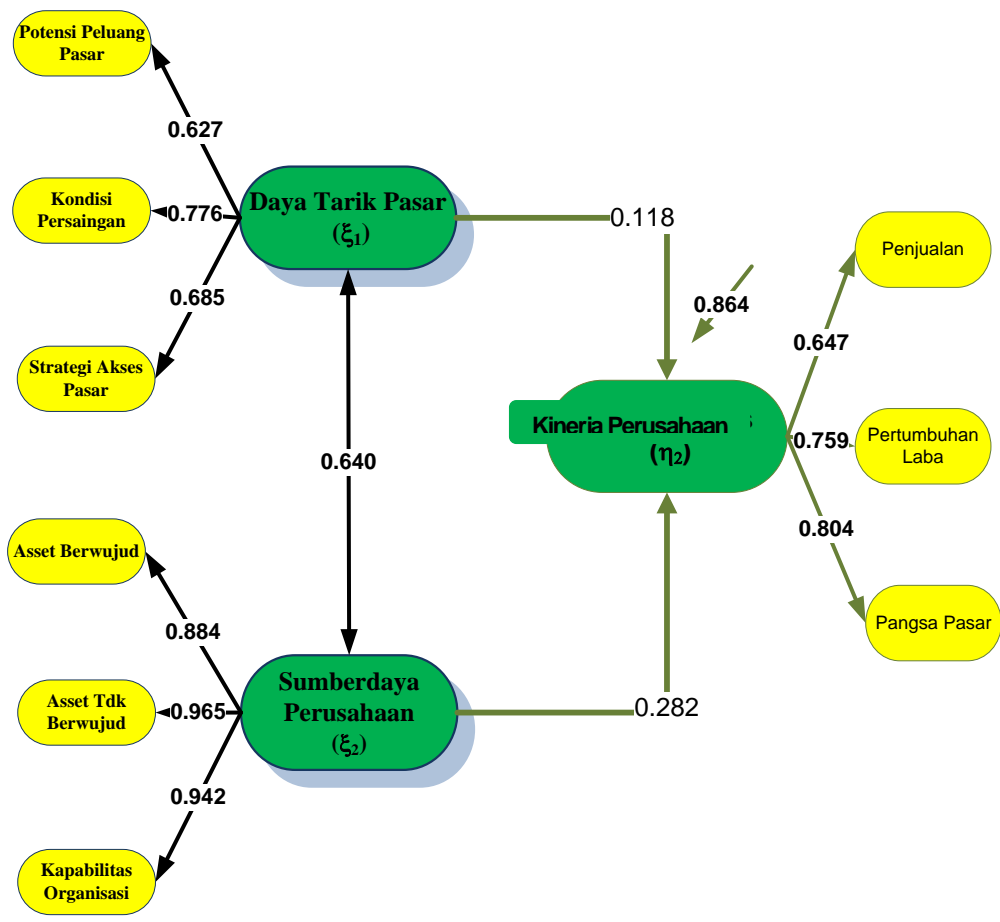


Diagram 4. Hypothesis 3 Testing Result

Structural model for the above diagram is:

$$\eta_2 = 0.118\xi_1 + 0.282\xi_2 + \zeta_1$$

a. Simultaneous Testing

To be clear, the data processing results either simultaneously or partially presented in the table as follow:

Table 10. Hypothesis 3 Simultaneous Test

Relation	R-Square	F _{count}	Remarks
Market Attractiveness and Company's Resources → Company Performance	0.136	3.229*	Hypothesis is accepted

The test results show that simultaneously there are significant effect of market attractiveness and company's resources on the company performance ($F_{count} > 3.226$). The coefficient of determination R^2 shows that the market attractiveness and the company's resources have influences on the competitive strategy equal to 13.6% and the remaining 8.4% influenced by other factors.

b. Partial Testing

The table below displays partial testing of hypothesis 3 as follows:

Table 11. Hypothesis 3 Partial Test

Relation	Inner Coefficient (γ)	Standard Error	Value of t-statistic	R-Square
Daya Tarik Pasar -> Kinerja Perusahaan	0.118	0.099	1.192	0.035
Sumber daya Perusahaan -> Kinerja Perusahaan	0.282	0.091	3.114*	0.101

*Significant at $\alpha = 0.05$

The above table shows that only the company's resources that significantly influence the company's performance with a t-statistic > 2.02 (t table at $\alpha = 0.05$). The coefficient of determination R^2 shows that the company's resources have higher influence, equal to 10.1%, while the market attractiveness is only 3.5%.

As a third test results indicate that the role of company resources is higher than the market attractiveness in increasing competitive strategy, as well as a fourth hypothesis testing results show that the company performance is predominantly influenced by the company's resources. Thus, in an effort to improve company performance, the company is required to optimize its resources, especially the aspects of intangible assets such as customer care development, creating brand of quality products, develop patents and brands, develop an information center about the profile of the business units, and developing the company's reputation.

The role of the company's resources on the company performance, has also been proven by Rasli et al. (2013). He argued that state ownership can be classified as profit and non-profit oriented, where the first consider the return on investment as major investment objective, while the second prioritizes social development - economic. It was found that profit-oriented state ownership is effective corporate governance mechanisms and provide political protection to the company in the form of certain company's resources and credit financing. Although the company with state ownership of non-profit oriented also receive the same political protection, they tend to deal with the inefficiencies such as free-rider problem, bureaucracy and political interference in the management of the company. It was concluded that state ownership is composed of heterogeneous entities with respect to corporate governance and company performance.

Townsend (2015) in his research on civil-military relations in Tunisia and Libya stated that it is important to carry out international military education and training in developing countries. According to him, the global community has an important role in helping professional military forces around the world and enhance the relationship between civil-military.

Such condition relate to the demands of the country's resilience, impacting on strategic defense industries. While market attractiveness, which can be observed through three aspects, namely market forces, competitive intensity and market access (Best, 2013), also have a significant impact on company performance. Where in this study, market attractiveness is a level of scrutiny and adapting the company on the market forces, the intensity of competition and the market access in the industry. In this case, the measurement of market attractiveness of strategic defense industries are assessed based on three dimensions namely potential market opportunity, competitive conditions and market access strategy.

From the three dimensions of the market attractiveness, we obtain the test results that the dimension of the competition condition has the highest contribution in influencing the company performance, followed by the market access strategy, and the potential market opportunities. So

as to optimize the performance of the company, efforts is required to optimize the management adaptation to the competition condition, with regard to the customer condition, product substitution condition, ease of market entry, price competition, and the growth of number of competitors.

The influence of market attractiveness on the company performance, has also been proved by Mensah (2012) which shows that companies that have limited access to the market have low sales performance. Low demand is a key factor that explains the limited access of companies to the market. Similarly, Doğan et al. (2014) shows that in terms of performance quantitatively, selection of differentiation strategy and implementation of participatory, proactive and generous HR policy much more effective than searching for the perfect harmony between strategy and HR policy.

4.7 The Effect of Competitive Strategy on the Company Performance

The fourth hypothesis testing, conducted to examine the effect of competitive strategy on the performance of Strategic Defense Industry Companies in Indonesia. The following figure shows the path diagram of the fourth hypothesis testing results.

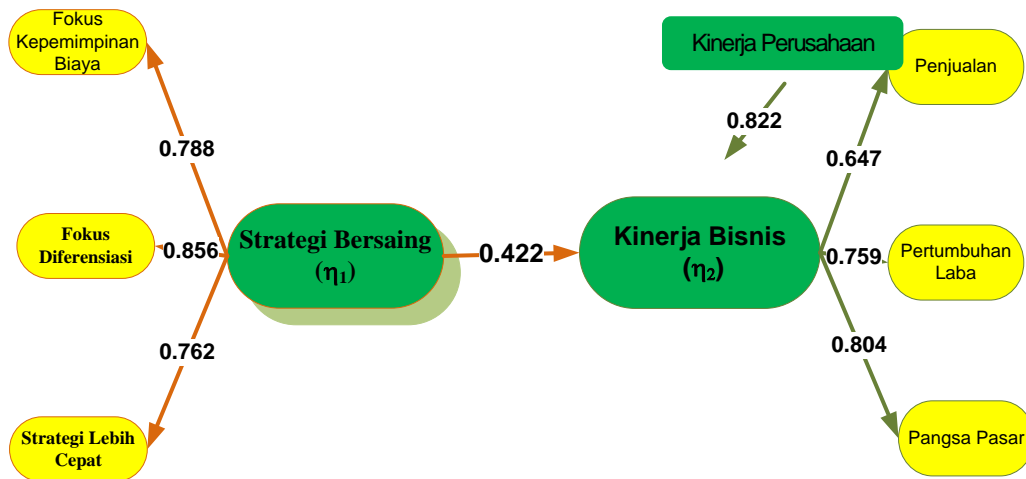


Diagram 5. Hypothesis 4 Testing Result

Structural model for the diagram above is as follow:

$$\eta_2 = 0.422\eta_1 + \zeta_3$$

The following table shows the partial testing of hypothesis 4.

Table 12. Hypothesis 4 Partial Test

Relation	Inner Coefficient (γ)	Standard Error	Value of t-statistic	R-Square
Competitive Strategy → Company Performance	0.422	0.111	3.792*	0.178

*Significant at $\alpha = 0.05$

The above table shows that the effect of competitive strategy on business performance is significant with t-statistic higher than 2.02 (t-table at $\alpha = 0.05$). The coefficient of determination R^2 shows the effect of competitive strategy on the company performance equal to 17.8%.

In improving the company performance, an improvement in competitive strategy is required, especially in the aspect of differentiation focus, which is supported by the improvement in cost leadership focus and fast-move strategy. The ability of management to create a superior, unique and varied product, and able to meet all the demands of business customers which include needs, desires and demands and supported by the ability of management to improve efficiency with implications for price attractiveness, where everything is done quickly and appropriately, it will be able to improve company performance to be superior. But in fact, the business units today are still difficult to achieve the above conditions, so that the business units are often hardly to compete both in terms of product quality, after-sales service and speed in adapting to the shifting demands of business environments including the shift in the demands of the international and global market.

As proofed by Coltman et al. (2007) that by integrating the perspective of content strategy with process strategy can be explained why, when and how certain companies succeed with e-business systems. Similarly Valipour et al. (2012) shows in companies with cost leadership strategy, there is a positive relationship between leverage; cost leadership strategy and dividend payout to performance. Similarly, there is a positive relationship between leverage and company size with the company performance which applying product differentiation strategy. However, the relationship between product differentiation strategy and dividend payments to the performance is negative.

Effect of Market Attractiveness and Resource Uniqueness on the Company Performance through Competitive Strategy

The hypothesis 5 testing is conducted to examine the effect of Market Attractiveness and Company Resources on the performance of companies through competitive strategy of the Strategic Defence Industry in Indonesia. The following figure shows the path diagram of hypothesis 5 testing results.



Diagram 6. Hypothesis 5 Testing Result

To be more clear, the data processing both simultaneously and partially presented in the following tables:

a. Simultaneous Hypothesis Testing

Table 13. Hypothesis 5 Simultaneous Test

Structural Model	R _{Square}	F _{-hitung}
Market Attractiveness and Resources on the business performance through a competitive strategy	0.365	7.484*

*Significant at $\alpha = 0.05$

The test result show that simultaneously market attractiveness and company's resources have a significant influence on business performance through competitive strategy ($F_{count} > 2.839$) or equal to 36.5%.

b. Partial Hypothesis Testing (indirect effect)

Table 14. Hypothesis 5 Partial Test

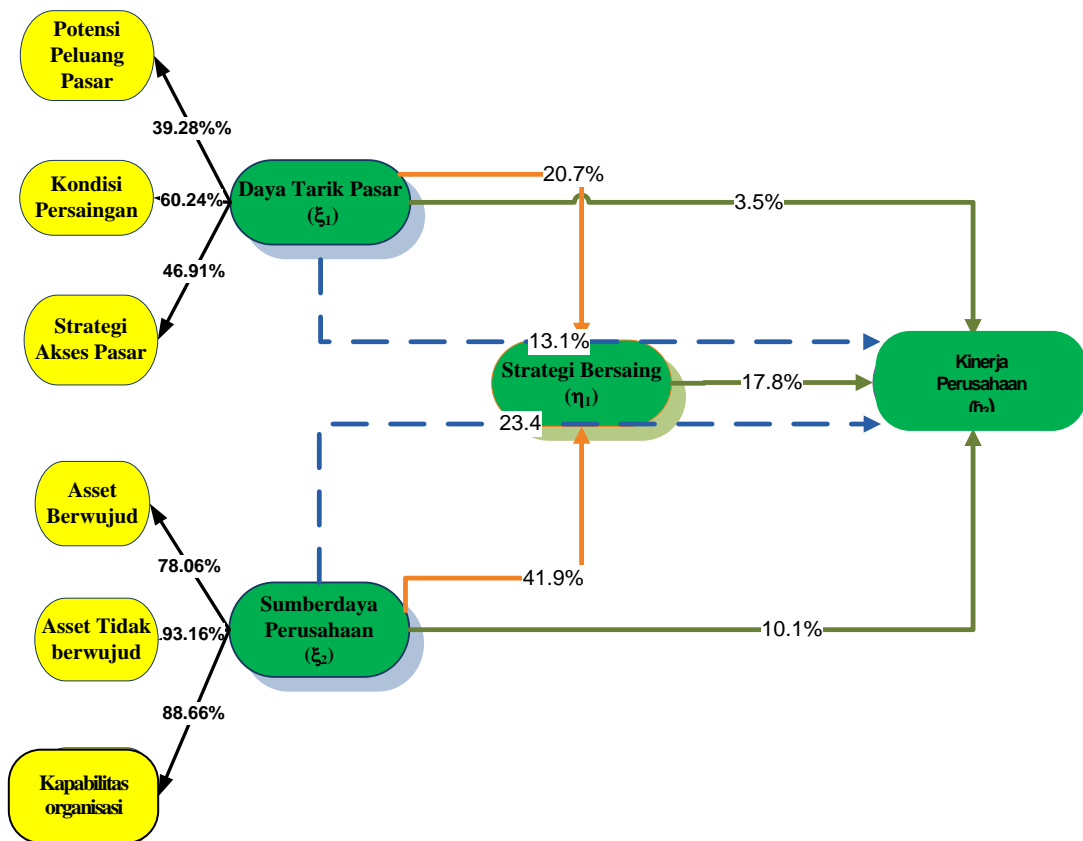
Hypothesis	$\gamma\beta$	SE	T _{count}	Conclusion
Market Attractiveness on Business Performance through the competitive strategy	0.131	0.022	6.041*	Hypothesis is accepted

Company resources on business performance through the competitive strategy	0.234	0.022	10.592*	Hypothesis is accepted
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*Significant at $\alpha = 0.05$ ($t_{table} = 1.99$)

The table above shows that partially the market attractiveness and the company's resources contains indirect influence on the companies performance through competitive strategy in which the company resources' influence are still the highest, equal to 23.4%.

Based on the findings of the test results produced the following model:



Remarks:
 direct effect
 Indirect effect

Diagram 7. Research Result

The results of research shows that:

- The company's resources have higher influence (41.9%) compared to the market attractiveness (20.7%) on the competitive strategy
- The company's resources have higher influence (10.1%) compared to the market attractiveness (3.5%) on the companies performance
- Competitive strategy has dominant influence on the company performance (17.8%)
- 23.4% of changes in the company performance is influenced by the company's resources through competitive strategy

- e. 13.1% of changes in the company performance is influenced by the market attractiveness through competitive strategy.

The results of research shows that competitive strategy has a dominant influence in improving company performance, so that to enhance the company performance on strategic defense industries, an improvement in competitive strategy is required, especially with an improved focus on differentiation, which is supported by an improvement in focus on cost leadership, and fast-move strategy. The results show that company's resources has higher influence than market attractiveness in increasing the competitive strategy. So as to support the competitive strategy in improving the company performance, an increase in company's resources and market attractiveness is required.

This is confirmed by some opinions of the actors and users of the strategic defense industries. Retired Gen. Ryamizard Ryacudu (Indonesia Defense Minister) argues that there is a doubt (despite not being the dominant), especially from the military, to use main weaponry system made by domestic producers (Instrahan). Except for certain products that have become "branded" such as LPD, ANOA, Weapons SS1 Pindad, aircraft CN-235, Sritex military uniform. However, it was recognized that there is concerns about resources employed in particular human resources which is still weak, especially in terms of organizational culture, work ethic, time discipline and others. Which in turn can create negative image for the user, especially the frequent delay in delivery from the determined time.

Moreover, competitive strategy that still relies on the role the government has not created a superior performance, let alone to the global class. But the measures have been implemented such as the roadmap of defence industry especially after the Law No. 16 year 2012 provide opportunities to defence industry to develop its companies through national bank's soft loan payments. There is a need for creativity and efficiency of the entire defence industry especially SOEs. As well as the existing of Presidential Regulation No. 42 Year 2010 on Defence Industry Policy Committee (KKIP), to coordinate the needs of strategic defense industries.

This was echoed by former TNI Commander Admiral (Ret.) Agus Suhartono, SE., As well as the army chief of staff, that the purchase of TNI's main weaponry system on a priority basis in the development of dimensionality defense posture that can be used in the conscription in two trouble spots in Indonesia.

Given the development of this posture is very dependent on the state budget allocated to each Defense / Army budget in any of the current year is very limited, then MEF (Minimum Essential Forces) is drafted. In practice it is a majority for strategic main weaponry system is imported from foreign countries such as fighter aircraft, combatant ships, helicopters, cannons, tanks, communications equipment and others. But since the last 5 years has started an increase in bookings particularly made by TNI to the strategic defense industries in Indonesia such as LPD ship, LCU, KCR-90, aircraft CN-235, 290, helicopter, the Plan of Transfer of Technology (TOT) of Korea's TX Aircraft, Submarine kilo class and others. In addition, individual equipment almost entirely of domestic products.

The most important thing is the companies in strategic industries should be able to have creativity and able to convince the user that the products are safe and efficient in order to foster high confidence. A good strategy is required in creating competition with the other competitors, especially from abroad. As for some of the expectations of actors / institutions related to the defense industry says:

- 1) Indonesia Minister of Defence

- Hope for our defense industry to be more advanced and can meet and became the backbone of the main pillars of our future Defense System.
 - Increasingly competitive the defense industry products.
 - In terms of regeneration and preparing human resources are met
 - In terms of facilities and production facilities can be fulfilled
 - The government's commitment, whoever the government is, is expected to provide maximum and continuously / consistently support to the defence industry, because the era of technology in the future of our natural resources will be depleted, then our defence industry could be an alternative to be foreign exchange earner, at least not many foreign exchange spent to abroad.
 - Regulatory support is also important, existing regulations currently already supports, yet only need to be explored in line with the passage of time.
- 2) Chief of Commander TNI / Chief of General Staff TNI
- Our national defense industry continues to increase not only seen from the quantity of product produced, but also be seen from the quality of the products that can support the level of operational preparedness of the military. Thus the challenge against the arms race and Rebalancing the Power in the region not to make Indonesia dependent on certain countries to meet our defense needs of defense equipment, but Indonesia is able to independently create and upgrade security in maintaining national sovereignty.
- 3) Chief of Naval Staff
- Strategic defense industries in Indonesia will continue to improve its quality and production capacity in order to support the fulfillment of the needs of national defense. This can only be achieved if there is capacity for reliable research and development and adequate capital support. In addition, the strategic industries in Indonesia also must always be open and follow the development of the world technology, so as not to lag behind the defense industry abroad. What we build and develop at this time should be tailored to the needs of the future, because the defense industry has a long production lead time, which is the present new product will be used in the next few years.
 - Strategic industries in Indonesia, together with research institution and universities can become pillars of embodiment of defense self-sufficient in the future, and also contribute to the country's economy by exporting its products.
- 4) Assistant of General Planning to Chief of Commander TNI
- Government policies that support national defense industry comprehensively and consistently, exist.
 - Government budget support to promote and enhance the technological capabilities of strategic industries.
 - The quality and quantity of human resources in the field of national defense industry is optimal.
 - The capability of national strategic industry technology is optimal.
 - Involvement of private industry into the national defense industry.
- 1) Kababek TNI

- Recruiting capable human resources in accordance to his/her specialization both in the domestic and Indonesian citizens abroad.
- Changing regulations and require 75% of the budget allocation to support the MEF in order to take the product of the domestic defense industry. This refers to the ability of the defense industry in order to improve and create independence of the defense industry while increasing source of labor in the country.
- The defense industry should be built outside Java because most of the raw materials available outside Java.
- Government banks provide loans with low interest to small and medium enterprises which support of defense equipment components.
- The main task of KKIP is to oversee, promote defence-based industry and integrating various R & D in the homeland.

IV. CONCLUSION AND SUGGESTION

Based on analysis of strategic studies in an effort to improve the company performance as described in the previous chapters, we can conclude some of the following:

1. Market attractiveness is not attractive yet, the company's resources have not been optimally used, competitive strategy is not appropriate yet, and the company performance has not been high/good within the strategic defense industries in Indonesia.
2. Market attractiveness and company resources jointly to contribute in improving the competitive strategy. However, the company's resources provide higher contribution (41.9%) compared to the market attractiveness in influencing competitive strategy (20.7%), which is supported by the dimensions of tangible assets, intangible assets and capabilities of organization.
3. Market attractiveness and company resources jointly to contribute in improving the company performance. However, the company's resources provide higher contribution (10.1%) compared to the market attractiveness in influencing company performance (3.5%), which is supported by the dimensions of tangible assets, intangible assets and capabilities of the company.
4. Competitive strategy affect company performance. The effect of competitive strategy on the company performance amounted to 17.8%, which is supported by the dimensions of cost leadership focus, differentiation focus, and fast-move strategy.
5. Market attractiveness and company's resource jointly to contribute in improving the performance of the company, through a competitive strategy. However, the company's resources provide higher contribution (23.4%) compared to the market attractiveness in influencing company performance (13.1%), through a competitive strategy, which is supported by the dimensions of the tangible assets, intangible assets and organizational capability.

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ANALYSIS OF REGIONAL ECONOMIC GROWTH AND REGIONAL INFLATION AND ITS IMPLICATION ON WELFARE IN THE AFTERMATH OF DECENTRALIZATION ERA IN INDONESIA

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ABSTRACT

This paper examines the determinants of economic growth by using a panel data set of 33 provinces in Indonesia over ten years. It shows that several variables such as Gross fixed capital formation and Spending on Agricultural have impact on economic growth. The paper also employed recursive model to capture the factors affecting inflation. Due to Indonesia's Tim Pengendali Inflasi Daerah (TPID) Policy applied since 2008, this policy allows the author to use dummy variable to identify the effect of the TPID on Inflation. I found that the TPID has a negative impact on inflation. The finding not only supports such as policy, but also suggests that Indonesia's TPID policy is indeed reducing inflation.

Keywords: economic growth, panel data, inflation

1. INTRODUCTION

A country that has good economic growth can perform its government functions well and can actively carry out development and provide services to the community. On the other hand, the stability of the economy also plays a very important role. With a stable economy, development and growth can work well. Therefore, both economic growth and stability need to be well preserved for the welfare of society.

One source of economic instability is a thorough and sustained price increase or called inflation. The phenomenon of inflation is closely related to the policies of state governments and has a broad impact on the economy. Inflation may trigger instability in the real sector, decline in commodity competitiveness in the domestic market, instability in the distribution of people's incomes in the regions, and so forth.

Characteristics Inflation in Indonesia is heavily influenced by shock factors. Such a shock factor can be a production disruption, as natural disasters such as floods and prolonged dry seasons affect much of inflation in the volatile food category. In addition, surprises can also be a rise in domestic fuel oil prices that have an impact on administered price inflation. Under these conditions, inflation can not only be responded by monetary policy which is the task of the central bank but also by the local government (Economic report on Indonesia, 2014). In this context of decentralization, the government together with Bank Indonesia established the Inflation Control Team (TPI) at the central level since 2005. At the regional level, coordination between Bank Indonesia and several local government agencies is conducted in containers The Regional Control Team (TPID) was formed in 2008 in a number of regions. The relationship between decentralization and inflation as an important aspect of macroeconomic stability has been reviewed in several studies with inconclusive conclusions. The results of Treisman's (2000) study show that in decentralized countries, the average inflation rate tends to remain, either consistently high or low over a fairly long period, whereas in centralized countries, with low inflation it is easier to get into Macroeconomic imbalances and easier to stabilize.

2. EMPIRICAL STRATEGY

According to King & Ma (2001), decentralization correlates with lower inflation in developed countries; Whereas according to Feltenstein & Iwata (2005), decentralization correlates with higher inflation in developing countries. According to Tirtosuharto and Adiwilaga (2013), the decentralization system has advantages over the centralized system. In the decentralization system, local governments are more aware in identifying the needs of their territories. Therefore, inflation can be better monitored and controlled in a decentralized system. Local governments also have the authority to allocate fiscal resources and other source coordination, including regional or regulatory policies to support low stability and inflation rates.

In addition, there are studies whose results show that decentralization negatively affects inflation among others: The Neyapti (2004) study, which uses large amounts of data from several countries, shows that fiscal decentralization has a negative relationship with inflation. Another study conducted by Huang and Seng (2009) shows fiscal decentralization positively affecting the inflation of the province using observational data from 1987-1997, whereas if using the data extended until 2003 fiscal decentralization negatively affects inflation. Brojonegoro (2005) in his research identifies the causes of inflation in regions more non-monetary and more influenced by fiscal policies in the region, especially the implications of efforts to increase local revenue (PAD), regional expenditures, and transportation costs.

The object of this study outlines three main variables related to, economic growth as measured by per capita income and regional inflation and welfare in the provinces in Indonesia for the period of 2004 Until 2014. Other variables that become the object of research and have a relationship with These three variables are investment, government expenditure and policy variables as dummy variables.

Government expenditure variables for agriculture that are directed to build the most important sectors of the region. This variable is identified as expenditures that affect both economic growth and inflation. The model specification used in this research is Simultaneous Panel Equation Model

Growth Model

$$Y_{it} = \alpha_0 + \alpha_1 LP_{it} + \alpha_2 CRE_{it} + \alpha_3 SPEND_{it} + e_{it} \dots\dots\dots(1)$$

Inflation Model

$$\pi_{it} = \beta_0 + \beta_1 \text{Log}(\text{POP})_{it} + \beta_2 \hat{Y}_{it} + \beta_3 \text{HDI}_{it} + \beta_4 \text{TPID}_{it} + \varepsilon_{it} \dots\dots\dots(2)$$

Where Y is the growth rate of real per capita GDP, LP is labor participation rate, whereas CRE represents credit outstanding and SPEND as proxy for spending on agricultural. For model 2. It is known that π is for inflation, Log(POP) represents population in log form, \hat{Y} is estimated form of model growth, HDI represents Human Development Index, and TPID as proxy of Tim Pengendali Inflasi Daerah (Government inflation intervention)

3. RESULTS

The Decentralization Policy aims to enable each region to increase its economic growth through the potential of the region. Inferential analysis results in this study to answer the hypothesis Labor Participation, Local Government Expenditure, Credit Banking, Gross Capital Formation effect on Economic Growth area / Provinces in Indonesia seen from the value of variable regression coefficient used, there are 2 (two) variables Which is a significant variable of credit given by banking and PMTB. This is in line with Bank Indonesia's (2014) Report which conveyed that the strong economic condition in the region is also supported by the high growth of bank credit throughout the region.

The following estimation results obtained

Dependent Variable: GROWTH?

Method: Pooled EGLS (Cross-section weights)

Cross sections without valid observations dropped

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.25968	3.705730	-4.117861	0.0001
TPAK?	0.042140	0.023257	1.811960	0.0716*
LOG(KREDIT?)	0.180386	0.168122	1.072948	0.2847
LOG(PMTB?)	0.087747	0.030352	2.890995	0.0043***
LOG(SPENDING?)	0.378821	0.115946	3.267224	0.0013***
Weighted Statistics				
R-squared	0.741947	Mean dependent var		14.39820
Adjusted R-squared	0.694411	S.D. dependent var		12.73770
S.E. of regression	2.562709	Sum squared resid		1247.821
F-statistic	15.60809	Durbin-Watson stat		1.784068
Prob(F-statistic)	0.000000			

Source : auhor's calculation using EViews 6.1

Based on the regression it is known that Y predicted which is the result of estimation from model of economic growth that have positive influence to inflation but not significant. This is in line with the research of lubis (2014). If in research conducted by Lubis short-term relationship only. In addition, the HDI variable has a significant effect on inflation, which means that the increase in HDI will suppress inflation, this is probably due to the more influential factor of production on inflation, while the data used by HDI here is the purchasing power index. Increased purchasing power is not able to increase inflation.

As of the beginning of the fourth quarter of 2014, bank credit growth in Java and Jakarta grew 24.7% and 21.2% (yoy), primarily driven by increased working capital credit and strong consumption credit. Looking at sectorally, credit increase in Java and Jakarta area mainly occurred in industrial sector and trade sector. The increase of credit in Eastern Indonesia is mainly driven by consumption credit and sectorally, especially to trade and industry sectors. In the meantime, the increase of credit in Sumatera especially in the type of working capital and by sectoral increase of credit mainly happened in commerce sector and agriculture sector. While the variable of government expenditure and labor force participation rate are not significant.

Dependent Variable: INFLASI?

Method: Pooled EGLS (Cross-section random effects)

Cross-section weights (PCSE) standard errors & covariance (d.f. corrected)

Cross sections without valid observations dropped

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.13064	11.22400	2.684484	0.0076
LOG(POP?)	0.256546	0.295165	0.869161	0.3854
HDI?	-0.401886	0.126605	-3.174326	0.0016***
Y?	0.155878	0.576038	0.270604	0.7869
TPID?	-2.082920	0.614362	-3.390378	0.0008***
Weighted Statistics				

R-squared	0.098712	Mean dependent var	5.370814
Adjusted R-squared	0.087516	S.D. dependent var	5.233182
S.E. of regression	5.010208	Sum squared resid	8082.904
F-statistic	8.816635	Durbin-Watson stat	2.044693
Prob(F-statistic)	0.000001		

Unweighted Statistics

R-squared	0.096428	Mean dependent var	7.249964
Sum squared resid	8649.466	Durbin-Watson stat	1.910761

Source : auhor's calculation using EViews 6.1

As for other variables, the population (POP) regression coefficient positive but its influence is not significant. This means that if there is an increase in the number of population then the demand for goods and services in aggregate also increased so that will increase the price of goods that resulted in the inflation of Demand Pull Inflation (Case and Fair, 2007).

Similarly, the economic growth prediction variable, the regression coefficient is positive, meaning that if there is economic growth or the developing economy, then the demand for goods and services also increases beyond the ability of the economy in producing goods and services resulting in inflation pull demand, this is in accordance with the theory of inflation Demand Pull Inflation (McEachern, 2000).

Furthermore, it is also estimated the variable lag to know how the influence of economic growth predictions in the previous year to the inflation rate this year. The results of this estimate show that inflation is now influenced by inflation the previous year. In the economy it is also common, where inflation is caused by people's expectations of the price of goods and services in the future in accordance with certain moments, such as religious holidays, new year, election days.

The next discussion is to answer the Hypothesis of Regional Economic Growth Prediction, population, and HDI affects inflation then by determining the ranking of commodity contributors inflation in each province in Indonesia based on Life Expenditure Survey (SBH) 2007 and 2012.

By knowing the commodity contributing to inflation above, then analyzed also inflation volatility based on commodity price fluctuation during 2008-2014 with fixed effect regression estimation, it turns out that all the coefficients of independent variable are negative and insignificant. The insignificant effect of macroeconomic variables on inflation is in accordance with Structural Theory (long-term inflation theory) which states that inflation is not merely a monetary phenomenon, but also a structural phenomenon (cost push inflation). This is due to an economic shock that comes from within the country, such as crop failure, season change, natural disasters and so forth.

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goods that resulted in the inflation of Demand Pull Inflation (Case and Fair, 2007). Similarly, the predicted variable of economic growth, the regression coefficient is positive, meaning if there is economic growth or the economy

4. CONCLUSION

Descriptive analysis result of the regional inflation seen from the high inflation rate of each province in 2004-2014 there is still a difference. This difference is due to the karakteristik of the area is a shock factor in the form of production disruption due to natural disasters and also due to rising fuel prices. The results of inferential analysis indicate that there are two variables significantly influence on economic growth and two variables have an insignificant effect on economic growth. But together all these variables affect economic growth

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LEATHER GOODS MARKETING STRATEGIES IN RANGKASBITUNG DISTRICT, LEBAK REGENCY – BANTEN

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ABSTRACT

This research aimed to yield internal and external factors that influence leather goods marketing, yield alternative leather goods marketing strategies based on the analysis of internal and external factors. SWOT analysis was used for determining the strategy alternatives that can be implemented by farmers groups. Descriptive method was used for describing the case study on Leather Craftsmen with a sample consisting of 30 leather craftsmen. Good cooperation between farmers groups constituted the main strength of the craftsmen. The main weakness requiring improvement was the lack of fixed middleman. The main opportunity available was the establishment of communication between leather craftsmen and private sector, and the main threat was the existence of products from the competitors.

Keywords: marketing strategy, Rangkasbitung, SWOT

1. INTRODUCTION

1.1. Background

Small scale manufacturing and handicraft play a pretty significant role in Indonesia's economy and they certainly exist in every region. Small scale manufacturing and handicraft in villages are known as a source of additional income for families and as a support of agricultural activity, which is the primary mean of support of the majority of village people. Village small industries have an essential meaning in the effort to alleviate poverty in villages. In other words, it is expected that village small industries can improve the welfare of village people (Mubyarto, 1986). Small scale manufacturing and handicraft evidently need attention as they do not only provide income for most labors, but also serve as the spearhead in the effort to alleviate poverty, reduce unemployment and improve distribution of income. The production process is highly dependent on the consumers' requirements, which eventually will affect the life of the small scale manufacturing and handicraft.

The small scale manufacturing and handicraft potential in village is very high. However, it does not necessarily mean that it will not face any obstacle and challenge. As stated by Anoraga (2002:245), small enterprises face a variety of challenges and obstacles such as low quality of human resources; low productivity and quality of products and services; lack of technology and information; production factor; inadequate facilities and infrastructures; funding and funding service aspects; unsupportive business climate; and poor development coordination.

Marketing system is an important part in the goods chain from the production stage until the goods are delivered to the consumers. It can also determine the market efficiency of the goods regulation. Marketing may cause high costs, which will not only reduce the manufacturer's surplus, but also burden the consumers. In the marketing of goods, there is a variation in the number of agents or the length of marketing chain, from the simple one with short chain to the one involving a longer chain.

The role of the government in the goods marketing differs between countries. This may be caused by the difference in the interest and goal in the domestic goods marketing handling.

Indonesia's economic structure is shifting toward industrialization, but the role of small scale manufacturing and handicraft remains as the concern of the government.

1.2. Problem Statement

1. What are the internal and external factors of leather craft that influence the leather goods marketing?
2. What are the alternative marketing strategies that can be implemented in the leather goods marketing based on the analysis of internal and external factors?

a. Research Objectives

1. To yield internal and external factors that influence leather goods marketing
2. To yield alternative leather goods marketing strategies based on the analysis of internal and external factors

a. Research Significance

1. To figure out the internal and external factors that influence leather goods marketing
2. To figure out the alternative leather goods marketing strategies based on the analysis of internal and external factors

3. Literature Review

According to Kotler (2001), marketing is an absolute condition in the development. The success of a marketing strategy depends on the size or position of each company. Oftentimes, small companies with established strategies are able to sell better than bigger companies. Thus, leather craft groups in Rangkasbitung District serves as a good alternative for the people to increase their household income in order to improve their bargaining position in marketing their products. The results of the research conducted by Angga Sulistiono et al (2010) show that it is very important to improve the creativity in the manufacturing of footwear to make the models produced more varied.

The results of the research conducted by Erizal Jamal et al (2006), Husni (2004) and Dwidjono H Darwanto (2005) show that the low price of un-hulled rice at the farmer level is caused by some factors. The factors are: (1) dominating system of purchasing product before harvesting due to urgent needs and the use of down payment, (2) the low bargaining position of farmers in the sale of un-hulled rice, (3) the added value of the rice processing and trade is mostly enjoyed by the sellers, rice mill and other actors, (4) the rice market structure is far from the perfect competitive level and the domestic rice post-harvest and distribution system is inefficient and (5) low post-harvest technology at the farmer level, which lowers the quality of the rice produced. The research conducted by Ardito Atmaka Aji (2014) shows that the alternative product development strategy that can be implemented is product differentiation strategy. The strategy priority that should be implemented is rice enterprise intensification strategy. The recommended policies to be enacted by the central/regional government in order to improve the food security include: 1) rice enterprise intensification, 2) synergy between farmers, entrepreneurs and government, 3) enforcement of regional food policies favoring the farmers, 4) revitalization of facilities and infrastructures, and 5) product differentiation. The strategy serving as the main priority in this research is rice enterprise intensification strategy.

4. RESEARCH METHOD

The data types used were secondary data and primary data. The data collection methods included observation, interview and questionnaire distribution. The data analysis technique used was qualitative descriptive by describing the factual information that was obtained directly and indirectly. The information was obtained from craftsmen and employees in Citeras Village or from the parties indirectly associated with leather craft. The analysis was done using SWOT (Strength, Weakness, Opportunity and Threat) method.

5. RESULTS AND DISCUSSION

5.1. Analysis of External & Internal Factor Matrices

1. Internal Factor Evaluation (IFE Matrix)

Table. IFE Matrix of Leather Goods

Determinant Factors	Weight	Rating	Score	Ranking
	(a)	(b)	(c=axb)	(d)
A. Strengths				
High quality products	0.099	3.13	0.309	2
The advantage in the neatness of the leather goods having been recognized by the consumers	0.095	3.00	0.284	4
Competitive price	0.098	3.10	0.303	3
Partnering ability with stakeholders	0.080	2.53	0.202	5
The research and development human resources expert in their respective fields	0.101	3.20	0.323	1
Attractive stitch and model	0.080	2.53	0.202	6
Total (A)	0.551		1.623	
B. Weaknesses				
Small number of marketing locations	0.080	2.53	0.202	4
Limited capital	0.097	3.07	0.296	2
Lack of human resources special for marketing	0.064	2.03	0.130	5
Unattractive packaging	0.122	3.87	0.471	1
Lack of clear market segmentation	0.086	2.73	0.235	3
Total (B)	0.449		1.335	
Total (A+B)	1		2.958	

2. External Factor Evaluation (EFE Matrix)

Table. EFE Matrix of Leather Goods

Determinant Factors	Weight	Rating	Score	Ranking
	(a)	(b)	(c=axb)	(d)
A. Opportunities				
Precision and neatness of leather craftsmen	0.098	3.1	0.306	1
High demand for leather goods from Rangkasbitung District	0.093	3.0	0.275	2
Ease in promotion via the Internet/IT	0.088	2.8	0.251	3
The opening of the ASEAN Economic Community (AEC) market	0.088	2.8	0.251	4
Cooperation with the government in the micro, small and medium enterprise cooperative	0.083	2.7	0.222	5
Total (A)	0.451		1.304	

B. Threats				
Lack of knowledge on the leather goods of Rangkasbitung District	0.093	2.97	0.275	3
Lack of knowledge on the quality of leather goods in Rangkasbitung District	0.087	2.80	0.245	6
The inability of leather craftsmen in Rangkasbitung in designing leather goods	0.095	3.03	0.287	1
The emergence of competitors from other regions	0.092	2.93	0.269	4
The emergence of competitors from overseas with the enforcement of international trading	0.089	2.87	0.257	5
Inflation rate	0.094	3.00	0.281	2
Total (B)	0.549		1.613	
Total (A+B)	1		2.917	

With a total internal strategic factor score of 2.958, the partnership had a medium or average internal factor in conducting the certified/leather procurement enterprise through partnership. The total external strategic factor score of 2.917 shows high response given by partnership to the external environment.

In this cell, the growth strategy is intended to be implemented through concentration of horizontal integration, either internally through its own resources or externally by utilizing external resources. This strategy is basically an activity of expanding enterprise by expansion of location and improvement of the types and quality of the products and services. The main goal is to improve sales and profits by utilizing benefits in the production and marketing.

Table. IFE Matrix

		STRONG 3.00-4.00	MEDIUM 2.00-2.99	WEAK 1.00-1.99
		3	2	1
4				
HIGH 3.00-4.00	3	I	II	III
MEDIUM 2.00-2.99	2	IV	V	VI
LOW 1.00-1.99	1	VII	VIII	IX

After collecting all information described in the IFE and EFE matrices, all of the information was used as the strategy alternatives that would serve as the direction for the organization. In this stage, the SWOT analysis was used to see which strategies that could be used in the internal and external conditions described at this time.

5.2. Analysis of SWOT Matrix

The results of the SWOT matrix formulation can be categorized into four strategy formulation groups, namely:

1. S-O Strategy

S-O strategy refers to the strategy that uses the strengths to utilize the existing opportunities, with the following strategy alternatives:

- a) Establishing an online store by creating a web.
 - b) Building an outlet near to dwelling place.
 - c) Partnering institutions may assist craftsmen in opening a new distribution channel.
2. W-O Strategy
- W-O strategy refers to the strategy that minimizes the weaknesses to utilize the existing opportunities, with the following strategy alternatives:
- a) The partnering institutions can be a facilitator of entrepreneurship training, supply management and product and packaging designing.
 - b) Allocating funds to make a new catalogue and product sample.
 - c) Cooperating with financial institutions to increase the capital.
3. S-T Strategy
- S-T strategy refers to the strategy that uses the strengths to overcome threats, with the following strategy alternatives:
- a) Optimizing the cooperation between members of organization in holding training to improve the knowledge on leather goods.
 - b) The partnering institutions may facilitate the promotion by holding an exhibition.
 - c) The partnering institutions may become the facilitators in the entrepreneurship training, supply management and product and packaging designing.
4. W-T Strategy
- W-T strategy refers to the strategy that minimizes the weaknesses and avoids threats, with the following alternatives:
- a) Building strengths together through small and medium enterprise cooperatives and community.
 - b) Expanding the network of marketing relations.
 - a. Establishing an online store by creating a web.

6. CONCLUSION

1. The partnership between small and medium enterprise office and leather craftsmen is very helpful in the product marketing.
2. If the internal and external strategic factors are mapped, they will yield a growth strategy that is designed to achieve growth in the sales, assets, profits or a combination of the three.
3. By using SWOT analysis, four groups of strategy formulation will be obtained.

7. SUGGESTIONS

It is suggested that leather craftsmen increase facilities and production as well as the development activities for craftsmen. The craftsmen are suggested to improve the understanding on the importance of marketing process and fulfillment of product quality standards. For future research, the measurement of the leather craftsmen's performance should be carried out in order to find out the indicators of leather craftsmen's performance.

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THE ANALYSIS OF GREEN MARKETING OF ORGANIC PRODUCTS IN SUPER INDO SUPERMARKET IN SOUTH JAKARTA

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ABSTRACT

Marketing green (Green marketing) became a trend in various countries. The tendency of shifting consumer consumption patterns of consuming organic products to conventional products has become an interesting phenomenon today. The development of green marketing Especially in the city of South Jakarta Supermarket Super Indo running slow even have the potential. It is also in line with the Super Indo commitment to participate actively in any effort to save the environment. With this program, customers are invited to jointly reduce plastic waste that is harmful to the environment by bringing your own shopping bags. Pelangan Super Indo also can use the cardboard boxes are available at all outlets instead of plastic shopping bags. In this study the method of analysis Structural Equation Modeling (SEM) Based Variance - PLS. The population of consumers of organic products users Supermarkets Super Indo in South Jakarta. The sampling technique using simple random sampling. This study was to determine the effect of Green Marketing and CSR on Organic Products at Supermarket Super Indo in South Jakarta. The result is buying interest has a significant influence on purchasing decisions.

Keywords: Green Marketing, Corporate Social Responsibility (CSR), Interests Buy, Purchase Decision, PLS

1. INTRODUCTION

1.1. Background

Capital investment and encouraging improvement of trade sector are two of forms of investment in economic development in Indonesia. One of the impacts of such development is the significant increase of modern market in Indonesia. Until 2014, Ministry of Trade of Republic of Indonesia recorded that the number of modern markets in Indonesia reach 23,000 units, in which 14,000 of them are minimarket groups, while the rests are supermarkets. In the last 3 years, the number increases up to 14 percent (*Kompas*, 2014).

1.2. Research Problems

- a. Does Green Marketing affect the buying interest of organic products?
- b. Does Green Marketing affect the buying decision of organic products?
- c. Does Corporate Social Responsibility (CSR) affect the buying interest of organic products?
- d. Does Corporate Social Responsibility (CSR) affect the buying decision of organic products?
- e. Does buying interest affect the buying decision of organic products?

1.3. Research Objectives

- a. To figure out the impact of Green Marketing towards the buying interest of organic products.
- b. To figure out the impact of Green Marketing towards the buying decision of organic products.
- c. To figure out the impact of Corporate Social Responsibility towards the buying interest of organic products.

- d. To figure out the impact of Corporate Social Responsibility towards the buying decision of organic products.
- e. To figure out the impact of buying interest towards buying decision of organic products.

2. Review of Related Literature

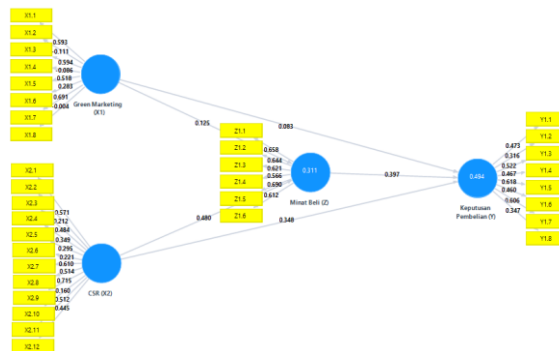
Kotler & Keller (2009 : 38) defines marketing management as the arts and science of determining targeted market and of obtaining, maintaining and developing the customers by creating, submitting and communicating excellent customer value. Furthermore, Grewal and Levy (2010:128) defines green marketing as the strategic efforts of the company to provide environmentally friendly goods and services for its targeted consumers. Corporate Social Responsibility (CSR) means how the company manages its business processes to generate overall positive impacts towards society. Therefore, corporate social responsibility should not only be conducted in the company’s external environment and surrounding society, but also in its internal environment (Baker, 2003). Kotler & Keller (2009 : 268) states that buying decision means to identify all possible choices to solve problem and to measure such choices as well as targets which determine respective profit and loss systematically and objectively. Nugroho (2008:38) contends that consumer’s buying decision means to evaluate two or more alternative behaviors, and choose one of them. Based on the above definitions, the researchers may conclude that buying decision means to find information, identify products and buying decision and the impact of purchase. Schiffman dan Kanuk (2007:201) suggests that buying interest is a thought arises due to the feeling of being attracted and of possession towards the intended goods or services.

3. RESEARCH METHOD

This research adopted primary data, which was directly taken from the consumers of Super Indo supermarket in South Jakarta. In addition, the researchers used SmartPLS 3.0 as the software of PLS.

3.1. Measurement Model (Outer Model)

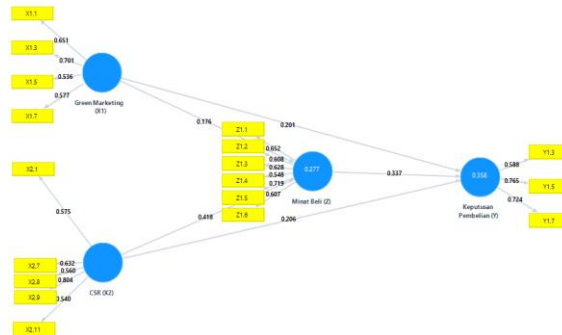
The result of validity tests of initial path diagram by using *SmartPLS* 3.0 showed the following diagram:



Source: Output Result of PLS
Figure 1. *Outer Model* 1

Indicator is valid when its correlation value is above 0.70. However, in the scale-development research, loading amounted to 0.50 to 0.60 may still be accepted (Ghozali, 2014). According the above path diagram of outer loading factor, the researchers excluded the indicators, which the loading scores were less than 0.50, from the analysis. Moreover, the variables of green marketing which were excluded from the analysis were X1.2, X1.4, X1.6 and X1.8, while the CSR ones were X2.2, X2.3, X2.4, X2.5, X2.6, X2.10 and X2.12. Meanwhile, the excluded variables of buying decision were Y1.1, Y1.2, Y1.4, Y1.6 and

Y1.8. Thus, the researchers re-analyzed the data by using the chosen variables. The result was illustrated in the chart below:



Source: Output result of PLS
Figure 2. Outer Model 2

In line with the above diagram, the research concluded that all individual indicators in each variable successfully met the requirement, since all correlation scored above 0.50.

3.2. Structural Model (Inner Model)

The researchers tested this model based on the R-Square, Q-Square, coefficient path and t-statistic value.

3.3. R Square

R-Square was used for dependent variables. The output result of *Smart-PLS 3.0* software can be seen in the following table:

Table 1. R Square Values

	R Square
Buying Decision (Y)	0.338
Buying Interest (Z)	0.262

Source: Output Result of PLS

According to Table 1, the value of R Square (R^2) upon buying decision was amounted to 0.38. This means that the influence of green marketing, CSR and buying interest towards buying decision was 33.8% while the rest, 66.2%, were affected by excluded independent variables

$$\begin{aligned} \varepsilon_1 &= \sqrt{1 - R^2} \\ &= \sqrt{1 - 0,338} \\ &= 0,813 \end{aligned}$$

Based on Table 1, the researchers also figured out that the value of R Square (R^2) of buying interest was amounted to 0.262. In other words, the influence of green marketing and CSR towards buying interest was 26.2%, while the rest, 73.8%, were affected by the excluded independent variables

$$\begin{aligned} \varepsilon_2 &= \sqrt{1 - R^2} \\ &= \sqrt{1 - 0,262} \\ &= 0,859 \end{aligned}$$

3.4. Q Square

The researchers applied the following formula to calculate the Q Square:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_p^2)$$

Where $R_1^2, R_2^2 \dots R_p^2$ are the R Square of endogenous variable in equation model. Here, the range value of Q^2 is $0 < Q^2 < 1$, where the closer the value to 1, the better the model is.

$$\begin{aligned} Q^2 &= 1 - (1 - R_1^2) (1 - R_2^2) \\ &= 1 - (1 - 0.388) (1 - 0.262) \\ &= 1 - (0.612) (0.738) \\ &= 1 - 0.451 \\ &= 0.549 \end{aligned}$$

Based on the above equation, the result of Q^2 was amounted to 0.549, in which such results must be based on this condition: Q^2 must be $0 < Q^2 < 1$, where the closer the value to 1, the better the model is. So, it means $0 < 0.549 < 1$, which showed that the model was good enough.

3.5. Path Coefficients

In line with the data process, the structural model with Path Coefficients showed the following result:

Table 2. Result of Coefficient Path Values

	Original Sample (O)
CSR (X2) -> Buying Decision (Y)	0.206
CSR (X2) -> Buying Interest (Z)	0.418
Green Marketing (X1) -> Buying Decision (Y)	0.201
Green Marketing (X1) -> Buying Interest (Z)	0.176
Buying Interest (Z) -> Buying Decision (Y)	0.337

Source: Output Result of PLS

According to Table 2, in the Original Sample column, the result of the coefficient path values showed that green marketing, CSR and buying interests variables positively affected the buying decision

3.6. T-statistics Test

T-test or partial test was applied to figure out the existence of significant influence of green marketing (X_1), CSR (X_2) and buying interest (Z) towards buying decision (Y). Given t table = 1.985, that was the result of $df = n - k$ formula or $df = 100 - 4 = 96$, which then was connected to the degree of trust amounted to 5% or 0.05.

In line with the data process of significance test (t Test), the researchers figured out the following result:

Table 3. Result of t-statistics Test

	T Statistics (O/STERR)	P Values
CSR (X2) -> Buying Decision (Y)	1.540	0.124
CSR (X2) -> Buying Interest (Z)	4.902	0.000
Green Marketing (X1) -> Buying Decision (Y)	1.522	0.129
Green Marketing (X1) -> Buying Interest (Z)	1.887	0.060
Buying Interest (Z) -> Buying Decision (Y)	3.289	0.001

Source: Output Result of PLS

Based on the above table, the test result of green marketing variables toward buying interest showed that the value of $t_{count} < t_{table}$, in which it was amounted to $1.887 < 1.985$ and the value of Sig. $0.060 > 0.05$. In other words, green marketing did not significantly affect the buying interest.

Based on Table 3 above, the test result of green marketing variable towards buying decision showed that the value of $t_{count} < t_{table}$, in which it was amounted to $1.522 < 1.985$ and value of Sig. $0.129 > 0.05$. This means that green marketing did not significantly affect the buying decision.

Based on Table 3 above, the test result of CSR variable toward buying interest showed that the value of $t_{count} > t_{table}$, in which it was amounted to $4.902 > 1.985$ and value of Sig. $0.000 < 0.05$. This proved that CSR significantly affected the buying interest.

Based on Table 3 above, the test result of CSR variable toward buying decision showed that the value of $t_{count} < t_{table}$, in which it was amounted to $1.540 < 1.985$ and value of Sig. $0.124 > 0.05$. This proved that CSR did not significantly affect the buying decision

Last but not least the test result of buying interest variable toward buying decision showed that the value of $t_{count} > t_{table}$, in which it was amounted to $3.289 > 1.985$ and value of Sig. $0.001 < 0.05$. This proved that buying interest significantly affected the buying decision.

To make it clear, the researchers listed the calculation result and path coefficient test in the following table:

Table 4. Interpretation of Path Coefficient Result

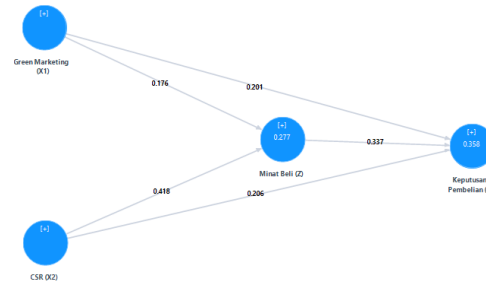
Variable	Coefficient	Direct Influence	Indirect Influence	Total
X ₁ towards Z	0.176	0.176	-	0.176
X ₁ towards Y	0.201	0.201	$0.176 \times 0.337 = 0.059$	0.260
X ₂ towards Z	0.418	0.418	-	0.418
X ₂ towards Y	0.206	0.206	$0.418 \times 0.337 = 0.140$	0.346
Z towards Y	0.337	0.337	-	0.337
ε_1	0.813	0.813		0.813
ε_2	0.859	0.859		0.859

Source: Processed Data

Based on the Table 4 above, the researchers figured out that:

- Path coefficient of variable X₁ towards Z was amounted to 0.176.
- Path coefficient of variable X₁ had direct influence towards Y, which was amounted to 0.201, and indirect influence through Z, which was amounted to 0.059.

- c. Path coefficient of variable X_2 towards Z was amounted to 0.418.
- d. Path coefficient of variable X_2 had direct influence towards Y , which was amounted to 0.206, and indirect influence through Z , which was amounted to 0.140.
- e. Path coefficient of variable Z towards Y was amounted to 0.337.



Source: Output Result of PLS

Figure 3. Inner Model

4. RESULT AND DISCUSSION

Based on the result on the analysis of customer loyalty by using Partial Least Square (PLS) method and *SmartPLS* 3.0 software, the researchers figured out the following things:

1. Connection between Green Marketing and Buying Interest

According to the result of this research, the result of the above hypothesis test showed that green marketing variable positively and insignificantly affected buying interest, with the result of path coefficient was amounted to 0.716, $t_{count} < t_{table}$ amounted to $1.887 < 1.985$ and Sig. $0.060 > 0.05$. This means that consumers had less buying interest towards organic products.

2. Connection between Green Marketing and Buying Decision

According to the result of this research, the result of the above hypothesis test showed that green marketing variable positively and insignificantly affected buying decision, with the result of path coefficient was amounted to 0.201, $t_{count} < t_{table}$ amounted to $1.522 < 1.985$ and Sig. $0.129 > 0.05$. However, indirect coefficient had smaller result compared to the direct influence of green marketing towards buying decision, with path coefficient was amounted to 0.059. Thus, such direct influence was more dominant than the indirect one. This means that consumers had less awareness upon the importance of green marketing in improving healthy lifestyle.

3. Connection between CSR and Buying Interest

According to the result of this research, the result of the above hypothesis test showed that CSR variable positively and significantly affected buying interest, with $t_{count} < t_{table}$ was amounted to $4.902 > 1.985$ and value of Sig. $0.000 < 0.05$. This means that CSR was not only conducted within the company's internal environment, but also in the external environment and society.

4. Connection between CSR and Buying Decision

According to the result of this research, the result of the above hypothesis test showed that CSR variable positively and insignificantly affected buying decision, with $t_{count} < t_{table}$ was amounted to $1.540 < 1.985$ and value of Sig. $0.124 > 0.05$. However, indirect coefficient has smaller result compared to the direct influence of CSR towards buying decision, with path coefficient was amounted to 0.140. Thus, such direct influence was more dominant than the indirect one. This means that green marketing directly affected the consumers' buying decision of organic products. In other words, consumers were aware of the importance of green marketing in the purpose of healthy lifestyle improvement

5. Connection between Buying Interest and Buying Decision

According to the result of this research, the result of the above hypothesis test showed that CSR variable positively and insignificantly affected buying decision, with $t_{count} < t_{table}$ was amounted to $3.289 > 1.985$ and value of Sig. $0.001 < 0.05$

5. CONCLUSIONS

1. Green Marketing insignificantly affects the customer's buying interest or organic products' consumer. This is due to consumer's buying interest towards organic products.
2. Green Marketing insignificantly affects the value of customer's buying interest.
3. Corporate social Responsibility significantly affects the buying interest of organic products. This result explains the CSR towards consumer and consumer's buying interest.
4. Corporate social Responsibility insignificantly affects the buying decision of organic products.
5. Buying interest significantly affects buying decision.

6. SUGGESTIONS

1. Based on the conducted research, the researchers suggest that:
2. The owner/manager of supermarket as well as manufacturer/supplier of organic products should concern on the implementation of Green Marketing. This surely will increase the consumer's buying interest.
3. The company should improve its CSR in order to maintain and increase the consumer's buying interest towards the company's organic products.
4. The company should maintain the quality of organic products in order to maintain the consumer's satisfaction towards such products.

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PERFORMANCE AND OWNERSHIP IN RELATION WITH THE INITIATION OF DIVIDEND POLICY

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ABSTRACT

Dividend initiation is the company's policy to pay or not to pay the first dividend post-IPO, in this dissertation modeled as dependent variable, influenced by company performance (consisting of size, growth, leverage, profitability, equity ratio) and ownership structure (institutional, managerial, government, and multiple ownership). The dissertation also examines the difference in average of impacts on stock returns between paying companies and those not paying dividends.

The model used in 4 logit models examines the relationship between company performance and each of ownership structure with dividend initiation. While the 5th model examines the relationship between company performance and all 4 ownerships together with dividend initiation.

From the study results obtained that from all models made, the company's performance variables that significantly influence are growth, ROA, and equity ratio. As for ownership variables that have significant influence is only government ownership. By using marginal effect is known opportunity to pay or not pay dividend initiation. The results on all models that show negative or decreased the chance of paying dividend initiation are size, growth, equity ratio, institutional ownership and managerial ownership variables. While for variables that show a positive or increased opportunity to pay dividend initiation is leverage, ROA, government ownership and multiple ownership variables. The difference between paying companies and non-paying ones of dividend initiation in a stock return is identified by a positive coefficient value or $\alpha > 0$.

Keywords: dividend initiation, marginal effect, company performance, ownership structure

1. INTRODUCTION

The dividend policy has a very important impact whether viewed from investors or from companies that will later pay dividends from the policies undertaken through general meeting of shareholders. Investors generally expect to get rewards for investments made in the form of dividends and capital gains. On the other hand, the company also expects the company's continuous growth by using profits as a source of internal funding and at the same time able to provide welfare for its shareholders.

The company's readiness to make the first dividend policy after an IPO called dividend initiation is the first indication of a company with financial capability supported by the prospect of adequate corporate performance to distribute the cash surplus to shareholders. Therefore, it is expected that the company's decision through the GMS to immediately or delay the initiation of its dividend will signal the financial performance of the company. For companies that are able to early / quickly pay their first dividend is seen to have better financial capability in terms of growth opportunities, leverage, size and profitability of the company as well as corporate ownership structure (Sharma, 2001).

The ownership structure also determines how the company runs as it should be because of the agency problem between management and shareholders who share interests in the company's IPO in the stock market.

Dividend initiation policy is measured by dividend payout ratio (DPR). The reason for using the DPR as a dependent variable is because the DPR determines the share of profit to be shared with shareholders and held as part of retained earnings. The dividend theory relevant to this research is signaling theory. The theory of dividends as a signal was developed by

Miller and Rock (1985) who argue that dividend announcements contain information about current and future profits. If the dividend announcement is increased it means having confidence that profit will increase.

In a study by Sharma (2001) which stated that in the US the company conducting the IPO would pay the first dividend not early in the year after the IPO, mostly over 3 years, while in Bambang Sugeng's (2009) study which stated in 1990 to 2000 seen that the payment of dividend initiation in Indonesia tends to the company in the first year after the IPO is done by almost all companies whose IPO, but in the year 2000 to 2014 seen from the data collected (table 1.1) not all companies pay dividend and dividend initiation the most is between the years 0-1 to 5 years after the IPO. The current policy of dividend payout initiation in Indonesia from 2000 to 2014 is in contrast to the conditions from 1990 to 2000 in accordance with Bambang Sugeng (2009) and Sharma (2001).

In Indonesia, there are data (table 1.1), from companies whose IPO or go public through Indonesia Stock Exchange (BEI) in 2000 to 2014, within 15 years there are 266 companies whose IPO and those who have paid the initiation of dividend are 159 companies or equal to 59.77%, while 104 or 39.23% of companies did not initiate dividends.

Of the companies that make the first dividend payment or dividend initiation, most (113 companies or 71.07%) do it between the years 0-1 and those who do it up to the fifth year are 37 companies or 24.93%, thus from years 0-1 up to the 5th year as many as 150 companies or 96%, while those who pay dividend initiation more than 5 years is 4%.

On the basis of this idea, this research tries to analyze the policy of dividend initiation influenced by company performance and ownership structure at companies listed in Indonesia Stock Exchange (BEI) year 2000 until 2014 which modified with some model such as company performance variable (size, growth, leverage, profitability and equity ratio) with each variable of ownership structure such as institutional ownership, managerial ownership, government ownership, and multiple ownership.

a. Formulation of the Problem

1. To figure out whether the company's performance (size, growth, leverage, profitability, equity ratio) and ownership structure (Institutional, Managerial, Government, and Multiple ownership respectively) influences the policy of paying or not paying dividend initiation, with a multivariate approach.
2. To analyze is there any difference between companies whose paying dividend initiation with companies that do not pay dividend initiation against returns or return on stock.

1.2. Research purposes

1. To analyze whether company performance and ownership structure influence policy to pay or not pay dividend initiation, with multivariate approach.
2. To analyze whether there are differences in companies paying dividend initiation with companies that do not pay dividend initiation in term of stock returns.

1.3. Framework

Diagram of Framework

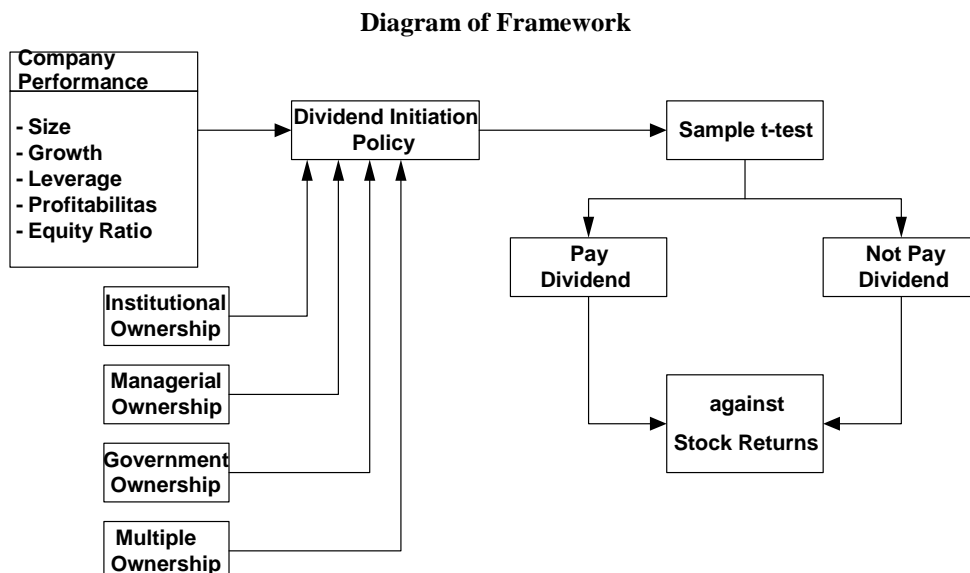


Table 1 : Payment of dividend initiation after IPO in BEI from 2000 to 2014
 Source: IDX BEI, processed.

Year of IPO	IPO	NO	No ID	ID	DIVIDEND INITIATION PAYMENT AFTER YEAR OF IPO													
		ID	incomp		0-1	2	3	4	5	6	7	8	9	10	11	12	13	14
2000	21	6	0	15	12	0	1	1	0	1	0	0	0	0	0	0	0	0
2001	31	11	0	20	11	2	0	3	0	1	0	0	0	0	2	1	0	
2002	22	4	0	18	10	2	1	2	0	1	0	1	0	0	1	0		
2003	6	1	0	5	5	0	0	0	0	0	0	0	0	0	0			
2004	12	5	0	7	7	0	0	0	0	0	0	0	0	0				
2005	8	1	0	7	5	1	0	0	1	0	0	0	0					
2006	12	5	0	7	4	2	0	0	0	1	0	0						
2007	22	6	0	16	13	1	0	1	1	0								
2008	19	12	0	7	4	1	1	1	0									
2009	13	5	1	7	3	1	3	0										
2010	23	11	0	12	6	5	1											
2011	25	12	0	13	10	1	2											
2012	22	10	0	12	10	2												
2013	30	15	2	13	13													
TOTAL	266	104	3	159	113	18	9	8	2	4	0	1	0	0	3	1	0	0
% ID	100%	39.10	1.13	59.77	71.07	11.32	5.66	5.03	1.26	2.52	0.00	0.63	0.00	0.00	1.89	0.63	0.00	0.00

2. RESEARCH METHODS

2.1. Object of research

This study will analyze the policy of the company paying and not paying the first dividend after the IPO (dividend initiation) listed on Indonesia Stock Exchange in period 2000 - 2014 and the data used is annual data. This study covers the effect of company performance which includes company size, Growth, leverage, profitability using ROA as proxy, equity ratio and company ownership covering institutional ownership, managerial ownership, government ownership, multiple ownership of initiation policy dividend. For the type of independent variables that include company ownership, a dummy variable is used which includes institutional ownership, managerial ownership, government ownership and multiple ownership if the company has more than one ownership with more than 10% shares.

2.2. Method of Collecting Data

The type of data required in this study is annual secondary data from 2000 to 2014, covering IPO data from 2000 to 2013 and the year the company paid the first dividend or called dividend initiation from 2000 to 2014.

2.3. Population and Sample of Research

The sample in this study are all companies that do IPO and listed on the Stock Exchange between 2000 and 2014 either pay or not to pay a dividend initiation in which the operational variables contained in the financial statements of the companies that go public.

2.4. Operational Definition and Variable Measurement

1. Dependent Variable

- a. The dependent variable on the logistic equation has a categorical value of the probability of policy to pay or not paying for dividend initiation as part of a dividend policy in which the firm gives the first dividend after the IPO is seen from the dividend payout ratio. With a value of 1 if the company pays dividend initiation and 0 if the company does not pay dividend initiation.
- b. Return of Stock is the result (profit or loss) obtained from a stock investment.

2. Independent Variable

a. Size Company X

The larger the size of the firm indicated by total assets, the company will use large amounts of debt as well. The larger the size of the company indicates that the company has a higher amount of assets.

$$Size = Total Aktiva$$

b. Growth Opportunities

Is the company's ability to maintain stock prices in accordance with the research

$$PBV = Market Value \text{ per Shares} / Book Value \text{ per share}$$

c. Leverage

It is the ratio used to measure the extent to which a company's assets are financed with debt to measure or test the company's financial strength.

$$DER = Total Liabilities / Total Assets$$

d. Profitability

Is a ratio that shows the company's ability to generate net income.

$$Return \text{ on Asset} = \frac{Earning \text{ After Taxes}}{Total \text{ Asset}} \times 100\%$$

e. Equity Ratio indicate the amount of the company's assets financed by equity (shareholders)

$$Equity \text{ Ratio} = Total \text{ Equity} / Total \text{ Assets}$$

f. Institutional ownership is the proportion of share ownership by the institution, as measured by the percentage of total shares owned by internal institution investors. With a dummy variable the value of 1 for company with 10% or more institutional ownership and 0 for company with less than 10% institutional ownership.

g. Managerial ownership is measured using the ratio between the number of shares owned by managers or directors and the board of commissioners to the total outstanding shares. With a dummy variable of 1 for firms with 10% or more managerial ownership and a dummy variable of 0 for firms with less than 10% managerial ownership.

h. Government ownership is the amount of share ownership by the government compared to the total managed share capital. With a dummy variable of 1 for firms with 10% or more

government ownership and a dummy variable of 0 for firms with less than 10% government ownership.

- i. Multiple ownership is the possession of more than one type of ownership of institutional, managerial, and/or governmental ownership. Dummy variable value 1 if the company has more than one type of ownership that controls at least 10% of the shares and 0 otherwise (Malkawi, 2007).

2.5. Data Analysis Method

1. Logit Model

The logit model is a non-linear regression model that produces an equation in which the dependent variable is categorical. The most basic category of the model produces binary values such as the numbers 0 and 1.

Furthermore, applying natural logarithms to the odds ratio will produce the following equation.

$$L_i = \text{Ln} \left(\frac{P_i}{1-P_i} \right) = Y_i = \beta_1 + \beta_2 X_i$$

2. Multicollinearity Test

Aims to test whether in the regression model found the correlation between independent variables. A good regression model should not be correlated among independent variables. If independent variables are mutually correlated, then these variables are not orthogonal, where the correlation values among the independent variables are equal to zero.

3. Hypothesis Testing Technique

a. Significance Test of each Model

The significance test of each model in the equation using logit method can be done by analyzing the value of Likelihood Ratio (LR) statistic. This test is conducted to see in each model the influence of independent variables to the dependent variable, whether the independent variable in a model affect the dependent variable.

If the value of p-value is less than alpha (α) then with the confidence level of $(1 - \alpha)$ we can reject the null hypothesis or in other words independent variables in the model of the equation together have a significant effect on the dependent variable at the level of confidence of $(1 - \alpha)$.

b. Coefficient of Determination

Similar to the coefficient of determination in regression in general which can be seen from the value of R^2 and adjusted R^2 , on the regression equation using the logit method, the determination of an equation varies based on the device used. The use of Eviews will produce the coefficient of determination pseudo- R^2 . The value of R^2 has a range of values between zero to one ($0 < R^2 < 1$). The closer to the value of one then almost all independent variables can explain the dependent variable and the model can be said the better.

c. Different (t/Z) Test

An independent Z test basically compares the mean of two groups that are not related to each other for the purpose of whether the two groups have the same average or not and have a large sample size and with the same sample as the above logit model. And dummy regression test to see the difference with positive coefficient value.

3. RESULTS AND DISCUSSION

3.1. Multicollinearity Test

Multicollinearity test aims to test whether in the model we have created found the correlation between independent variables. A good model is a model that does not occur correlation between independent variables.

Table 2 : Multicollinearity Test Results

	SZ	LVRG	GRW	ROA	EQR	INST	MNJR	GVMT	MULTPL
LOG_TA	1.000000	0.268836	-0.028325	0.212792	-0.439190	-0.263675	-0.197203	0.332745	-0.143720
LVRG	0.268836	1.000000	0.001347	-0.046490	0.119732	-0.052415	-0.154830	0.125006	-0.144554
GRW	-0.028325	0.001347	1.000000	0.047092	-0.017134	0.019410	0.052460	-0.028249	0.058299
ROA	0.212792	-0.046490	0.047092	1.000000	0.037521	-0.027279	-0.066941	0.014374	-0.101541
EQR	-0.439190	0.119732	-0.017134	0.037521	1.000000	0.085534	0.089615	-0.165020	0.088155
INST	-0.263675	-0.052415	0.019410	-0.027279	0.085534	1.000000	-0.025049	-0.543412	0.139193
MNJR	-0.197203	-0.154830	0.052460	-0.066941	0.089615	-0.025049	1.000000	-0.110274	0.707269
GVMT	0.332745	0.125006	-0.028249	0.014374	-0.165020	-0.543412	-0.110274	1.000000	0.096022
MULTPL	-0.143720	-0.144554	0.058299	-0.101541	0.088155	0.139193	0.707269	0.096022	1.000000

□

Thus, in this research data does not occur multicollinearity problem. The results of company performance data and institutional, managerial, government and multiple ownership influence the decision to pay or not to pay dividend initiation.

3.2. Likelihood Ratio Test

Table 3: Test Results Model 5 MacFadden and LR statistic

Mc Fadden R-Squared	0.178
Prob (LR statistic)	0.00000

Source: Result of Processed Data

This test is conducted to find out whether independent variables together significantly influence the dependent variable or at least there is one independent variable that has a significant effect on the dependent variable. This test is similar to the F test in multiple linear regression analysis. The value of this test can be seen on LR χ^2 or when using p-value can be seen on the item Prob (LR statistic). For simplicity, we can see directly by using p-value, where the value of Prob (LR statistic) shows the number of 0.000. This value is smaller than the level of significance test of 0.05 so that we can reject the null hypothesis that states that there are no independent variables that significantly affect the dependent variable. Thus, with a confidence level of 95 percent can be concluded that at least one independent variable has a significant effect on the dependent variable.

3.3. McFadden R-Square

Is the likelihood comparison index. This value is equivalent to the value of the multiple regression model, the value is always between 0 and 1. The value of Mc Fadden in this model is 0.178, meaning that only 17.8% of the variations that occur in the ID can be explained by the variables in the model, while the remainder is explained by other variables outside the model.

3.4. Partial Test

Table 4: Model 5 Test Results

Variable	Coefficient	Z Statistics	Prob
Constant	2.484	1.249	0.212
SIZE	-0.128	-1.244	0.214
LVRG	0.220	0.305	0.761
GRW	0.111	-2.036	0.042**
ROA	16.487	4.976	0.000***
EQR	-1.269	-1.737	0.082*
INST	-0.233	-0.236	0.814
MNJR	-0.250	-0.310	0.689
GVRMT	2.296	1.865	0.062*
MULT	0.278	0.434	0.664

Source: Result of Processed Data

Note: *** if $\alpha = 0.00$; ** if $\alpha = 0.01 < \alpha \leq 0.05$; * if $\alpha = 0.05 < \alpha \leq 0.10$

This test is conducted to determine the influence of each independent variable to independent variable partially. This test is similar to t test on multiple linear regression analysis. However, the statistical value t does not apply in the logit model because of the probability that is between the values 0 and 1. Instead, statistical Z is used or when using p-value can be seen on the item Prob /

significance. For variable SZ Prob value is 0.214. This value is greater than the value of significance test of 0.05 so as to fail to reject H_0 which states that the variable SZ has no significant effect on the variable ID. In other words, at 95% confidence level it can be concluded that SZ variable has no significant effect to ID variable. Similarly, the LVRG, EQR, INST, MNJR and MULT variables have a probability value of 0.761 each; 0.082; 0.814; 0.680 and 0.664. The six variables have significance value greater than test significance value of 0.05 so it can be concluded at 95% confidence level LVRG, EQR, INST, MNJR and MULTPL variables have no significant effect on ID variable. But for EQR variable with value of 0,082 will have significant effect if we use test significance value equal to 0.10 or level of confidence 90%.

Meanwhile, for GRW variable has Prob value of 0.042, this value is smaller than the value of significance test of 0.05 so that H_0 which states that the GRW variable has no significant effect on the ID variable can be rejected. So with 95 percent confidence level can be concluded that the GRW variable has a significant effect on the variable ID. Similarly, for the ROA variable that has a Prob value of 0.000 is much smaller than the significance of the test value of 0.05, so we can reject H_0 and conclude that the ROA variable significantly influence the variable ID. GVRMT variable that has Prob value equal to 0.062 which is smaller than test significance value of 0.10, so we can reject H_0 and conclude that GVRMT variable has significant effect to variable ID.

4. DISCUSSION

The results of the above table analysis if expressed in terms of equations are as follows:

Log Odd Ratio =

$$2.484 + -0.128SZ + 0.111GRW + 0.22 LVRG + 16.487 ROA + -1.269 EqR \\ 1.249 \quad -1.244 \quad 0.305 \quad -2.036 \quad 4.976 \quad -1.737 \\ + -0.233 D_{INST} + -0.250 DM_{NJR} + 2.296 DG_{VMT} + 0.278 D_{MULT} \dots 4.5 \\ -0.236 \quad -0.310 \quad 1.865 \quad 0.434$$

The marginal effect value of the coefficient of each variable for model 5 can be seen in Table 5 below

Tabel 5 : Marginal Effect Model 5

Variable	Coefficient	Marginal Effect	Variable	Coefficient	Marginal Effect
SZ	-0.128	-0.024	INST	-0.233	-0.044
GRW	0.110	-0.021	MNJR	-0.250	-0.047
LVRG	0.220	0.042	GVRMT	2.296	0.435
ROA	16.487	3.122	MULT	0.278	0.053
EQR	-1.269	-0.240			

Source: Result of Processed Data

For Size variable with marginal effect value of -0.024 the larger the size of the company, the less chance of dividend initiation. In other words, every 1 unit increase in size will decrease the chance of dividend initiation by 2.4%.

For Growth variable with marginal effect value equal to -0,021 the higher the company growth rate, the less chance of conducting dividend initiation. In other words, every increase of growth (growth of company) 1 unit will decrease the chance of dividend initiation equal to 2,1%.

Leverage variable with marginal effect of 0.042, the greater the leverage owned by the company, will increase the chances of the company to initiate dividends by 0.042 times compared to companies that have less leverage. In other words, every increase of 1 leverage unit will increase the chance of dividend initiation by 4.2%.

For ROA variable with value odd ratio 3,122 in this model return on assets (ROA) is found as variable which most significant influence variable ID. The greater the value of ROA, the greater the chance of dividend initiation by 312.2%. In other words, every 1 unit increase on ROA will increase the chance of dividend initiation by 312.2%.

Variable Equity Ratio with marginal effect is -0,240, equity ratio affects inversely to the initiation of dividend. In other words, the greater the value of the equity ratio, the less likely it is to initiate dividend by 24%. In other words, any increase in the equity ratio of 1 unit will decrease the chance of dividend initiation by 24%.

The institutional ownership variable with a marginal effect of -0.044, although statistically insignificant, the institutional ownership variable affects inversely with the dividend initiation decision. Given the institutional ownership within a company, it will minimize the opportunity for dividend initiation within the company by 4.4% compared to companies that do not have institutional ownership. Or in other words, every 1-unit increase in institutional ownership will decrease the chance of dividend initiation by 4.4%.

Managerial ownership variable with a marginal effect of -0.047 is not statistically significant, managerial ownership variables barely affect dividend initiation decisions. Given the managerial ownership within a company, it will slightly lessen the probability of dividend initiation within the company by 4.7% compared to those without managerial ownership, in other words a 1 unit increase in managerial ownership will decrease the chance of dividend initiation by 4.7%.

For Government variable with a marginal effect of 0.435 is statistically significant, government ownership variable positively affects dividend initiation decisions. Given the ownership of government within a company, it will increase the chances of dividend initiation within the company by 43.5% compared to companies that do not have government ownership. In other words every increase of 1 unit of government ownership will increase the chance of dividend initiation by 43.5%.

Multiple variable with a marginal effect of 0.053, although not statistically significant, multiple ownership variable affects inversely with dividend initiation decisions. With multiple ownership within a company, it will increase the chances of dividend initiation within the company by 5.3% compared to companies that do not have multiple ownership. In other words each increase of 1 unit in multiple ownership will increase the chance of dividend initiation by 5.3%.

Using Z_{count} , with formulation and method as follows:

Companies that initiate dividends

$$\bar{x}_1 = \mu_1 = 0.39021$$

$$\sigma_1^2 = (1.31884)^2 = 1.73933$$

$$n_1 = 159$$

Companies that do not initiate dividends

$$\bar{x}_2 = \mu_2 = 0.15297$$

$$\sigma_2^2 = (0.91037)^2 = 0.82878$$

$$n_2 = 104$$

$$D_0 = 0$$

$$\begin{aligned} Z_{hitung} &= \frac{(\bar{x}_1 - \bar{x}_2) - D_0}{\sqrt{\left[\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2} \right]}} \\ &= \frac{(0.39021 - 0.15297) - 0}{\sqrt{\left[\frac{1.73933}{159} + \frac{0.82878}{104} \right]}} \\ &= \frac{0.23724}{\sqrt{[0.01094 + 0.00797]}} = \frac{0.23724}{0.0545} = 4.35 \end{aligned}$$

$$Z_{count} = 4.35$$

With a degree of confidence 95% or $\alpha = 5\% = 0.05$, then from the statistical table we get the value $Z_{0.05} = 1.65$.

Since $Z_{count} = 4.35 > Z_{0.05} = 1.65$, then reject H_0 .

With $Z_{count} = 4.35$ greater than $Z_{table} = 1.65$, then there are differences of companies who initiate dividends with companies that do not initiate dividends against its returns.

5. CONCLUSION

1. a. Using the likelihood ratio test, company performance (size, leverage, growth, profitability with ROA proxy and equity ratio) and institutional ownership together influence the company's

policy to pay or not pay dividend initiation in all models in model 1 to model 4 in which company performance combined with their respective ownership, while in Model 5, company performance combined together with all ownership structures that include institutional, managerial, government and multiple ownership.

- b. Using the Z test which is the test of each variable get the results within the model 1 to 5 variables that affect the policy of pay or not pay dividend initiation is growth, ROA, equity ratio and government ownership.
 - c. To see an opportunity to pay dividend initiation using a marginal effect that indicates a chance of dividend initiation will have positive impact / increased dividend initiation opportunities on variables of leverage, ROA, government ownership and multiple ownership. While the negative impact or decreased the opportunities of dividend initiation caused by variables size, growth, equity ratio, institutional ownership and managerial ownership.
2. There is a difference between companies that pay dividend initiation with companies that do not pay dividend initiation to stock returns. And companies paying dividend initiation are better than companies that do not pay dividend initiation.

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RESILIENCE ANALYSIS OF CREATIVE INDUSTRIES MARKETING PERFORMANCE FASHION CLUSTER IN DEPOK CITY WEST JAVA

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ABSTRACT

The resilience of fashion cluster marketing performance in Depok West Java as an example of a successful solution to face the regional economic situation that is full of intense competition. The community of creative industry players in the fashion cluster is able to survive and even expand its business in the existing economic situation. Analysis of the role of stake holders needs to be done to see the impact of their respective roles on the marketing performance of MSME Cluster. By using *Partial Least Square* (PLS) will obtain analytical results from the *full power* of existing **variables**. The sample used for the study amounted to 70 respondents who consistently pursue this business for at least 2 (two) years. From the primary and secondary data collected, it is known that simultaneously, the marketing mix significantly influences the marketing performance of SMEs cluster creative industry clusters in this region, whereas partially only product variables significantly influence marketing performance, while price, promotion, and the distribution has no significant effect.

Keywords: creative industries, clusters of fashion, marketing mix, marketing performance,

1. INTRODUCTION

Micro, Small and Medium Enterprises (SMEs) Fashion Clusters in Depok are currently one of the national economic players, playing an important role and able to survive the economic crisis. The perpetrators of MSMEs can help the government to reduce the number of unemployed, fight poverty, and equity of income. Building the marketing performance of Micro, Small and Medium Enterprises (SMEs) based on creative industries with the implementation of marketing strategy chosen in accordance with the conditions will be able to realize our dreams all to improve the welfare of society Micro, Small and Medium Enterprises (MSMEs) engaged in the creative industries sector in Indonesia are growing rapidly, starting from small groups in areas based on creative economy can be improved their performance through the selection of appropriate marketing strategy. Expectations to continue to increase production and meet market demand are very optimistic if all parties are actively involved in their respective roles and capacities, the government as the coach, protector and facilitator needed by creative industry players, intellectuals as the perfecting of creative ideas and business people as economic actors who can focus on being creative economic agents.

The above phenomenon shows that the potential of the creative industry is still not managed optimally, by improving various existing factors such as environmental marketing factors, the selection of appropriate marketing strategies so that the performance of creative industries in Indonesia is optimistic can be improved.

Table 1. PDRB Creative Economy Depok City on the basis of Current Price 2011-2013 (millions Rp)

SECTOR	2011	2012	2013
1 Advertising	42.183	47.275	51.850
2 Architecture	17.616	18.704	20.776
3 Markets and Art Goods	22.299	25,079	28.640
4 Craft	638.655	713.928	857,512
5 Design	59.596	66.571	76.505
6 Fashion	666.712	762.219	870.173
7 Film, Video, Photography	65.953	71.094	78.217
8 Interactive Game	92.712	95.712	103,000
9 Music	86.566	95.147	102.490
10 Performing Arts	62,899	64.963	69.310
11 Publishing Printing	104.884	117.293	134.462
12 Computer Services & Software	40,769	41.880	47.939
13 Television and Radio	982.87	1.096	1.270
14 Research Development	50.234	52.601	57.400
15 Culinary	172.704	192.073	228.437

Source: BPS Depok City

Structure and Development of creative economy of Depok City are clearly seen in Table 1 above that the biggest donor festival of PDRB. Depok City Government will give full support to the industry that has contributed Gross Regional Domestic Product (PDRB) of Depok City in 2014 of 12.59 percent or as much as Rp 1 trillion. "We are very supportive of the creative industry, because it is able to improve the economy of the city, let alone Depok does not have natural resources that can support the economy," he said. Vice Mayor who served a period and will facilitate the creative economy in improving the quality of the resulting product. In addition, the City Government of Depok in the future will also pay more attention to this creative industry by building creative industry centers that will improve the economy of Depok (Nurul Hasanah Ed: Fahrudin Mualim - Diskominfo). This is in line with research Putri Wahyuni et al, Journal of Management and Organization, vol 2 no 2, August 2014 that the application of The House Model has a propelling and inhibiting factor. The driving factors of the SME's performance improvement model are:

- a) Availability of quantity of SDM
- b) The uniqueness of the product
- c) Access and supporting infrastructure
- d) Capital assistance from various parties
- e) Development of a specific product of close kinship and short managerial hierarchy.

On the other hand, the inhibiting factor of the performance improvement model of SME crafts of Depok City is

- a) Low competence and motivation of human resources
- b) Lack of supervision of implementation standards
- c) Limited use of technology for marketing
- d) Low ownership willingness to access capital information
- e) No clear job description yet
- f) Sanctions are less assertive
- g) Complicated bureaucracy

Roby Sucitro's research in Business Management Journal of Catholic University of Widya Mandala Surabaya stated that the variable of marketing strategy has the positive and significant influence to marketing performance variable. Thus, the hypothesis that the marketing strategy variables have a positive and significant effect on the variable of marketing performance is accepted. The analysis results in accordance with the theory state that a quality strategy can lead to customer acceptance to the quality level, market and performance improvement (Morgandan Percy1998: 196).

Formulation of the problem

- a) Does triple helix affect the marketing performance of Small and Medium Enterprises (SME) Fashion Cluster in Depok West Java?
- b) Does marketing mix affect the marketing performance of Small and Medium Enterprises (SME) Fashion Cluster in Depok West Java?
- c) Does a triple helix affect marketing performance in the marketing environment as a mediator in Small and Medium Enterprises of Fashion Cluster in Depok West Java?
- d) Does marketing mix affect marketing performance with marketing strategy as a mediator on Small and Medium Enterprises (SME) Fashion Cluster in Depok West Java?

1.1. Triple Helix

Collaboration of 3 (three) industry players who must be consistent in their implementation can proceed with the precise and ideal, namely:

- a. Role Government, first is role government central, government provinces and government district/city, as facilitator fund vocation that gives a boost and stimulation for ideas can developing. Second, is the regulator that produces regulation so able create room and a conducive climate. Government involvement in the development of creative industries is needed through better management of local autonomy, law enforcement, and Law, with the principles of *good governance* (participation, rule of law, transparency, supervision)
- b. Business: is a business actor, investor and also a consumer of creative industries, the role that embodies the creator of creative products and services, new markets that can absorb the products and services produced. The other roles are community builders and creative entrepreneurs. Businesses can be based on manufacturing, services, and distribution of agricultural, mineral, financial, information, real estate, transportation, and trade.
- c. Role Scholar (Academician): as agents who spread ideas and implements science knowledge, art, technology, as well as forming value for the related development of creative industries to the activities of the creation of new art ideas that have the bargaining power to the market and creative human formation. Inny a duty to prepare curriculum oriented the creative industries and give referrals educative.

1.2. Marketing Mix

Strategy consisting of 4 (four) core variables in marketing, that is

- a. *Product*, goods/services which are a combination of functionality, brand, and service packs.
- b. *Price*, the price of goods that are of economic value to get the goods
- c. *Place*, distribution is the place to get the goods
- d. *Promotion*, promotion of information flow that can explain about the goods

1.3. Marketing environment

- a. The internal environment consists of competitors, consumers, and suppliers
- b. External, ideological, political, economic, social and cultural environment.

1.4. Marketing Performance

Performance of the market (*Market Performance*) is a concept to measure the market performance of a product (Permadi, 1998). Each company's interest to know the market performance of its products, as a mirror of its business success in the competitive world business. Voss and Voss (2000) further defines market performance as an effort to measure performance levels including sales, customer numbers, profits and sales growth. In a study conducted by Eryanafita Ismawanti [3], marketing performance is measured by the scale of the three indicators, where the level of achievement or performance strategy is reunited with expectations for overall achievements or performance, sales, and profits.

1.5. Research Road Map



This research roadmap begins with an analysis and evaluation of the role of the SME Cluster *triple helix* fashion in Depok as an actor who is the very active role on the performance of marketing by taking into account the existence of the marketing environment that is increasingly fierce competition. With the implementation of marketing mix strategy (product, price, distribution, and promotion) the right target achievement of marketing performance improvement will be achieved with indicators:

- a. Increased sales volume
- b. Increased profit/profit
- c. Increased customer/customer

2. RESEARCH METHODS

2.1. Measurement Model (*Outer Model*)

The first step taken was to test whether the models already meet the *convergent validity* is whether the *loading factor* for each indicator has met *convergent construct validity*. Validity test results with the initial path diagram *Smart PLS 3.0* shows. the path diagram that is formed is as follows:

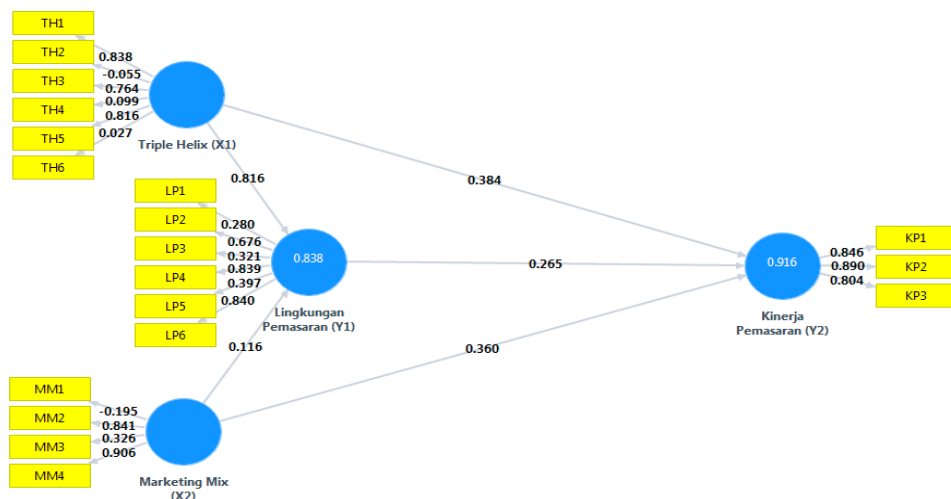


Figure 1. Outer Model 1

The indicator is considered valid if it has a correlation value above 0.70. But in the scale development research, loading 0.50 to 0.60 is still acceptable (Ghozali, 2014). Based on the *outer lane loading factor* diagram above indicators that its *loading* value of less than 0.50 will be dropped from the analysis. For the triple helix variable that is dropped from the analysis are TH2, TH4, and TH6, for marketing mix variables, dropped from the analysis are MM1 and MM3, for marketing environment

variables dropped from the analysis are LP1, LP3, and LP5, while for marketing performance variable nothing is dropped from the analysis. Then re-analysis with the results as follows:

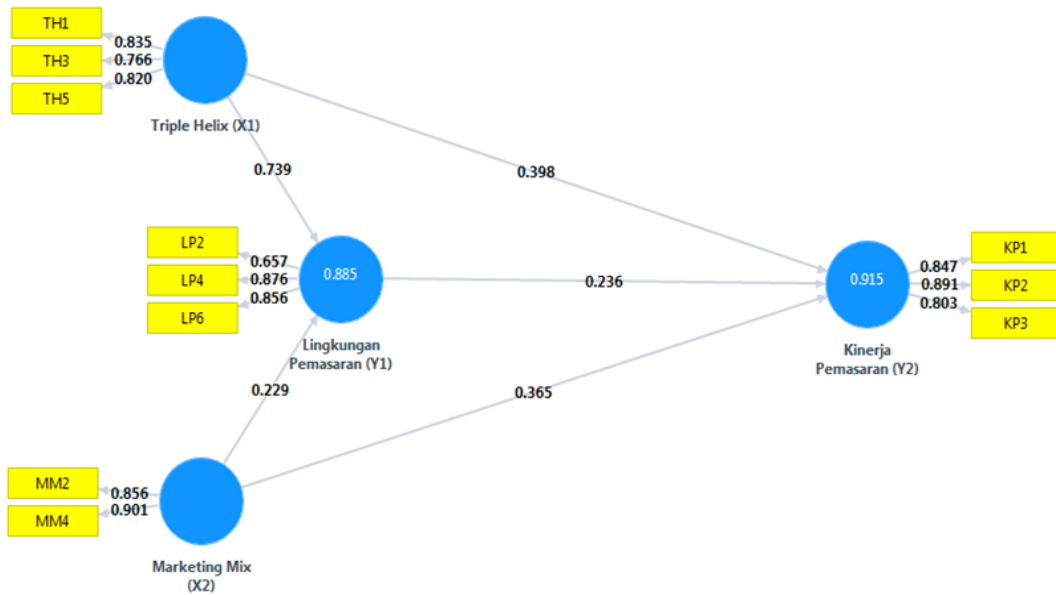


Figure 2. Outer Model 2

It can be concluded from the diagram above that all individual indicators on each variable are qualified because all correlation values are above 0.50.

2.2. Convergent Validity Test

Smart software output results obtained -Pls 3.0 loading factor value each - each indicator each - each construct as follows:

Table 2. Outer Loading Factor

	Marketing Performance (Z)	Marketing Environment (Y)	Marketing Mix (X2)	Triple Helix (X1)
KP1	0.847			
KP2	0.891			
KP3	0.803			
LP2		0.657		
LP4		0.876		
LP6		0.856		
MM2			0.856	
MM4			0.901	
TH1				0.835
TH3				0.766
TH5				0.820

Source: PLS Output

In the table above shows that all values above the loading factor 0,5 then indicators used in this study is valid or has met the convergent validity.

Test Discriminant Validity

Smart-PLS 3.0 software product output obtained Fornell-Lacker Criterium value and AVE value each of the following indicators:

Table 3. Fornell-Lacker Criterium

	Marketing Performance (Z)	Marketing Environment (Y)	Marketing Mix (X2)	Triple Helix (X1)
Marketing Performance (Y2)	0.869			
Marketing Environment (Y1)	0.909	0.803		
Marketing Mix (X2)	0.902	0.843	0.881	
Triple Helix (X1)	0.914	0.926	0.856	0.809

Source: PLS Output

In the table above shows that the *discriminant validity* through *Fornell-Lacker Criterium* table has a value above 0.6 to construct the variables respectively. Triple Helix has a value of 0.809, the marketing mix has a value of 0.881, the marketing environment has a value of 0.803 and marketing performance has a value of 0.869. It can be concluded that the triple helix construct, marketing mix, marketing environment and marketing performance are valid.

Another method to see *discriminant validity* is to look at the value of *the square root of average variance extracted (AVE)*. The recommended value is above 0.5. Here are the values of AVE in this study:

Table 4. Average Variance Extracted (AVE)

	AVE
Marketing Performance (Z)	0.703
Marketing Environment (Y)	0.651
Marketing Mix (X2)	0.779
Triple Helix (X1)	0.663

Source: PLS Output

Table 4 above shows AVE values below 0,5 for all constructs contained in the research model. It can be concluded that construct *the triple helix, marketing mix, marketing environment and marketing performance* is valid.

Test PLS Reliability *Smart software* output results obtained -Pls 3.0 *Composite Reliability* values and *Cronbach's Alpha* each - each construct variables as follows:

Table 5. Composite Reliability

	Composite Reliability
Marketing Performance (Z)	0.845
Marketing Environment (Y)	0.823
Marketing Mix (X2)	0.870
Triple Helix (X1)	0.891

Source: PLS Output Results

Table 5 shows that the *reliability of composite* values for all constructs is above 0.7 indicating that all constructs in the model estimated to meet the criteria. *Reliability* of the lowest *composite* value is equal to 0.823 in the construction of the marketing environment, it shows that all the variables have good reliability against each construct. Reliability test can also be strengthened by *Cronbach's Alpha* where *the output* gives the following results:

Table 6. Cronbach's Alpha

	Cronbach's Alpha
Marketing Performance (Z)	0.812
Marketing Environment (Y)	0.743
Marketing Mix (X2)	0.706
Triple Helix (X1)	0.765

The suggested value is above 0.6 and in Table 6 above shows that the value of *Cronbach's Alpha* for all CONSTRUCTS be above 0.6. This indicates that the variable *triple helix*, *marketing mix*, *marketing environment* and *marketing performance* has a good reliability against each construct.

Structural Model (Inner Model)

Testing of the model is done by looking at the value of *R Square*, *Q-Square*, path analysis coefficient (*Path Coefficients*), and the value of *t-statistic*.

Where *R Square* used for the dependent variable. *Smart software output* results -Pls 3.0 as follows:

Table 7. R-Square Value

	<i>R Square</i>
Marketing Performance	0,915
Marketing Environment	0,885

Source: PLS *OutputSmart* 3.0

Based on Table 7 above, it is known that the magnitude of *R Square* (R^2) is 0.885, which means *triple helix* and *marketing mix* variables able to explain the marketing environment of 88.5%. This shows that the influence between product quality and price to customer satisfaction of 88.5% and the remaining 11.5% influenced by other independent variables that are not included in this study. The magnitude of the path coefficient for other variables outside the influencing research can be calculated as follows:

$$\begin{aligned} \varepsilon_1 &= \sqrt{1 - R^2} \\ &= \sqrt{1 - 0,885} \\ &= 0,339 \end{aligned}$$

R Square (R^2) is 0.915, which means *triple helix* and *marketing mix* variables able to explain the marketing performance of 91.5%. This show that the influence between product quality and price to customer loyalty is 91,5% and the rest equal to 8,5% influenced by other independent variables not excluded in this research. The magnitude of the path coefficient for other variables outside the influencing research can be calculated as follows:

$$\begin{aligned} \varepsilon_2 &= \sqrt{1 - R^2} \\ &= \sqrt{1 - 0,915} \\ &= 0,291 \end{aligned}$$

Q Square predictive relevance for the structural model, measure how well the observed values generated by the model and estimation parameters. *Q-square* value > 0 indicates the model has *predictive relevance*; conversely, if the value of the *Q-Square* ≤ 0 indicates the model lacks *predictive relevance*. *Q Square* calculations performed by the formula:

$$Q^2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_p^2)$$

Where $R_1^2 R_2^2 \dots R_p^2$ is *R Square* endogenous variable in the model equations. The magnitude of Q^2 has a value in the range $0 < Q^2 < 1$, where 1 means that the model closer the better.

$$\begin{aligned} Q^2 &= 1 - (1 - R_1^2) (1 - R_2^2) \\ &= 1 - (1 - 0.885) (1 - 0.915) \\ &= 1 - (0.115) (0.085) \\ &= 1 - 0.009 \\ &= 0.991 \end{aligned}$$

It is seen that the results of the above Q^2 is equal to 0.991. Results Q^2 with the proviso that: The amount of Q^2 has a value in the range $0 < Q^2 < 1$, where 1 means that the model closer the better. So $0 < 0.991 < 1$, this shows that the model is made very well.

Path Coefficients

Based on the results of data processing for the structural model path coefficient section (*Path Coefficients*), obtained as follows:

Table 8. Results of Coefficient of Path

	<i>Original Sample (O)</i>	<i>T Statistics (/O/STERR/)</i>	<i>P Values</i>
Triple Helix -> Marketing Environment	0,739	7,825	0,000
Marketing Mix -> Marketing Environment	0,229	2,204	0,026
Triple Helix -> Marketing Performance	0,398	3,189	0,001
Marketing Mix -> Marketing Performance	0,365	3,223	0,000
Marketing Environment -> Marketing Performance	0,236	2,323	0,017

Source: PLS *OutputSmart* 3.0

Based on Table 8 above shows that the value of the test path coefficient between variables that can be seen in the *original sample* column (O). The results showed that the *triple helix* has a positive path coefficient value of 0.739 against the marketing environment. *Marketing Mix* to the marketing environment also has a positive path coefficient value of 0.229. Then *triple helix* has a positive path coefficient value of 0.398 against the marketing performance. *Marketing mix* variables on the performance marketing have a positive path coefficient value of 0.365. And the marketing environment on marketing performance has a positive path coefficient value of 0.236. It can be concluded that the *triple helix* variables and *marketing mix* and marketing environment there is a positive impact on the performance of marketing.

Partial Test (t test)

T test or partial test is used to determine whether there is a significant influence between the *triple helix* (X_1) and the marketing mix (X_2) of the marketing environment (Y) and marketing performance (Z). According to Sarjono & Julianita (2011, p. 133) states that, in order to find the value of t_{table} at a significance level of 0.05 seen where $df = \text{number of samples} - \text{the number of variables}$. Thus, it is known $t_{table} = 2.013$ obtained from the formula $df = nk$ or $df = 50-4$ then connected with a confidence level of 5% or 0.05.

Table 9. T Test Result Statistics

	<i>Original Sample (O)</i>	<i>T Statistics (/O/STERR/)</i>	<i>P Values</i>
Triple Helix -> Marketing Environment	0,739	7,825	0,000
Marketing Mix -> Marketing Environment	0,229	2,204	0,026
Triple Helix -> Marketing Performance	0,398	3,189	0,001
Marketing Mix -> Marketing Performance	0,365	3,223	0,000
Marketing Environment -> Marketing Performance	0,236	2,312	0,017

Based on table 9 above it can be seen that the test results on the environment variable marketing triple helix showed $t_{count} > t_{table}$ that is equal to $7.825 > 2.013$ and the Sig. $0.000 < 0.05$ indicates that the triple helix significantly influences the marketing **environment**.

Based on table 8 above it can be seen that the test results of the marketing mix variables marketing environment showed $t_{count} > t_{table}$ that is equal to $2.204 > 2.013$ and the Sig. $0,026 < 0,05$ indicates that marketing mix has significant effect to marketing environment

Based on table 8 above it can be seen that the test results of the triple helix variable marketing performance show the value of $t > t_{table}$ that is equal to $3.189 > 2.013$ and the Sig. $0.001 < 0.05$ shows that the triple helix significant effect on marketing **performance**.

The based 8di table above can be seen that the test results of the marketing mix variables on the performance of marketing show the value of $t > t_{table}$ that is equal to $3.223 > 2.018$ and the Sig. $0.000 < 0.05$ indicates that significantly influence the marketing mix marketing **performance**.

Based on table 8 above it can be seen that the test results of the marketing environment variable marketing performance show the value of $t > t_{table}$ that is equal to $2,312 > 2,013$ and the Sig. $0.017 < 0.05$ indicates that the marketing environment significantly influences marketing **performance**.

Here's a summary of the results of calculations and tests ko efficient path, as follows:

Table 10. Interpretation of Path Coefficient Results

Variables	Coefficient	Influence		Total
		Direct	Indirect	
X ₁ to Y	0,739	0,739	-	0,739
X ₂ to Y	0,229	0,229	-	0,229
X ₁ to Z	0,398	0,398	$0,739 \times 0,236 = 0,174$	0,572
X ₂ to Z	0,365	0,365	$0,229 \times 0,236 = 0,054$	0,419
Y to Z	0,236	0,236	-	0,236
ε_1	0,339	0,339		0,339
ε_2	0,291	0,291		0,291

Source: Processed

Based on table 10 above can be seen as follows:

- The coefficient of variable path X₁ to Y is 0.739
- The coefficient of variable path X₂ to Y is 0,229
- The coefficient of variable path X₁ to Z is 0.398
- The coefficient of variable path X₂ to Z is 0.365
- The coefficient of line variable Y to Z is 0.236
- The coefficient of variable path X₁ has a direct effect on Z of 0.398 and also has an indirect effect through Y of 0.174.
- The coefficient of variable path X₂ has a direct effect on Z of 0.365 and also has an indirect effect through Y of 0.054.

3. RESULTS AND DISCUSSION

1. Triple Helix Relationship With Marketing Performance

Hypothesis testing results above show *triple helix variable* positive and significant impact on the performance of marketing with $t_{count} > t_{table}$ that is equal to $3.189 > 2.013$ and the Sig. $0.001 < 0.05$. This means to optimize marketing performance umkm-umkm star fruit processing should be able to increase the role of government, academics and businessmen in coaching by maximizing the role of marketing performance of the actors umkm star fruit processing will be increasing. Where the results of this study in line with research conducted by Eryanafita Ismawanti that role *triple helix* in an effort to improve the marketing performance of SMEs in Pekalongan batik artisans significant and positive.

2. Relationship *Marketing Mix* With Performance Marketing

Hypothesis testing results above show marketing mix variables positive and significant impact on the performance of marketing with $t_{count} > t_{table}$ that is equal to $3.223 > 2.013$ and the Sig. $0.000 < 0.05$

The results of this study also support the research conducted by Dinda Estika Asmarani, that the greater the value of the influence of the selection of marketing strategies that are applied in the small scale of the tenon ikat Trosomaka the better the performance of the Produced company.

3. Triple Helix Relationships With Performance Marketing Through Marketing Environment

The result of hypothesis testing shows triple helix has a positive and significant effect on marketing performance through marketing limitation with a coefficient value of 0,174. But the

coefficient is smaller than direct influence between triple helix to customer loyalty with a coefficient value of 0,398. Thus direct influence is more dominant than indirect influence.

4. Relationship *Marketing Mix* With Performance Marketing Through Marketing Environment
The result of hypothesis testing shows that marketing mix has a positive and significant effect on marketing performance through marketing environment with a coefficient value of 0,054. However, the coefficient is smaller than the direct influence between marketing mix to the performance of the market with the coefficient value of 0.365. Thus direct influence is more dominant than indirect influence.
5. Environmental Relationship Marketing With Marketing Performance
Hypothesis testing results above show marketing environment variable positive and significant impact on the performance of marketing shows the value of $t > t_{table}$ that is equal to $2,312 > 2,013$ and the Sig. $0.017 < 0.05$.
The results of this study also support research conducted by Putri Wahyuningrum and Eryanafita Ismawanti that the marketing environment has a direct effect on marketing performance.

4. CONCLUSIONS AND SUGGESTIONS

4.1. Conclusion

From these results, it can be concluded that the resilience of the marketing performance of creative industries clusters fashion in Depok, West Java during the active role *triple helix* (government, academia, business) and implementation of the *marketing mix* strategies are appropriate in the circumstances and dynamic environmental conditions marketing is able to deal with.

4.2. Suggestion

Marketing mix strategy is the focus on enhancing its role is on promotional activities that need to be fixed by the selection of promotional model is more suited to the conditions encountered, especially the increasingly fierce competition.

Umkm must constantly adapt to the complex and ever-changing marketing environment, by studying the environment, the company can adapt its strategy to meet new market challenges and opportunities.

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MANAGEMENT OF MARINE RESOURCES BY FISHERMEN IN GUNUNG KIDUL REGENCY AS INDONESIA NATIONAL POWER

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ABSTRACT

Indonesia is a country with abundant marine resources. This can be seen, one of them in the southern coastal area of Gunung Kidul. Therefore, this paper analyzes the strategic value of marine resources in Gunung Kidul as an indicator of local and national power. The analysis of this paper will also lead to the role of fishermen in utilizing the economic value of marine resources as well as the role of local governments in supporting the utilization of strategic marine resources in the region. Various data in the form of official documents or literature that emphasizes the resources as the national power for national and district level. This paper is then revealing that the potential of Indonesia's marine resources in Gunung Kidul has been converted into a national power that has high economic value. The conclusion of this paper explains that the ability of a country to exploit its potential, will affect the size or strength of a country's national power in the field of marine resources.

Keywords: Marine Resources, Local and National Power, Gunung Kidul

1. INTRODUCTION

Indonesia's marine and fishery resources are estimated to be worth US \$ 136.5 billion which includes: fisheries of US \$ 31.9 billion; coastal areas lesstari US \$ 56.0 billion; biotechnology US \$ 40.0 billion; tourism US \$ 2.0 billion and oil and gas US \$ 6.6 billion (Pustek Marine UGM, 2005). The coastal region of Yogyakarta Special Region (DIY) has important economic marine resources such as: large pelagic fish (tuna, skipjack, marlin, lamadang), shrimp, lobsters, coral reefs and environmental services (tourism), strategic in local, national, regional and international trade (Sahubawa, 102: 2015). Therefore, this paper tries to analyze marine resources as one of the national power as well as local economic power in supporting the welfare of local communities, especially fishermen. In addition, the analysis of this paper will lead to fishermen in utilizing the economic value of marine resources as well as the role of local governments in supporting the utilization of strategic marine resources in the area.

2. Structural Feature of Natural or Marine Resources as Local and National Power

The tendency of countries or territories within a country to prepare and build its strength, whether economically or prosperously by relying on its national strength, explains the context of strategic thinking which emphasizes the development and utilization of local and national conditions independent of other countries, one of them through the utilization of resources nature through a process of production that produces national power (Morgenthau, 112: 1954).

The role of a country's natural resources lies in the amount of natural resources that support the capacity of national industrial empowerment, such as raw materials and petroleum, or marine resources to support the national development of a country or province in a country (Morgenthau, 127: 1954).

This will provide both national and regional economic strength that not only reflects national or regional independence but also provides economic power that can extend the influence of the country as a country with capabilities in producing national wealth as well as a strategic alternative in enhancing economic power through the utilization of resources sea.

3. Present research

Analysis of this research will cover the coastal region of Yogyakarta, precisely in the area of Gunung Kidul. The analysis of this paper will be limited to the national power and Gunung Kidul regency that is in the natural resource factor, in this case the marine resources contained in the seabed coastal area of Gunung Kidul.

The analysis of this paper will identify the marine resources in the area reflecting one of the local strengths of Gunung Kidul and the Indonesian national lies in the utilization of the marine resources so that it has economic value when it can be utilized through the production process so that the impact on improving local and national economy.

4. Discussion and Result

Gunung Kidul Regency is one of the regencies in the Special Province of Yogyakarta, with its capital Wonosari. The total area of Gunung Kidul Regency is 1,485.36 km or about 46.63% of the total area of Yogyakarta Special Province. The district of Gunung Kidul as a coastal area belongs to the Karst core region, with typologically coastal beach type and coastal erosion type. Gunung Kidul Regency has long beach length 70 km (longest in DIY province) (Maisyaroh and Ismail, 132: 2014).

This explains that the characteristics of natural resources in the region lie in the economic value of marine resources that have great potential in supporting the national power in the production process to support the improvement of local and national economic values.

South Pesisir DIY region that has marine resources of economic value is important, one of which is the area of Gunung Kidul. Gunung Kidul in the fishery sector has the economic value of marine resources amounting to Rp 63.957 billion. This is because the superior commodities of marine resources in Gunung Kidul are tuna, skipjack, tuna, marlin, lemadang, layur, kakap, lotung and lobster (Sahubawa, 101: 2015).

With high economic value, it can be seen that the local strength in Gunung Kidul gives a big influence to the national economic strength of Indonesia in the international eyes. Moreover, marine resources in Gunung Kidul not only explain the role of Gunung Kidul as a region with high sea resources, but also reaffirm that the sea potential in the region is in line with the character of Indonesian foreign policy under the Government of Joko Widodo which puts the sea as national power or better known as World Maritime Fulcrum.

Specifically, marine resources in the Gunung Kidul region lie in small-scale fisheries. This is one of the important things to note in the fishery sector in Indonesia. As in other parts of Indonesia, fishery activity in Gunung Kidul Regency which is one of the regions in Yogyakarta Province is also dominated by small scale fishery business (Sarwanto, 2: 2015).

The coastal area / south coast of Gunung Kidul Regency which is identified has the potential of marine resources with important economic value, namely: (Sahubawa, 112: 2015).

1. Sadeng Beach (fishery port area)
2. Nampu/Wediombo
3. Siung
4. Sundak/Indrayanti
5. Drini
6. Baron
7. Ngrenehan
8. Gesing
9. Purwosari.

The types of economic activities that stand out are: (Sahubawa, 112: 2015)

1. large pelagic fishing business by motor boat,
2. small pelagic and demersal fishing and lobsters with outboard motorboats and
3. natural seaweed harvesting business.

The huge potential of marine resources has a major impact on the strengthening of local and national forces that impact on Indonesia's independence in managing existing marine resources.

Marine waters in Gunung Kidul Regency are included in Fisheries Management Area (WPP) 573 which covers the Indian Ocean in the waters of southern Java, Bali, NTB and NTT. Gunung Kidul is the main producer of catch fishery in Yogyakarta Special Province (DIY) and the catch has been

utilized by fishermen. In 2009, fish production from Gunungkidul Regency reached 3,249 tons, which is about 76.7% of total fishery production of DIY Province (Sarwanto, 3: 2015).

Leading commodities are fishery products that are potentially large, high quality, commercially valuable with high consumer demand, and have been optimally utilized with appropriate technology (intensive and supplemental scale) and adequate infrastructure support (Sahubawa, 107: 2015).

In addition, fishing and lobster activities take place quite intensive, and quite a lot of tourist visits to enjoy the beautiful beaches and culinary flavors. Fishing business is aimed at meeting the needs of food and culinary stalls in the region, as well as the needs of the surrounding population, including marketing in Wonosari, Yogyakarta and Surabaya (Sahubawa, 113: 2015).

In calculating the economic value, the role of marine resources in Gunung Kidul gives a significant influence in improving local and national economic welfare. It can be seen from the economic value of each marine resource utilized through economic activity.

Lobster is one of important fishery commodities in Gunungkidul Regency. The economic value of lobsters is high enough to reach Rp.200.000, - to Rp.400.000, - per Kg. Lobster is also an export commodity. Production of lobsters in Gunungkidul Regency in 2012 reached 88.27 tons. Large fishery production must be balanced with efficient marketing given the easily damaged fishery products. Marketing is the most important thing in running a fishery business because marketing is an economic action that affects the high low income of fishermen (Maisyaroh and Ismail, 131: 2014). Lobster (*Panulirus sp*) is an important component of shrimp fishery in Indonesia, which, according to the Indonesian Statistics record 2005, lobster ranks fourth for export commodities from Krustacea after *Panaeus*, *Metapaeus* and *Macrobrachium* (Maisyaroh and Ismail, 132: 2014).

Utilization of marine resources as part of the national strength character of Indonesia reflects the readiness of Indonesia in implementing World Maritime Fulcrum policy. It indicates that Indonesia's national strength at sea has become very relevant to Indonesia's efforts as a country that carries maritime policy. But it can not be separated also from the readiness of the population, in this case human resources (HR).

Gunung Kidul fishermen are dominated by traditional fishermen (artisanal). This can be seen from the composition of the number of Household Fisheries (RTP/Rumah Tangga Perikanan) as much as 771 RTP or 94% of the total RTP in Gunungkidul Regency is a fisherman without boat (479 RTP) and using outboard boats (246 RTP). While the RTP that uses motor boats only amounted to 46 or about 6% of the total RTP (Sarwanto, 18: 2015).

With the enormous potential of national power in Indonesia's marine resources. This provides an advantage for Indonesia to have a bargaining position while reflecting the character of Indonesia as an archipelagic country. On the other hand, social conditions play a role in supporting the improvement of Indonesia's national power in the management of marine resources.

Characteristics of social, cultural community of Gunung Kidul is a traditional society that still holds the noble culture of the heritage of the ancestors. Fishermen as part of the community Gunung Kidul also has these characteristics, so it greatly affects the behavior of fishermen (Sarwanto, 19: 2015).

These two factors, marine resources and human resource capabilities, in this case fishermen, reflect Indonesia's national capability in managing and producing existing marine resources so as to positively affect not only local and national industries but also Indonesia's national strength in the eyes of the international.

As evidence that the marine resources in Gunung Kidul give significant influence to local and national economic strength seen in fishing business also has contribution in economy in Gunungkidul region. In 2012, the contribution of levy on fishing taxes collected from fishermen (3% of production value) and traders (2% of production value) reached Rp.593.27 million. The accumulated production value of fish catches in 2012 reached Rp.13, 6 billion. Fish marketing system in Gunungkidul can be grouped into 4 types of marketing. In the institutional aspect, fishery business activity in Gunungkidul is supported institutionally by TPI, fishermen group and Pokwasmas. PPP Sadeng is the most complete fish landing center of its institutional system (Sarwanto, 4: 2015).

On the other hand, the character of Indonesian fishermen in Gunung Kidul has a high dependence on fish resources because access to other work is limited, so that the presence of marine resources greatly affects the welfare of fishermen. In general, Gunung Kidul fishermen are included in low

income communities. Characteristics of socio-culture is also still firmly rooted in the community and affect the daily activities of fishermen including fishing activities (Sarwanto, 20: 2015).

Interestingly, the management process is also run through a marketing system that supports local and national industries in creating economic activities resulting in profits of great economic value. The marketing institution at the Fish Auction Place of Gunungkidul Regency consists of fishermen, collecting traders. In Gunungkidul District some fishermen and marketing institutions (collecting traders) happened bonding. This happens because the collectors have several private vessels operated by fishermen at the Fish Auction Place (TPI/Tempat Pelelangan Ikan) (Maisyaroh and Ismail, 132: 2014).

The interaction of these activities indicates a system of economic activity that runs as a process of enhancing the national power of a country. The role of the state in improving national strength lies in the process of policy formulation implemented to support the existing natural resource potential in the country.

State policies implemented through the government are aimed at accommodating domestic industries that play a major role in policy integration between countries, communities and potential national resources. In other words, natural resources are merely potential. When the potential is developed then the outcome of that potential will be converted into a national power of a country, run through policies or laws.

Law Number 26 Year 2007 on Coastal, Marine and Small Island Management states that the management of coastal, marine and island areas is a series of planning, utilization, supervision and control of marine and fishery resources conducted between sectors , intergovernmental, and interdisciplinary science to improve people's welfare. Governments and stakeholders, including universities, have a great responsibility to develop investment plans for the management and utilization of marine resources (fisheries and environmental / tourism services) that can be used as a reference by private parties and the general public to invest (Sahubawa, 102-103: 2015).

The planning, utilization, supervision and control of marine resources, operationally, regulated in the 1945/2009 Law on fisheries, the Law states that in utilizing fish resources aimed at improving the welfare of fishermen, foreign exchange and employment opportunities , but also mandated to be managed optimally and guaranteed the sustainability of fish resources. So the potential of Indonesian fish resources needs to be managed well. The local government gains greater mandate and authority in managing marine resources based on Article 18 of Law No. 32 of 2004. Regional authorities to manage marine resources as intended include: (Sarwanto, 22: 2015).

1. exploration, exploitation, conservation and management of marine resources;
2. administrative arrangements;
3. spatial arrangements;
4. law enforcement of regulations issued by the regions or those delegated by authorities;
5. participate in the maintenance of security; and
6. participate in the defense of state sovereignty. This condition requires the provincial / city / regency government to play a role and responsible in managing fish resources to be utilized by society optimally and sustainably.

Under the regulation, the national industry in utilizing marine resources to produce national strengths is realistic. More specifically, administratively, Gunungkidul Regency as an autonomous region in accordance with Law Number 32 Year 2004 has the authority to regulate the territorial waters in an effort to utilize resources (Sarwanto, 22: 2015).

At the local level, the Department of Marine Affairs and Fisheries (DKP) of Gunung Kidul continually strives to help facilitate business actors in order to develop processed fishery products and marine resources. Mentioned, until now there are 11 business actors registered in DKP with the main production of processed fish and other marine resources. From 11 business actors are produced about 23 kinds of processed products, with the number of production to reach hundreds of tons per year. The marketing of these products besides the local area of Gunung Kidul is also marketed around DIY and major cities in Java (Kandar, 2016).

With the intervention of central and local government, the role of government becomes very intensive in supporting national industry in the utilization of the potential of marine resources to be converted into national power.

However, the current development approach in the management of fish resources in Indonesia is

generally still based on the central government (government based management). This regime carries out the development process (started planning, implementation and supervision) carried out by the government, while the user group only receives information on government policy products (Sarwanto, 21: 2015).

This indicates that an evaluation is needed in the role of government to prioritize the importance of enhancing national power through various national programs that are able to encourage local and national industries in utilizing marine resources to be more directed to export activities of national marine products. It will further strengthen Indonesia's national power globally.

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STRATEGIES AND ROLE OF LOCAL GOVERNMENT IN IMPROVING THE COMPETITIVENESS OF TRADITIONAL FISHERMEN IN PANDEGLANG, BANTEN

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ABSTRACT

The aims of study to explore in depth: a. strategies and role of local government supports the formation of fishermen groups and group performance in enhancing the competitiveness of traditional fishermen; b. Strategies undertaken by local governments to improve competitiveness so as to realize the prosperity of traditional fishermen, c. group communication model between local government, traditional fishermen group, and partners. This study use qualitative research methods with a critical paradigm referring to the critical concepts of Marxist thought. The results showed that the government through the Ministry of Marine Affairs and Fisheries Republic of Indonesia has issued Government Regulation no. 50 Year 2015 on empowering small fishermen and small fish farmers. The Ministry of Marine Affairs and Fisheries has an agenda to improve the welfare of traditional fishermen and to optimize their potentials in groups, which are handed down to the provincial and district fisheries departments. Pandeglang District Government as the object of research through Fisheries Department has the authority to manage, utilize, and conserve marine and fishery resources for the welfare of Pandeglang community, especially fisherman community, cultivation, processing and marketing of fish, and to increase contribution for PAD (District Owned Revenue). Fisheries Department develop strategies for improving the welfare of traditional fishermen, among others, encourage the formation of fishermen cooperatives with legal status. Socialization of the use of fishing gear which is not prohibited by the government. This is because there are still many traditional fishermen in Pandeglang who use *Cantrang* that can threaten the sustainability of marine ecosystems. The local government through related offices has not been actively involved in providing assistance to traditional fishermen so that they have high competitiveness such as maintaining good quality fish quality, stable catch quantity, environment of fishery and marine areas that is maintained so as to ensure the sustainability of existence fish in the sea. The results of this study have implications on the preparation of roles and strategies of local governments in improving the competitiveness of traditional fishermen adapted to local elements so that traditional fishermen become prosperous.

Keywords: Strategy, The role of local government, traditional fishermen, fishermen cooperatives

1. INTRODUCTION

Indonesia which is famous as a maritime country has enormous marine potential. Two third of Indonesia's total area of 5.8 million square kilometers consist of sea and water with a coastline of about 97 thousand kilometers. This vast sea area is an opportunity to be developed into businesses in various sectors. Minister of Marine Affairs and Fisheries, Susi Pudjiastuti stated that many resource-based businesses potential can become promising opportunities, such as marine, fishery,

tourism, processed industries, marine service industries and other environmentally friendly industries.¹

Indonesia's territory stretches along 3,977 miles from the Indonesian Ocean to the Pacific Ocean. As a whole Indonesia has an ocean consisting of about 3,273,810 km² (square kilometers)². The boundary of Indonesian sea territory according to international sea law, namely based on the sea territorial is along 12 nautical miles and the exclusive economic zone of the 200 nautical miles (in the same direction with the direction of the wind). Indonesia's vast oceans should bring blessing to the Indonesian nation. Natural resources contained in the oceans are numerous and this can be used for the welfare of the Indonesian nation.

Indonesia is an archipelagic country consisting of large and small islands. Large islands include Papua Island with an area of 785,753 km², Kalimantan Island with an area of 748,168 km², Sumatra Island with an area of 443,066 km², Sulawesi Island with an area of 180,681 km², Java Island with an area of 138,794 km², Timor Island with an area of 28,418 km², Halmahera Island with an area of 18,040 km², Seram Island with an area of 17,454 km², Sumbawa Island with an area of 14,386 km², Flores Island with an area of 14,154 km², and other large islands. Based on data the number of population that inhabits the five largest islands in Indonesia region are as follows:

Table 1. Data on Comparison of Total Area of the Island with Total Population

Island	Total Area	Population	Comparison
Irian/Papua	785,753 km ²	3,593,903 people	1:4.6
Kalimantan	748,163 km ²	13,787,831 people	1:18.4
Sumatra	443,066 km ²	50,630,931 people	1:114.3
Sulawesi	180,681 km ²	17,371,782 people	1:96.14
Jawa	138,794 km ²	136,610,590 people	1:984.3

Source: BPS Census of 2010

Table 1 illustrates occupancy rates in each of these islands and the ratio of population density to the area of the island. The data is related to the idea that the density of the population in a region has an impact on the economic level of its population.

This large marine potential can be utilized by various elements of Indonesian society including the main actors, namely fishermen. In Indonesia, the number of traditional fishermen (*nelayan tangkap*) was recorded at 2.2 million people (Ministry of Marine Affairs and Fisheries, 2012). Based on this figure, more than 95 percent were categorized as traditional fishermen. Mostly traditional economic actors, fishing gear, and production capital used by traditional fishermen are by and large still simple / limited. Various policies have been issued by the Government of Indonesia in order to support the empowerment of fishermen, especially traditional fishermen. The Government of Indonesia issued Government Regulation Number 50 of 2015 on the Empowerment of Small Fishermen and Small Fish Cultivators. The Government of Indonesia through the Ministry of Marine Affairs and Fisheries plans to improve the welfare of small fishermen and optimize their potential in groups. Small Fisherman is a person whose livelihood is fishing to meet the daily needs by using a fishing vessel with the largest size of 5 (five) gross tons (GT). The empowerment of small fishermen can be done with various efforts to improve the ability of Small Fishermen. They are even given the opportunity to do Small Fish Farming so they can carry out their activities better.

The results of the census conducted by the Central Bureau of Statistics showed that in 2015 the number of traditional fishermen has decreased from about 1.6 million households to 364 thousand households, and on the contrary there is an increase in the number of small scale fish farmers from 85,000 to 1.2 million households. Responding to the results of the census, the Minister of Marine Affairs and Fisheries admitted that it was surprised to know the decrease in the number of traditional fishermen in Indonesia.

Taking these conditions into account, this study was intended to explore as much information as possible about the existence of traditional fishermen, especially those operating on the coast of Java

¹ Press Release of the Bureau of Inter-government Agency Cooperation and PR of the Ministry of Marine and Fishery of the Republic of Indonesia, 13 November 2015 No: 079/SJ.6/HM.310/X/2015. Potential of Indonesia Sea Sector is Promising.

Island. Each local government should have an opportunity to overcome the decline in the number of traditional fishermen and implement the (Central) government regulations into the rules of the regional governments. The local government's support to small fishermen is desirable towards fishermen in order to allow them to compete with large fishermen despite limited ability of the ship they own. The capability of small fishing vessels is understably less than the catching capacity of a large fisherman with large cruising capability and capture capacity. Types of nets that may be used (by small fishermen) is in accordance with the regulation which is intended that small fish are not netted so that fish breeding can be optimized. The central and local governments have great attention on the small fishermen. Small fishing businesses are not left alone. They were guided to run their business in groups and their skills and knowledge were enhanced through the provision of trainings and fishing credit. If up until now these small-scale fishermen go to sea and directly sell their catch individually in the future government wants them to be incorporated in groups of fishermen.

Empowerment of Small Fishermen and Small Fish Cultivators in the group was designed to:²

- a. realize the independence of Small Fishermen and Small Fish Farmers in order to improve the welfare, quality, and standard of living;
- b. improve Small Fishermen and Small Fish Farmers into productive, efficient, value-added, and sustainable business;
- c. improve the capacity of Small Fishermen and Small Fish Farmers;
- d. to ensure access of Small Fishermen and Small Fish Farmers to fish resources and the environment, technology, capital, production infrastructure, and marketing; and
- e. increase the growth of small fishermen groups and small fish farmer groups.

Empowerment referred to in paragraph (1) shall be granted to: a. Small Fishermen; and b. Small Cultivators (Farmers) who meet the following criteria: 1. using simple technology; and 2. conducting fish farming with the total area: a) fish farming business in fresh water for activities: 1) fish hatchery of the maximum of 0.75 ha; and 2) the largest fish cultivation of 2 ha (two hectares); b) brackish fish water cultivation for activities: 1) the largest fish hatchery of 0.5 ha (half hectare); and 2) the largest fish enlargement of 5 ha (five hectares); c) fish breeding business in seawater for activities: 1) the largest fish hatchery of 0.5 ha (half hectare); and 2) the largest fish enlargement 2 ha (two hectares). The empowerment of small fishermen groups becomes the most important thing so that they can improve their own ability together with partners such as fishery business actors. Cooperation in fisheries management in the framework of Empowering Small Fishermen and Small-Scaled Cultivators can be done through the approach of the power of networking of business actors and resources that consider the equality aspect of proportional effort in business. Thus, in the future it will never happen again small fishermen feeling disadvantaged, especially by the middlemen. Such practices was actually caused by small fishermen having no bargaining power over their catch. The poverty has rendered them powerless by the offering a low price, while their catch is very limited due to the limitedness of the coverage of the ship, and the number of fish they usually can catch.

Observing this condition it is very necessary to conduct in-depth research related to the support of local governments in improving the competitiveness of traditional fishermen. Fishermen on the southern coast of Java Island, especially in Pandeglang Regency as the object of research with the following considerations:

- a. fishermen squeezed by modernization and rapid development activities including tourism development.
- b. traditional fishermen are vulnerable to change professions due to poverty.

The results of this study were expected to give an in-depth insight and answer the following questions:

- a. What is the strategy undertaken by local governments to improve the welfare of traditional fishermen or small fishermen?
- b. How is the role of the local governments in supporting the formation of fishing groups and group performance in improving the welfare of group members?
- c. What is the model of group communication carried out by the local government with traditional fishermen groups, among fellow fishermen group members, between fishermen groups and their partners taking into consideration the cultural factors and local elements of the local community?

² Government Regulation No 50 of 2015 on EMPOWERMENT OF SMALL FISHERMEN AND SMALL FISH CULTIVATORS (FARMERS) Article 2

This research was expected to obtain the following findings:

- a. Strategies undertaken by the local governments to maintain the number of traditional fishermen and improve the welfare of fishermen in their region.
- b. Mapping the role of local government in supporting the formation of fishermen groups and group performance in improving the welfare of group members.
- c. Creating a model of group communication conducted by the local government with traditional fishermen groups, among fellow fishermen group members, between groups of fishermen with their partners taking into account the cultural factors and local community elements.

2. LITERATURE REVIEW

2.1. Fishermen

Fishermen are people whose livelihood is catching fish. Fishermen in everyday life rely on fishing in the sea. Fishermen can catch fish to the middle of the sea and to get a lot of catch in accordance with their desire must rely on the capacity of ships and fishing nets. Based on that, according to Imron (2003: 64)

“Fishermen can be distinguished over several types, namely fishermen laborers, fishing skipper, and individual fishermen. Fishermen are fishermen working with fishing gear belonging to others. In contrast fishing skipper is a fisherman who has fishing gear operated by others. Individual fishermen are fishermen who have their own fishing gear, and in its operation does not involve other people ”.³

Fishermen laborers as one of the types of fishermen usually work for fishing skippers. This is because the workers do not have fishing boats and fishing nets, so the activity of fishing is very dependent on fishing skippers.

The Government of Indonesia through Government Regulation No. 50 of 2015 Article 1 stated one type of fisherman is a small fisherman, with a scale of measurement based on the size of fishing vessel of maximum of 5 (five) gross tons (GT). The government's attention has grown considerably in small-scale fishermen as an effort to raise their standard of living and improve the welfare of small fishermen.

The development of fishermen typology is based on socioeconomic factors i.e. age, educational background.⁴ Fishermen in 18 research areas included in the Greek territory have characteristics of old age, low educational background, and low income per capita per year. Tzanatos (2006: 511-527) categorized fishermen in three groups, namely high, medium, and low based on the percentage of income obtained from fishing.

2.2. Group

Everyone can become a member of several groups according to their existence and needs. Basically a group is a collection of two or more people who interact and are interdependent, join to achieve certain goals. Robbins and Judge (2007: 358) seek to gather the reasons why people join in a group, namely (1) security, by joining a group, individuals can reduce the feeling of insecurity by standing alone; (2) status, joining in a group is considered important by others to give recognition and status to its members; (3) self-esteem, groups can give feelings of self-worth to members; (4) affiliation, the group can meet the social needs of its members; (5) power, which can not be achieved individually often becomes possible through group action; (6) achievement of member or group goals.

Johnson and Johnson (1987) in Sarwono (2005: 4-5) identified seven different types of group definitions whose emphasis came from several researchers, namely:

- a. A collection of interacting individuals;
- b. The social unit (unit) consisting of two or more persons who see themselves as part of that group;
- c. A collection of interdependent individuals;
- d. A collection of individuals who join together to achieve a goal;
- e. A collection of individuals who try to meet multiple needs through their joint association;

³ See result of Masyhuri Imron's research entitled *Kemiskinan dalam Masyarakat Nelayan* (Poverty in Fishermen Community) in the *Journal of Jurnal Masyarakat dan Budaya*, Volume 5 No. 1 of 2003, page 63-84

⁴ *Ocean & Coastal Management* 49 (2006) 511–527, Principal socio-economic characteristics of the Greek small-scale coastal fishermen, Evangelos Tzanatos et.all

- f. A collection of individuals whose interactions are organized (structured) by or with a set of roles and norms;
- g. A collection of interrelated individuals.

Based on these definitions, Johnson & Johnson (1987) in Sarwono (2005: 5) tried to formulate the definition of the group as follows:

"A group are two or more people involved in face-to-face interaction, each aware of its membership in the group, each aware of the existence of another person who is also a member of the group, and each realizes a positive interdependence in achieving common goals."

Johnson & Johnson formula on group by itself applies only to small groups. Small groups engaged in face-to-face and mutual interaction, and recognizing each other's existence, are only one type of group (e.g. team and family). In addition, there are other types of groups, such as statistical aggregates (age groups, sex groups, and middle classes), audience or audience groups (TV viewers, radio listeners, book readers, newspapers, or magazines, and theater audiences or concerts), crowds (bazaar visitors, mosque's congregation, and city bus passengers), and formal organizations (schools, TNI [military], government offices, corporations) that do not meet Johnson & Johnson criteria, but are very influential on individuals, both as individuals and as members of the general public, and still behave together to achieve a common goal or not.

Sarwono (2005: 6) tried to define group as a collection of two or more people with varying levels of interaction (from intensive to non-existent), as well as the level of awareness or achievement of shared goals. This explanation intends to include various groups in the broadest sense possible and is useful as a factor to distinguish one group from another, not to limit definitions.

Tönnies (1954: 33-62) developed the concept of a group which is more or less the same as the concept of primary group and secondary group. *Paguyuban (Gemeinschaft)* is a form of coexistence in which members are bound by a pure, natural, and eternal inner relationship. The basis of the relationship is love, real and organic.

Some of the main characteristics of the community are as follows:

- a. *Intimate*, meaning thorough intimate relationship;
- b. *Private*, meaning personal relationships that are specific to some people only;
- c. *Exclusive*, meaning that the relationship is only for "us" only and not for people outside "us".

Efforts to better understand the form of *paguyuban*, there are three types of *paguyuban*, namely:

- a. *Gemeinschaft by blood* is a community based on blood relation or heredity;
- b. *Gemeinschaft of place* is a *paguyuban* consisting of people who live close to each other so that they can help each other, such as *Rukun Tetangga* (Neighborhood), *Rukun Warga* (Community Unit), and *arisan* (social gathering).
- c. *Gemeinschaft of mind* is a community of people who, although not blood-related or their residential areas are not close together, but they share the same mind and soul because of the same ideology.

This research was focussed on a group that was formed on the same residential area and has the same profession, which is fishermen.

2.3. Group Communication

The life of fishermen in a group has interesting aspect to be explored in-depth through a study. The life struggle of a group of fishermen to get out of poverty and have a high competitiveness to fishermen who have large capital such as large ship capacity and strong fishing nets. Activities of fishermen in a group serves a vehicle for a fisherman to be able to realize his wish and desire to share information in almost all aspects of life.

Communication activities that occur within a group can be defined as the face-to-face interaction of three or more persons in order to obtain a desired purpose or purpose such as information sharing, self-maintenance or problem solving so that all members can accurately build personal characteristics of the other members. Based on the above definition, according to Sendjaja (2011: 3.4) that there are four elements covered in the face-to-face interaction, namely number of participants involved in interaction, the desired goals, and ability of members. Interaction in communication is a very important factor to develop the ability of group members and achieve the goals set by the group.

The existence of a group in fishing communities on the north and south coast of Java Island is very necessary because it reflects by the existence of functions that will be executed. Basically communication that occurs in a group is capable of running various functions, such as social relations function, education, persuasion, problem solving and decision making, and therapeutic functions.⁵ Interactions that occur in a group illustrate an aspect of group communication, in which all messages conveyed by members can help in building what it is and forming work done by the group.

3. RESEARCH METHOD

This study used a critical theory paradigm to answer all problems related to the strategy of local governments in improving the competitiveness of traditional fishermen in the coastal area of Java Island. The use of this paradigm was intended to affirm an ontology based on historical realism that Indonesia is known as a maritime country with a formidable fishing force. From the epistemology it is transactional, and from methodology it is a dialogical and dialectical.

This research sought to produce a fisherman's transformation. The cause of the decline in the number of traditional fishermen was based on data unveiled by BPS published in the Press Release of the Ministry of Marine Affairs and Fisheries dated on November 13, 2015. The critical paradigm was used to dig the external and internal elements that will direct the change of the previously known form through certain processes⁶ such as the support gained by fishermen from their local governments so that they can sustain their life as fishermen. The process of transformation in the social order of a traditional fisherman can be driven by the demand for a better standard of living or they are trying to get out of poverty. This is because traditional fishermen are very close to poverty.⁷ Lifestyle changes and technological developments can also be factors that cause a transformation. The result of research is a historical and structural knowledge about the strategies used by both central and regional governments to strengthen the competitiveness level of traditional fishermen. These are assessed according to the historical position of fishermen and legislation that support or even weaken position of traditional fishermen, and the ability of a government regulation to produce praxis, or action.

The qualitative research was used to explore in depth various strategies undertaken by the local government in an effort to improve the competitiveness of traditional/ small fishermen. Qualitative research is able to explore the efforts made by members of fisherfolk groups to have the competitiveness against large-scale fishermen, even the efforts made to get them out of various economic problems.

The collection of data was done by determining people who will become key informants in this research. As for the key informants include officials of the Fisheries Office in each area of the research object, namely the Fisheries Office of Pandeglang Regency, and Pangandaran Regency. Data was also collected from fishermen who are members of Village Unit Cooperative, with consideration, they can give in depth explanation on various strategies that have been done by local government in this case the Fishery and Maritime Office of the District (Regency).

4. RESEARCH RESULTS AND DISCUSSION

The life of fishermen, especially the traditional fishermen in the Indonesian territory to date has always showed a trend of decline, with the use of boats with the largest size of 5 (five) gross tons (GT). The operation of ships of this size are not too promising to help increase income of fishermen. Moreover most fishermen think that the most important for them is to go to sea so that they can fulfil their household needs.

This research sought to explore in depth the various strategies undertaken by the local governments as a form of support to fishermen to improve the competitiveness and level of the fishermen's economy. This study also found various models of group communication conducted by the actors of communication namely the Fisheries Office, fishermen, buyers / fishermen partners.

⁵ Sendjaja, Sasa Djuarsa, 2011, *Communication Theory*, Jakarta, Penerbit Universitas Terbuka

⁶ Guba, E.G., 1990, *The Alternative Paradigm Dialog* in E.G. Guba (Ed.) *The Paradigm Dialog*, Newbury Park, CA: Sage, page 17-30

⁷ Imron, Masyhuri, 2003, *Poverly in the Fshermen Community* in *Jurnal Masyarakat dan Budaya*, Volume 5 No. 1, page 63-84

4.1. Strategy of Pandeglang Regency Government in Maintaining the Number of Traditional Fishermen and Improving Fishermen's Welfare in their Area

Pandeglang Regency is about 110 km from Jakarta, with distance of about three (3) hours by car. Pandeglang is renowned for its many beach destinations such as Anyer Beach, Carita Beach, Tanjung Lesung, Ujung Kulon's famous tourist attraction with the *Badak Bercula One* Wildlife Sanctuary, as well as other tourist attractions.

The maritime potential of Pandeglang Regency is very promising, marked by the average fishery production rate of 44,000 tons in 2016. The number of fishermen in Pandeglang Regency was registered at 12,500 people, and supported by 14 units of fish auction places (TPI). Some of its fishery products were sent to Jakarta to meet the needs of the people of Jakarta.

Potential of Marine and Fisheries in Pandeglang Regency as per 2016:

- a. Number of traditional fishermen (*nelayan tangkap*) as many as 12,500 people
- b. People involved in aquaculture sector as many as 4,979
- c. Processors and marketers of fish catch and cultivation were recorded at 5,724 people
- d. 50 salt farmers
- e. Community groups work as marine and fishery control group as many as 100 people
- f. The number of processing units with the scale of household as many as 10,000 units
- g. The number of ships/ boats > 10 GT as many as 1,472 units
- h. Number of fish auction places (TPI) were recorded at 14 units
- i. The regency has 33 small islands
- j. Having a 150 hectare area for floating net and cage
- k. Fishery production catch of 44,000 tons / year
- l. Production of aquaculture at 11,500 tons / year

Pandeglang Regency Fishery Office has a duty to carry out the tasks of local government in the field of fishery based on the principle of autonomy and other supporting tasks. The Fisheries Office in accordance with its tasks is authorized to manage, utilize, and conserve marine and fishery resources for the welfare of the Pandeglang community, in particular the fishing communities, cultivators, processors and fish marketers, and to increase contributions to the Originally Earned Local Revenue (PAD).

Pandeglang regency as one of the regencies in Banten province has prime commodity of marine and fishery. Working motivation of fishermen and fish farmers to work is very high, but they were still constrained by fishing gear. Many fishermen in Panimbang Jaya Sub-district, for example, still use fishing gear from the type that is prohibited by the government, such as *Cantrang* or *Pukat Tarik* (trawl). Ministerial Regulation No. 2 of 2015 concerning the Prohibition of the use of trawl and seine nets was officially effective on January 1, 2017. With the enforcement of the regulation, all fishing gear used by Indonesian fishing vessels (KII) and others included in the group, it is prohibited. Nevertheless, many fishermen still use these fishing gears.

Various efforts undertaken by the Fisheries Office of Pandeglang Regency for the enforcement of ministerial regulation No 2 of 2015 on the use of fishing gear as follows:

1. Socialization on the impact of the use of *Pukat / Cantrang* fishing gear on the sustainability of fish availability in Pandeglang Regency
2. Establishing a Exchange Post of Fishing Equipment
3. Together with the Marine Police conduct raids and arrests of fishing boats still using illegal fishing gear such as *Cantrang*

In the year 2017, the Fisheries Office made plans for the provision of assistance of fishing gear and other needs for fishermen. This assistance scheme was intended to increase the amount of catches to meet market needs. In addition, the Office also planned to provide fishing gear, build ship workshops, procurement of Ting-Ting boats, Outboard motor for boats, and fish processing equipment to be undertaken by fishermen's wives.

Pandeglang District Fishery Office as an arm of the Ministry of Marine Affairs and Fisheries gave an aid in the form of fishing gear to fishermen to replace the common fishing equipment of *Cantrang / Sodong*. *Cantrang* fishing equipment is prohibited to be used to catch fish in all parts of Indonesia based on the Ministry of Marine and Fishery Regulation No. 2 / PERMEN-KP / 2015 and Number 71 / PERMEN-KP / 2016. The fishermen were given the opportunity to change their fishing gear before January 1, 2018. As for the reason the government to prohibit the use of fishing gear, trawl,

seine nets because they were considered to create problems and damage the sustainability of fish resources, namely:

- a. threatening the extinction of marine biota,
- b. resulting in the destruction of the habitat, and
- c. endanger the safety of users / fishermen.

The fishermen have been using fishing equipment type of *puta / cantrang / sodong* for generations and now feel the impact of the difficulty to catch fish in the waters around Pandeglang because of insufficient numbers of fish. This reality is acknowledged by Mr. Az from Panimbang Jaya Village, "It is now difficult to get fish around Pandeglang so that we have no choice but to go to areas closest to Ujung Kulon, or Krakatau (Krakatoa)". The difficulty to get fish was caused by the use of fishing gear / *cantrang / sodong* by fishermen to catch fish that resulted in the catch all marine biota not only big fish. Small fish, and even coral become damaged. Small fish incidentally caught by the nets will eventually be thrown into the sea by the fishermen because it will only become garbage and fill the ship. They are also less marketable. The survival of marine life can be well protected if the fishermen do not use the fishing gear. Small fish have the chance to live up to become big, coral reefs are well preserved so it becomes a place for fish to breed.

The Pandeglang District Fishery Office found it quite difficult to build the awareness of fishermen on the impact of using of illegal fishing gear and persuade them to switch to fishing gear permitted by the government. As a follow-up of the appeal, the Fisheries Office has done socialization on the use of fishing gear and its impact on the sustainability of marine biota and the availability of fish in the sea. Fishermen were informed of the negative impacts of using trawlers. Mr. Az explained the advantage and disadvantage of using a fishing gear,

"Catching fish using *sodong / pukat* (trawlers) can quickly produce results and big catch. Fishermen also do not need to stay at the sea. Leaving in the morning we return home in the afternoon bringing the results of the catch. We even can return home faster if we are lucky enough to find the point of fish gathering". Not like before now we find it difficult to find fish around the beach. If we catch fish in the areas up to Ujung Kulon it is usually prohibited by the government and marine police because it is declared as a nature conservation area. In order to get a lot of fish we should go to Lampung region, but the fish should be sold in Lampung. The catch could not be brought to Pandeglang".

Mr. DD also admitted that fishermen currently found difficulty to catch fish in the waters of Pandeglang. Fishermen in Sidamukti Village who now all have been using fishing gear allowed by the government feel that it is very different from using regular net. They had to spread the net first at a point and pulled them on the next day. Thus they must spend the night in the sea meaning that they have to bring sufficient logistics supplies to meet their needs. In addition, they should always be vigilant that their boats and nets are not carried away into prohibited areas such as nature conservation areas, the territorial waters of the Indonesian Navy, or areas managed by private companies. If this happens then they have to deal with the marine security apparatus which may result in their detention. If fishermen do not want to be arrested then it is no secret that those caught have to pay some money.

Local governments continue to strive to ensure that traditional fishermen no longer find the difficulties to catch fish in Pandeglang District. The Fisheries Office in the future are trying to make fish rumpon so that the sustainability of the existence of fish can be maintained properly. But it is acknowledged by Mr. Ad, the Division Head of Fisheries, that it is not an easy thing to build fish rumpon in the sea. This is mostly due to the dense traffic around Pandeglang District, such the heavy traffic of ferries travelling from Merak to Bakauhuni, Lampung and vice versa.

Strategies undertaken by the local government of Pandeglang Regency in this case the Fisheries Office is felt already by traditional fishermen in their favours. Efforts to increase the number of catch fish have been done by the Fisheries Office in cooperation with related agencies. Various parties have to work together to increase the level of welfare of fishermen, such as through cooperation among related government agencies. The Fisheries Office is the agency most responsible for increasing the competitiveness of traditional fishermen assisted by the Office of Cooperatives, and Office of Women Empowerment, especially for the fishermen's wives to process the seafood into food products.

The improvement in the level of fishermen welfare could lead to an increase in the number and skill of fishermen. Everyone will be interested in becoming a fisherman, not other jobs. A strong economic level will increase the bargaining power of a fisherman on all his catch. Until now fishermen in Pandeglang are still mired in the debt trap set up by the moneylenders who also work as ship merchants. In the future, the fishermen can take advantage the strength of their group to manage the Fish Auction Place as a legal channel for fish sales. The needs of consumers for fish in the Pandeglang area such as hotels and restaurants can be met by local fishermen. Thus, prospective buyers no longer have to buy fish from Jakarta. This condition has a direct effect on the fishermen and the increase in locally earned revenue (PAD) of Pandeglang Regency.

4.2. The Role of Regional Government in Supporting the Formation of Fishermen Group and Group Performance in Improving the Welfare of Group Members

Pandeglang Regency Government in this case the Fisheries Office has conducted various strategies to improve the welfare of fishermen. The results have been felt by the fishermen whereby all efforts undertaken by the agency is beneficial to the fishermen, namely efforts to improve the quality and quantity of the economy and social of the fishermen. Mr. DD as one of the leaders and managers of Fisherman Cooperative Mina Bahari Sidamukti Village said that the condition of fishermen was in dismal state, "What is said by Mr. ADR from the Fisheries Office is true. (Most)... traditional fishermen do not have the capital to go to sea. They are forced to borrow money from *Langgan / Bakul / Tengkulak* (middlemen) which will be deducted or paid back with results of their catch".

Mr. DD further illustrated,

"the fate experienced by the fishermen if they borrow money from the *Langgan/Bakul* (middlemen) to meet their needs for the diesel fuel. Fishermen bought diesel fuel at the price of Rp. 7,000 / liter (from middlemen) while in the market the price is only Rp. 5,500 / liter. Besides that fishermen also have to borrow money to buy logistics needs such as rice, side dishes, and cigarettes to fulfill their needs for a week in the sea. The results of the catch should be sold to the *Langgan/Bakul* but the price is usually below the market price. Then fishermen's income still have to be cut 10% to pay for government levies to be used as originally earned revenue (PAD), and *Langgan*. This is the fate of fishermen. They have to buy logistics needs in high price but sell their fish catch in low price".

Taking this condition into consideration, the Pandeglang Regency Fisheries Office created a plan to form fishery groups, which the office then encouraged to form fishery cooperatives under the auspices of the Fisheries Office and the Cooperative Office. Until now two Cooperative Mina Bahari Cooperative have been formed. The two are Cooperative Panimbang Bahari Lestari and one cooperative in the Sub-District of Labuan which is still the administrative process in the Cooperatives Office.

Another limitation noted by the Pandeglang District Fishery Office is the limited capital faced by the traditional fishermen in the region. This relates to the economic ability of fishermen to prepare to go to sea for about five (5) days, in which at least they have to prepare logistics such as diesel fuel, foodstuff, and money for their family at home. On average they should have a capital of about 2 - 3 million rupiahs. If they do not have the capital to go to sea then they will have to borrow money from *Bakul* or middleman. The fishermen will return the money under an agreement that the result of their catch must be sold to *Bakul* even though the price offered is much lower than the market price. This situation has been going on for years.

The Fisheries Office concentrated on the formation of fishermen cooperatives with the aim the fishermen can work hand in hand in strengthening the traditional fishermen's economy. Cooperatives can provide:

1. Capital to go to sea
2. Fishing gears
3. Fuel
4. Workshop for ship engines
5. Household and basic needs
6. Savings and loan for members
7. Managing Fish Auction Places

Another strategy undertaken by local governments to improve the competitiveness of fishermen so that they can compete with fishermen from other regions is to strengthen the traditional fishing economy. These programs and activities are related to the potential of marine and aquaculture fisheries that must be carefully planned so that it can be done in synergy with other development programs such as cooperative development, which will also increase originally earned local revenue (PAD) of Pandeglang Regency. This program is managed by the local government with the main aim to improve traditional fishermen's economy so that they have the ability to compete with fishermen from other regions. Thus, the implementation of marine and fishery programs should be continuously strengthened through continuous integration and coordination among agencies under the local government of Pandeglang Regency.

4.3. Group Communication Model Between Local Government, Traditional Fishermen Group, and Partners

The local government of Pandeglang District maintains direct communication with fishermen in the region through the Fisheries Department put strategy into effect: enhancing the competitiveness of traditional fishermen. Fisheries Department relate directly between the fishermen either individually or in groups in socialization, and mentoring. Communication Fisheries Department activity is transactional, where the process of sending messages between the department and fishermen takes place continuously over long periods of time. The process of communication work out a closer cooperative, Fisheries Department and the fishermen are equally responsible for the impact and effectiveness of communication that occurs.

The nearness of the relationship between Fisheries Department and the fishermen is not only formal, even they are already at the informal stage. Various problems experienced by fishermen are always consulted to Fisheries Department. This pattern of relationships can occur because of the openness between department and fishermen, so they have a common goal. Various opportunities to improve the economy and competitiveness of fishermen be delivered from department to the fishermen.

In transactional communication model, each communications actors in this case Pandeglang District Fishery Departement and traditional fisherman group equally build the similarity of meaning that is improving the economy and competitiveness of fishermen. Various strategies undertaken by the fisheries department are done so that fishermen out of poorness, and they have a high competitiveness to fishermen from outside Pandeglang District. Their communication process is very influenced by past experiences. Fishermen want to get out of economic difficulties soon. Fisheries Department in this case the Head of Fisheries sought to help fishermen by using his experience while serving in the Office of Cooperatives. This past experience is a strength for both parties to keep in good communication currently.

This transactional communication model encourages us to understand that the messages created between the Fisheries Department and fishermen influence each other. A message is constructed from the previous message so that there is an interdependence between each communication component. Changes in local government policy or attitude change from fishermen will change the others. The process of communication that they intertwine takes place continuously both verbally and non verbally.

Fisheries Department in carrying out its function has a partner i.e the buyer of the catch of fishermen or commonly called *bakulan / langgan*. Communication model formed is interactional. In every communication activity that occurs the process of delivering two-way messages, Fisheries Department to partners and otherwise. In the interactional communication model, feedback is a very important thing. Any policy applied by the fisheries department will give rise to reaction or feedback from partners. Similarly, communication between fishermen and their partners. The interdependence between fishermen and partners makes the fishermen do not have a strong bargaining position on the catch. This becomes a reaction that arises from the exchange of messages the others.

5. CONCLUSION

Based on the research results, it can be concluded that the local government of Pandeglang District has various strategies to improve the competitiveness of fishermen. The Pandeglang District Fishery Department carry out their role by encouraging the formation of cooperative fishermen groups. It aims to enable the fishermen in groups to help each other to improve their economy so that in the future they have bargaining power over their catch.

Transactional communication model formed between local government in this case Pandeglang District Fishery Department with fishermen either individually or in groups. While interactional communication model formed between local government with partners, and between fishermen with partners.

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SUSTAINABILITY AND PERSISTENCE: HOW TO DEVELOP

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ABSTRACT

The purpose of this study to analyze the sustainability and the factors that influence it using secondary data in 2008-2014 period, in the form of pooled data. The population was all banks listed on the Indonesia Stock Exchange during the last 6 years, from 2009 to 2014, with 39 banks in total. Technique sampling used is purposive sampling technique. Sustainability on each bank proxied by the persistence of profit (persistence of abnormal profitability) that reflects the sustainable earnings against the industry average in the future. The result of persistence of abnormal profitability tends to vary. Most banks have a positive profit persistence (λ) which reflects the competitive advantage in the long term, whereas most other banks had negative profit persistence which reflects long-term competitive weakness. The ability to access capital, funding significantly and innovation influence the sustainability, despite the negative impact direction. The ability to access public funds, while the ability to maintain asset quality and efficiency does not significantly, industry factors that significantly affect the credit market share, while the ability to maintain asset quality and efficiency does not significantly influence influence sustainable competitive advantage.

Keywords: Financial capability, Innovation, sustainability, competitive advantage, profit persistence.

1. INTRODUCTION

Sustainability has become a global trend as well as a new paradigm, which is able to reconcile the interests of economy, environment, and social (Baumgartner and Ebner, 2010; 76). Sustainable finance is a challenge and a new opportunity for banking to grow and develop more stable in the increasingly fierce competition. Sustainable competitive Advantage (SCA) arises when a company is able to penetrate to high entry barriers (Porter, 1985; 11), ownership of strategic resources that can not be imitated by competitors, as well as the achievement of profitability above the industry average, (Barney 1991; 1999; Wernerfelt 1984; 171); Porter, 1985; 11; (Penrose, 1959). SCA also means to reach the growth rate in the long term (Baum et al, 2001; 292); (Tsuru, 2000; 33).

The achievement of Sustainability is by superior performance or capabilities, (Barney 1991; 112); Penrose (1959); (Day and Wensley, 1988). Superior performance can be achieved through the ownership of a resource that could increase the value of the company (Brigham and Houston (2012; 132). SCA also be achieved through the company's ability to protect assets, (Dehning and Stratopoulos, 2003; 705); (Mata, et al, 1995; 487). The ability of companies to make the process effective and efficient are also considered capable of achieving SCA, (Ojeda et al., 2007; 289); Gaya et al (2013; 1); Aorin et al (2015; 41). SCA can be maintained through the ability to access the capital that supported the information technology (IT), in accordance Fonseka et al, (2014; 963) for the manufacturing industry; (Vorasubin, 2007; 87) for construction services; (Farland, 1984; 98). In addition, implementation of cash management, as well as effective and efficient investment, believed to be the source of the achievement of SCA, in accordance (Vorasubin, 2007; 87).

Financial sustainability of the banking industry seeks to increase the share of financing, durability, competitiveness, as well as new opportunities and challenges for superior performance in the long term (Muliaman Hadad, 2015). The implemented of Sustainability in China since 2007, Brazil in 2009, Bangladesh in 2011, Colombia and Nigeria in 2012, Indonesia was equivalent to Mongolia, namely in 2014 (The Jakarta Post, 2015), has implemented optimally by foreign banks. The measurement results of financial sustainability of banks in Indonesia are proxied by the persistence of long-term profit and measured by the size of λ , which is still low, at only 0.025, as the position of competitive advantage in the Indonesian banking industry, compared to the average in some countries is relatively low, according to the results of research and Eyleerts and Tarjizan (2009). Similarly, when compared to the average banking companies in several countries, according to the results of research Goddard, Liu and Molyneux (2010),

Digital banking is able to drive long-term performance as a concept in sustainability. Should be accompanied by investment decisions supported by financial resources, human resources, physical, organizational, and knowledge-based resources, (Harrison (2009: 1) Innovation through development and improvement, new services and products has grown increasingly complex and varied, Which gave rise to high risk exposures, and unhealthy practices that endangered the survival of the bank's business, Kotler (1997: 325), Sabrina Studer (2013: 1). But it was opposed by Frame and White (2004: 166); Mendoza et (2009, 371), Arnaboldi, et.al (2014, 1-5). (Franklin Allen, 2012), that financial innovation, enabling cost reduction, bank risk, service enhancement and risk diversification. Sustainability should be supported by capacity building and collaborative partnerships (Mark de Reuver et al., 2015); Hardy et al (2003), Frow et al (2014), this is because there is a transfer of knowledge Between organizations I, the creation of new knowledge, synergy solutions, innovation opportunities, although opposed by Johan Arifin, (2013), due to injustice. Currently, many new banks are entering Indonesia, but hard to get human resources, with banking and digital expertise. Because Human Resources is the source of achieving competitive advantage. This can be done through training, according to Al-Hawary (2013); Obeidat et al. (2016), Tahir Masood Quresh (2010); Biju Roy (2015); Wei-Chi Tsai, Wei-Tao Tai, (2003). This research was conducted in the banking industry, because of the capability in resource funds allocation, (Mioarastanciu and Leootinstanciu, 2012; 56); (Allen and Qian, 2014; 499); (Berger et al., 2010; 978). They also helps reduce the friction of transaction costs, asymmetric information, and capability of credit portfolio management (Benston and Smith, 1976); (Abdullah et al, 2014; 94); Bukhari et al. (2012; 1037). However the role in economic growth is still not optimal, the ratio of loan to GDP and the ratio of deposits to GDP reached 35.25% and 39.36%, which is still lagging behind in the Asean region.

Utilization of financial resources needs to be studied in depth given the resources to support the process of value creation, (Harrison, 2009; 1); (Chen et al, 2014; 563). Financial resources related to funding decisions, investment, and asset management that will maximize shareholder value over the long term (Van Horne and Wachowicz (2008; 3 and 2012; 2); (Brigham and Houston, 2012; 2), can be a resource superior if built or developed well.

Various phenomena pushed to reveal the problem of how to maintain a sustainable competitive advantage, how it impacts the financial capabilities and industry factors of the banking sector in Indonesia. This is a development of theoretical models and empirical studies, which is expected to clarify the issue in improving sustainable competitive advantage.

2. LITERATURE REVIEW AND RESEARCH HYPOTHESES

Sustainable competitive advantage SCA formed through generic strategies: low cost, differentiation and focus, (Porter, 1985). SCA can be achieved when companies implement simultaneous value creation strategies that are not implemented by the current potential competitors in the long term and when other forms can not be duplicated (Barney 1991: 102; 112), when company obtain profits higher than the industry average (Barney 1991: 102; 112); (Porter, 1985), when a company has the advantage that is not easily copied, it makes the company able to seize and maintain its position as a market leader, Barney, (1991: 102; 112), when companies have the ability to offer stock, issuing non-convertible and convertible bonds and has the ability to access to bank financing, Fonseka et al (2014), when companies have the ability to access capital, cash management efficient and effective capital investment.

Based on RBV Theory, SCA relies on the resources within the framework of Vrin, where exploitation of resources is to achieve superior performance, (Barney, 1991; Kraaijenbrink, Spender & Groen, 2010). Resources and abilities, including the area of financial resources, human, physical, organization, can be built through the support area or other area that is complementary (Harrison, 2009; 1). Resources are factors that are owned or controlled by companies (Amit & Schoemaker, 1993; 133). Ability is the ability of companies to deploy, develop, process and utilize resources, through interaction and complex organizational processes, Amit and Schoemaker (1993; 35; 133). Resources and capabilities are all assets, organizational processes, firm attributes, information, knowledge, corporate controlled, (Barney, 1991; 101). Different resource used to gain the competitive financial benefit through the efficient allocation, (Wernerfelt, 1984; 178); (Hill, Hitt and Hoskisson, 1992; 501). The combination of resources and capabilities must have characteristics such

as barriers to duplication and appropriability that contribute to creating value, Fahy (2000; 100) and Clucow et al., (2003; 222). Sustainable competitive advantage is not the final objective, yet it is a means to reach the final objective, which is the long term superior performance. Bank superior profit shows the ability of management to provide returns on investment of funds which maintain the continuity of operations (going concern). Banks' attempt to collect and distribute funds force banks to make decisions about interest rates, the type and amount of funds, total outstanding loans, and the types of securities to be purchased, as well as the conditions of competition and the industry as a whole, (Demirguc-Kunt and Huizinga, 1998 ; 105); (Athanasoglou et al., 2005; 25).

Establishing and maintaining superior performance in the long term or have a sustainable competitive advantage (SCA) can be analyzed through several approaches from related theories. Companies should experience growth, because growth is an important thing, without the company's growth is not viable in the long term (Baum et al., 2001; 292). The main factor that drives the company's growth is a business strategy that is focused on product diversification and expansion capabilities to the stock market (Najib Harabi, 2002). Growth is also associated with desire, tenacity and skills to manage new resources, Baum and Locke (2004; 587). The growth of the banking sector is important given its role in promoting economic growth and external financing constraints, Levin (2005; 866), and to reduce poverty as well as to improve the allocation of resources, Zhuang, et al (2009; 29-30).

Agency theory approach related to the conflict between stakeholders, owners and agents can lead to charges. A harmonious relationship between the owners and managers will be difficult to create if there are conflicting interests, which leads to an imbalance of information (asymmetric information). The imbalance can cause agency costs such as monitoring costs, bonding cost, and the cost of residual loss (Jensen & Meckling, 1976; 5).

Interaction between RBV theory and agency theory happens, because there are institutional economic theory directly related inter-company organization, namely transaction cost economics (TCE) and the positive theory of agency (PTA), Lockett & Thomson (2001; 723). Both approaches use the assumption of opportunism that defines institutional efficient set arrangements that minimizes the number of organizations and production costs. Transaction cost economics (TCE) are costs associated with the research costs, metering and monitoring, transfer of resources and products in the market. Meanwhile, through the positive theory of agency (PTA), we can identify the cost of monitoring and breach of contract that leads to economic relations between the private interests, opportunistic agent and principal.

Optimal company funding structure is formed by preference whether using internal funding sources, debt or through stock issues. If internal funds are insufficient, the company may use external financing, (Myers & Majluf, 1984). According to trade off theory (balance theory), the optimal debt ratio weighs the benefits and costs of debt use. Trade off Theory also explains the relationship between the tax, the risk of bankruptcy and the use of debt caused by the company's capital structure decisions (Brealey and Myers, 1991). According to the Pecking Order Theory, the main problem of the capital structure decisions is the asymmetric information between managers and investors, as well as the argument that managers favor of existing shareholders, (Myers, 1984). Those problems led the company to have a hierarchy of funding starting from internally generated cash flow, debt, and stock. This theory states that the stock will never be published, because of the highest asymmetric information. Funding based on the pecking order theory tends to choose the funding that comes from internal rather than external. When used in external funds, the funding sequence suggested is debt, followed by the issuance of new equity, and then retained earnings (Myers, 1984; 12). Ross (1977; 38), stated that the increase in leverage contains positive information related to the capacity of companies in providing loans in larger amounts. The banking institutions capital structure is highly regulated since banks are sensitive to changes in financial leverage. Banks must pay attention to regulatory requirements and conditions of the minimum capital ratio, the level of health, returns to shareholders, as well as the trade-off between risk-return by the regulatory authorities. There is a positive relationship between the optimal capital structure and profitability of the bank (Saeed et al., 2013; 393). Banks also tend to replace capital with debt to maximize the return on capital and to satisfy investors, as opposed to the irrelevant theorem Modigliani and Miller, (1958). The interaction between the dimensions of strategy and financial management has become a weapon to compete. The potential interactions occur between managers, financial stakeholders which is

share and debt holders, with non-financial stakeholders in the capital structure decisions, business activities, and the value creation process which lead to inefficient managerial decisions in achieving competitive advantage, La Rocca (2008; 11)

In many cases, investors' attention to the company is not only at a higher profit, but also at persistent profit which showed more informative profit. Otherwise if earnings are less persistent it will be less informative. Profit persistence is profit that is able to reflect the sustainable earnings in the future, Penman (2001; 2). Profit persistence is the revision of accounting expected future earnings caused by the innovation of current earnings, (Penman and Zhang, 2002; 1); (Scott, 2009). Persistence profit is the profit that can be used as a measure of the profit itself, profits can be used as an indicator of earnings, Zarowin and Tucker (2006). Profit persistence is the slope coefficient regression current earnings on lagged earnings, so the profit persistence will be seen from current year profit innovation associated with changes in stock prices, Tucker and Zarowin (2006); Ecker, et al (2006). Persistence profit measurement model based on current earnings regression slope coefficient on lagged earnings have been widely used, including Lev and Thiagarajan (1983), Sloan (1996), Penman and Zhang (2002), Richardson (2003), and Pagalung (2006). Profit persistence as a proxy for sustainable competitive advantage has been used by Villalonga (2004; 205); Fonseka et al (2014; 963). However it is formally derived from the Mueller model (1990a). There are two stages of process modeling persistence profit analysis, is used as an analytical framework. *Stage 1 : Estimasi Profit Persistence*

$$\Delta\pi_{it} = \theta_i + \sum_{k=0}^{\infty} \beta_{j,k} E_{i,t-k} + u_{i,t} \dots\dots\dots(1)$$

$$E_{it} = \theta_i + \sum_{k=i}^{\infty} \sigma_{j,k} \pi_{i,t-k} + e_{i,t} \dots\dots\dots(2)$$

$$\pi_{it} = \tilde{\pi}_i + \sum_{k=1}^{\infty} \lambda_{j,k} \pi_{i,t-k} + v_{i,t} \dots\dots\dots(3)$$

Stage 2 : Determinant of Profit Persistence Investigation

Some researchers explained that the determinant of sustainable competitive advantage is a company with the ability to offer the shares to shareholders, issuing non-convertible and convertible bonds, and access to financing will provide sustainable competitive advantage, Fonseka et al (2014; 963). Ability to access capital, cash management efficient and effective capital investment, contribute to the company's competitive advantage, Vorasubin (2007; 87). Sustainable competitive advantage depends heavily on the ability of organizations to internalize the benefits of innovative activities, identifying, developing, deploying and protecting the intangible assets as well as the ability to maintain a competitive advantage, Lazo & Woldesenbet (2006: 400). Access to the capital needed to develop and implement IT, whether in the form of debt, equity, or retained earnings proposed as a source of sustainable competitive advantage of the company, Farland (1984: 98). There are four (4) attributes that IT capital requirements, proprietary technology, technical skills, and managerial IT skills, which become the sources of sustainable competitive advantage, Mata, et al 1995; 487). Companies with profit above normal is a company that has high barriers to entry and exit, while companies with profits below normal has low barriers to entry and exit, Mc Millan & Wohar (2008). Factors associated with higher earnings and accruals persistence, is the ability to manage better, Demerjian (2013). Fundamental signal is a significant predictor of future profits to short term and long term changes, contextual factors include earnings news, industry membership, macro-economic conditions and the establishment of the company, Zinc & Hancock (2012). Profit persistence is stronger when high entry barriers, and when there is low competition in accordance with the structure and behavior indicators based competition, Goddard, et al (2010; 4).

To expand its business, the company can use the internal and external resources. Internal funding sources come from retained earnings and depreciation while the source of external funding can be obtained from external debt financing and equity. The need for capital can be met through the company's ability to access capital markets to sell shares through an IPO to go public and as the company did an IPO is as a means to promote good governance and corporate performance, Faizul Haque (2006; 1); Singh (2000; 1), increase control and efficiency (Singh (2000; 1), in order to finance the growth of the net assets of those of the internal funds, Singh (2003), to further improve

profitability and market valuation, Jackowicz et al. (2013; 1), in order to finance the growth of total assets, Yartey (2006: 4), to finance its banking operations (Wenying Jiangli et al, 2007; 2), for financial growth with intensive investment companies that do not generate cash flow sufficient internal (Pagano and Roell, 1998; 43), for increasing the value of the company, the purpose of R & D, capital expenditures, as well as the acquisition of Kim and Weisbach (2005; 3); Sosnowski (2015; 227). Not all developed countries regard the stock market as an important tool in obtaining funds from the capital market (Allen & Qian, 2014; 499). Banks could finance its activities in addition to equity, it can also with debt, credit sales, and through the securitization of assets in the capital markets, (Wenying Jiangli et al., 2007; 2); (Greenbaum & Thakor, 1987).

Related to the Initial Public Offering (IPO), according to Alborno and Pope (2004; 2), the possibility depends positively on the size and stock price, the larger the size of the companies find it easier to obtain greater external capital.

Problems arise with the financing of the stock is how to position its shares on the capital market. Shares that provide high returns will be pursued by investors from time to time. Indonesia Stock Exchange has provided information about the development of the stock exchange, stock price data, both through print and electronic media, in the form of stock price movement indicator which called as the stock price index. For investors, some banking stocks always be excellent, on the Main Board Index, LQ45, Business-27 index, the index Compass 100, or in a group bluechip stocks. Stock position through the implementation of trading systems can lead to two boards of management companies that go public experiencing financial pressures caused by the decline in the status of the issuer's shares trading on the main board to the development board. Degradation to the development board is not a proud achievement for the issuer's management, because management is acting as the agent has been given the task by the owner of the company (principal) to manage the company.

percent of bank capital, Mutairi & Naser (2015; 959). As an alternative financing, bonds often become an important source of funding, such as companies with a high probability of survival and beneficial, will tend to use more debt, as their main funding options, Abor & Kofi (2009; 195). Bond ratings are important to investors, because it shows the scale of the risk of failed payment, which is a probability when the issuer is unable to pay its financial obligations on time according to its financial agreement with investors. Bond ratings provide an overview of credibility (credit worthiness) and affect the value of the bonds in the capital market. The higher the rank, the higher the credibility of the bonds. Therefore the company must maintain these ratings for giving effect to management and investors.

While the impact of the announcement of such bond rating downgrades, the bad information to shareholders and the Bondholder (Goh and Ederington, 1993; 2001). Ranked announcement could also impact on the stock price changes (Kliger, and Sarig, 1998; 13; 2000); (Liu, Seyyed and Smith, 1999; 337).

Ability of banks to collect funds from the public in the form of third-party funds, will affect the number of loans, which will ultimately affect the performance gains. Results of research, Bukhari et al, (2012; 1037); Dawood (2014; 1) and Javaid et al. (2011; 59), concluded that the deposit is the main profitability indicator which called Return On Assets (ROA), that has a strong influence on profitability. Furthermore, according to Khan (2011; 1484), a variable ratio of deposits to assets, the ratio of deposits to loans, are major determining factors of profitability of banks. But the sources of financing of credit sourced from third party funds and strong deposit growth, can lead to slow credit growth, (Guo and Stepanyan, 2011; 1), thus there should be an attempt to seek other financing sources. Financing decisions on the bank is not the same as other types of companies because of the nature of the operation of the financial institutions. Even though commercial banks are able to raise finance using equity and debt, the fact that they are mobilizing third party funds which can act as a source of finance, makes their capital structure unique compared to other business enterprises (Abdabi & Abu-Rub, 2012; 92; Taani, 2013; 41).

Bank productive assets, such as loans are positively related to economic growth, in which financial intermediation as well as financial liberalization would stimulate demand for higher credit (Shijaku & Kalluci, 2013; 5). Although the sources of financing of credit primarily sourced from third party funds and strong deposit growth, it can lead to loan growth slow, (Guo and Stepanyan, 2011; 1). Slowing credit growth indicates the intermediation function of banks that are less effective, thus requiring the development of various additional sources of other funds to boost credit growth. The

ability of banks increase credit growth is an achievement of the performance of banks must be maintained and improved.

The ability of banks to channel loans to increase profits, Bukhari (2012; 1037); (Javaid, 2012; 59); Khan & Anuar (2011; 1484); (Alpera & Anbarb, 2012; 139), that the interest income, higher loan growth, and the size of the loan portfolio contribute to the profitability of banks. Furthermore, according to Syafri (2012; 236), the loan to total assets ratio, total equity to total assets ratio, loan-loss provision to total loans give a positive effect on profitability. But according to Khan & Anuar (2011; 1484) in the case of smaller banks, loan growth variables do not significantly affect the profitability of banks.

The increase in NPLs tend to hamper economic growth and reduce economic efficiency (Hou, 2007). The economic slowdown, the unemployment rate, inflation and interest rates have an impact on non-performing loans, Vatansever and Hepşen (2013; 119); Makri et.al (2014; 3); Luzis et al. (2010, 3). Another factors are the capital adequacy ratio, the level of nonperforming loans the previous year and return on equity, (Louzis et al, 2010; 3). Non Performing Loan (NPL) used as a proxy of the quality of credit management needs to be maintained since the high level of NPLs is a reflection of the low quality of management and vice versa. Lim paphayom & Polwitoon (2004; 1578), explain that the NPL gives positive effect on ROA. However, these result contradicts to the research Gelos (2006; 23) which shows a significant negative effect on the NPL to ROA. Banks with high NPL tend to exhibit lower levels of competitiveness, whereas banks with lower NPL levels showed high competitiveness.

Credit performance can also be demonstrated by the increased credit growth as shown in growth theory. Credit growth will affect the performance of loans in the balance sheet (Carbo et al. 2011; 4). Various ways can be done to boost credit growth as a syndicated loan model, which means as a loan or credit granted jointly by more than one bank to the debtor, whether it is the investment loan or working capital loans, that opens a new chapter in the model of the loan. Model loans and other financing require more in-depth study in the future.

Keeping the level of efficiency is important concerning the bank's function as an agent of trust, an agent of development and agents of service. In accordance with these functions, maintain the health of banks is very important for customers interest, investors, government and society at large. In Indonesia, a proxy often used to determine the efficiency is the ratio of operating expenses to operating income (BOPO). The theory explains that the relationship between BOPO and ROA are inversely proportional. The standard number for BOPO ratio is below 90% (PBI). If the ratio of a bank's BOPO generated more than 90%, it can be concluded that the bank is not efficient in carrying out its operations. With the increased income, it can be ascertained that ROA increases. Prabowo (2012) concluded that BOPO gives negatively effect to bank performance which is proxied by NIM. Similar disclosed, Ilusmawati & Nuswantara. (2014; 1148) that BOPO gives significant effect on ROA.

Some researchers who incorporate efficiency as input variables in determining the performance, Abdullah et al (2014; 82) use the cost efficiency as input variables in determining the ROA and NIM. Furthermore, Almazari (2013; 285); Amunani (2013; 308); Dawood (2014; 1), include the Cost to Income Ratio (CIR) that affect ROA and ROE. Jabbar (2014; 113); Shiphoo (2011; 24) use the operating expense / total expenses to determine their impact on ROA and NIM. Prabowo (2012), Ilusmawati & Nuswantara. (2014; 1148), that BOPO gives significant effect on profit performance.

Financial capabilities variable with output sustainable competitive advantage variable that the company with the ability to offer stock, issuing non-convertible and convertible bonds, and access to bank financing has a sustainable competitive advantage in the long term (Fonseka and Gao, 2014; 963). The three strategic assets: access to capital, cash management efficient and effective capital investment were found to contribute to competitive advantage at a construction company in Thailand. (Vorasubin and Chareonngam, 2007). Whereas access to the capital needed to develop and implement IT can be in the form of debt, equity or from retained earnings, has been proposed as a source of sustainable competitive advantage, Mata, et al (1995). The company's high-performance, business exporters, medium and large companies will increase the probability of access to credit, where the company who has access to credit and an increase in loans with a long duration effect on the company's performance, Buyinzal & Bbaalel (2013). In the financial services industry a superior

resource development is an important element in generating returns above normal. The issuance of shares is positively associated with profitability and liquidity, support bank as a supplier of interest is positively related to bank profitability and capital adequacy, Behery & Eldomiaty, (2010; 120). The better credit information sharing mechanism decrease the low competition damage, Love and Soledad (2014). Results of previous studies related to the input variables of financial capability and its impact on sustainable competitive advantage has not been done, in contrast to previous research using the data of the banking sector the period 2009-2014 which use variables comprising the financial capability of the company's ability to share access, the ability to access bond funds, according to Fonseka et al (2014), Vorasubin and Chareonngam, (2007); Mata, et al (1995; 487); (Style et al, 2013); (Behery & Eldomiaty, 2010; 120). In addition, the other financial capabilities used are the ability of third parties to collect funds, the ability to deliver and the credit management in accordance with Love and Soledad (2014), as well as the bank's ability to maintain the level of efficiency. Ojeda et al (2007; 289); Style et al (2013; 1); Azorin et al (2015; 41).

- H₁: Ability to Maintain the Stock Quality Affects the Sustainable Competitive Advantage
- H₂: Ability to Gain Stock Funds Affects the Sustainable Competitive Advantage
- H₃: Ability to Maintain the Bond Quality Affects the Sustainable Competitive Advantage
- H₄: Ability to Gain the Stock Funds Affects the Sustainable Competitive Advantage
- H₅: Ability to Access Long Term Funding Affects the Sustainable Competitive Advantage
- H₆: Variable of Ability to Access the Society Funds Affects the Sustainable Competitive Advantage
- H₇: Ability to Maintain Asset Quality Affects the Sustainable Competitive Advantage
- H₈: Ability to Distribute Credit Affects the Sustainable Competitive Advantage
- H₉: Ability to Maintain the Efficiency Affects the Sustainable Competitive Advantage

An innovation is an idea, practice, or object that is perceived as new by an individual or another unit of adoption. The characteristic of an innovation, as perceived by the member of the social system, determine its rate of adoption, Rogers (1995). There are five types of innovations, Schumpeter (1934): (1) new products, (2) new production methods, (3) new sources of supply, (4) new market exploitation and (5) new ways to regulate business. According to Gopalakrishnan and Damanpour (1996) innovations are (1) administrative innovation vs. technical innovation, (2) product innovation vs. process innovation, and (3) radical vs incremental. According to Johannessen et al. (2001: 21) there are 6 categories, namely new products, new services, new production methods, open new markets, new supply sources, and new organizing ways. According to Frame & White (2004: 4); Tufano (2003: 4) Innovation is the creation of financial instruments (both products and processes) with the discovery or diffusion of products, services or ideas. Innovation is the act of creating, then popularizing new financial instruments, new financial technologies, institutions and new financial markets, Tufano (2003: 4-5). Examples of product innovation are new derivative contracts, new securities or new forms of investment products collected, Tufano (2003; 4). According to Arnaboldi (2010: 3-4). Product innovation includes all new products launched by banks, such as the introduction of new loans.

Innovation is done when banks hold a higher market share Arnaboldi (2014, 1-5), (Hamid Boustanifar, 2014; 343); Heffernan, et al, (2008: 3), banks less affected by the financial crisis lead to innovation, financial innovation activities are increasing through firm financial measures, employee education, greater spending on research and development, financial availability, and the extent to which firms Working with one another. Mabrouk et.al (2010), the process of financial innovation often comes from public power. Franklin Allen (2012), there is evidence that financial innovation is sometimes to create complexity and leverage on the part of buyers. Roberts & Amit (2003; 107), most innovative activities are based on out-of-corporate ideas, which are spread very rapidly in competing banks, Thorsten Beck, et.al (2012), that financial innovation is related to bank earnings volatility higher

- H₁₀: Ability to expand the network and company size, affect sustainable competitive advantage
- H₁₁: Ability to launching New products affect sustainable competitive advantage
- H₁₂: The ability to cooperate has an effect on sustainable competitive advantage

- H₁₃: The ability to cooperate has an effect on sustainable competitive advantage
 H₁₄: Empowerment Capability, Training and R & D affect sustainable competitive advantage
 H₁₅: Market Share has an effect on sustainable competitive advantage

The results of research includes the input variable factor which is the market share of the credit industry to reveal the output variable problem of how to maintain sustainable competitive advantage.that specific industry factors including market share and the external impact on the profitability of commercial banks, Muthini (2013). The indicators of the presence in the market is quite competitive in banking environment, particularly the competition between private banks, Amare (2012). The bank's profit is determined by a larger market share, the banking sector is not very competitive, Garza-Garciab (2010). Concentration has a strong impact on the performance of the bank, Jonathan A. Batten, Xuan Vinh Vo (2014).All factors in some particular banks has a statistically significant impact on profitability, but there is no market factor that has a significant impact, Olweny & Shipho (2011). Previous research related to the impact factor of the sustainable competitive advantage in the industry has not been done. This study uses a variable input credit market (credit market share) as the independent variable and variable sustainable competitive advantage that is proxied by the persistence of profit as the dependent variable.

H₁₀ : Industrial Factor, which is credit market share, is predicted to be the variable that affect sustainable competitive advantage

3. RESEARCH METHOD

Sustainable competitive advantage and the factors that influence it, such as: financial capacity and industry factors on the bank listed on the Indonesia Stock Exchange (BEI) in the period 2009-2014. Using secondary data, in the form of pooled data, the study population was 39 banks listed on the Indonesia Stock Exchange.

Dependent variables or called as sustainable competitive advantage in each bank are proxied by the persistence of abnormal profitability that reflects the sustainable earnings against the industry average in the future. Profit persistence is measured based on the dynamics of corporate profits empirical data and estimated through regression analysis of dynamic panel banking company level, as well as the theory of persistence of profit hypothesis Mueller (1977, 1986). Independent variables as determinants of sustainable competitive advantage which named as Financial Capability consist of Quality Stocks/KS (X1); the ability of the company to get a position on the group Main Board for access to the public. Stock Funds/DS (X2); the amount of share capital that was successfully obtained through access to the public; Quality Bond/KO (X3), the ability of the company to obtain a superior rating (AAA) on agency securities (PEFINDO); Bond Funds/DO (X4), is the number of company's bonds sold to investors through the capital market. **The ability to fund access:** Third Party Funds / DPK (X5), is the number of third-party funds consist of demand deposits, time deposits and savings that have been collected from the public. **Maintaining Capability Asset Quality:** Loan Disbursements / KYD (X6), the amount of credit that were distributed; Credit quality / KK (X7), is the company's ability to maintain credit quality that is proxied by the Non Performing Loan. **Efficiency Keeping Capability:** BOPO (X8), is the company's ability to maintain efficiency proxied by the ROA (Operating Expenses divided by Operating Income) **Innovation Capabilities:** Number of Branch Offices (X9); Company Size (X10); Total Assets Log; Number of Launching New Products (X11); Number of Cooperation (X12); The number of cooperation contracts (MOUs) with outsiders related to successful innovations; Ratio between Total Cost of Outsourcing, Training and R&D on Total Revenue (X13). **Industry factors: variables used are:** Credit Market Share / CMS (X9)

Except for the variable quality of Shares / KS (X1) and Quality Bond / KO (X3), all factors measured in each bank with normalization techniques as used in the measurement of bank profitability normalized, which is as a deviation factor of a bank against the average interbank annually averaged throughout the study period (2009-2014), the normalization process is only calculated as a deviation, whereas the other variables were calculated as a deviation relative to the average in percent.

The analysis technique used in the measurement of sustainable competitive advantage among banks and analysis of the factors affecting the banking sustainable competitive advantage is the linear regression analysis. Analysis performed using a two-step approach referring to the profit

persistence analysis techniques of Goddard, Liu, Molyneux, and Wilson (2010), which rests on the theory of persistence of profit hypothesis of Mueller (1977, 1986). In the first stage, sustainable competitive advantage (banks profit persistence) throughout the research period (2009-2014) in each bank estimated through regression analysis of time-series between years based on the model of first-order autoregressive normalized profitability of banks in the formation of a dynamic panel. Profitability of banks is measured by Return on Assets (ROA), while bank profitability normalized ROA is a deviation between a bank with an annual average interbank ROA (abnormal ROA). The normalized profitability of banks of first-order Auto Regressive model AR (1) in the formation of a dynamic panel for the measurement of sustainable competitive advantage throughout the study period (2009-2014), each banks are:

$$\square_{i,t} = \square_i \sim + \square_i \cdot \square_{i,t-1} + \mathbf{v}_{i,t}$$

where :

$\square_{i,t}$ = ROA deviation i bank with average ROA interbank t year ($ROA_{i,t} - ROA_t \sim$)

$\square_{i,t-1}$ = ROA deviation i bank with average ROA interbank t-1 ($ROA_{i,t-1} - ROA_{t-1} \sim$)

\square_i = estimation of model constanta which shows ROA average deviationi bank ke-i with long term average interbank ROA

\square_i = estimation reggression model coeficient which shows profit persistency as competitive advantage proxy of i bank

In the second stage, the regression coefficients estimated first-order autoregressive models of the first stage, which is profit persistence as a proxy for sustainable competitive advantage that is treated as a dependent variable in the regression analysis of cross-sectional interbank and functioned based on factors which allegedly influenced it. Regression model in the second stage regression analysis is a model of the effect of Financial Capability and Industry Factors on Sustainable Competitive Advantage analyzed in relation to the research hypothesis testing. The regression equation is analyzed as follows:

$$\lambda_i = \mathbf{b}_0 + \sum \mathbf{b}_j \cdot \mathbf{X}_{ji} + \mathbf{e}_i$$

$$\lambda_i = \mathbf{b}_0 + \mathbf{b}_1 \cdot \mathbf{X}_{1i} + \mathbf{b}_2 \cdot \mathbf{X}_{2i} + \mathbf{b}_3 \cdot \mathbf{X}_{3i} + \mathbf{b}_4 \cdot \mathbf{X}_{4i} + \mathbf{b}_5 \cdot \mathbf{X}_{5i} + \mathbf{b}_6 \cdot \mathbf{X}_{6i} + \mathbf{b}_7 \cdot \mathbf{X}_{7i} + \mathbf{b}_8 \cdot \mathbf{X}_{8i} + \mathbf{b}_9 \cdot \mathbf{X}_{9i} + \mathbf{b}_{10} \cdot \mathbf{X}_{10i} + \mathbf{b}_{11} \cdot \mathbf{X}_{11i} + \mathbf{b}_{12} \cdot \mathbf{X}_{12i} + \mathbf{b}_{13} \cdot \mathbf{X}_{13i} + \mathbf{b}_{14} \cdot \mathbf{X}_{14i} + \mathbf{e}_i$$

$$\text{LAMBDA}_i = \mathbf{b}_0 + \mathbf{b}_1 \cdot \text{KS}_i + \mathbf{b}_2 \cdot \text{DS}_i + \mathbf{b}_3 \cdot \text{KO}_i + \mathbf{b}_4 \cdot \text{DO}_i + \mathbf{b}_5 \cdot \text{DPK}_i + \mathbf{b}_6 \cdot \text{KYD}_i + \mathbf{b}_7 \cdot \text{KK}_i + \mathbf{b}_8 \cdot \text{BOPO}_i + \mathbf{b}_9 \cdot \text{JKC}_i + \mathbf{b}_{10} \cdot \text{UP}_i + \mathbf{b}_{11} \cdot \text{JLPB}_i + \mathbf{b}_{12} \cdot \text{JK}_i + \mathbf{b}_{13} \cdot \text{RPORD}_i + \mathbf{b}_9 \cdot \text{CMS}_i + \mathbf{e}_i$$

Determinant of sustainable competitive advantage model is analyzed through three (3) measurement model, which are: normalization models as reference models, as well as the average model and growth model as a model of exploration. Each model measurements, will be analyzed by two (2) methods, the enter method and backward method. In the enter method, model is analyzed by including all independent variables. Whereas in the backward method, model is gradually by removing variables that do not meet the 10% significance models and incorporate independent variables that meet the 5% significance models. Before analyzed, Financial Capabilities and Industry Factors influence model on Sustainable Competitive Advantage in the enter method model normalization was tested for compliance. The testing requirements is that testing should be done with classical assumptions for linear regression.. Test is conducted on the assumption of normality test, multicollinearity, and heteroscedasticity. Autocorrelation test was not included considering the formation of the data are cross-sectional that do not have a specific order.

4. RESULT & DISCUSSION

The normalized first-order autoregressive model AR (1) of banks profitability in the formation of a dynamic panel for the measurement of competitive advantage (bank profit persistence) throughout the study period (2009-2014) on each bank is that the highest average ROA at bank -bank listed on the Stock Exchange in the period 2008-2014 was obtained in 2012, with ROA of 2.07%; while the lowest was in 2008 with -0.19% ROA. ROA increased from the year 2008-2012, then declined in 2013 and 2014. On the condition ROA reached the highest position in the year 2012, the bank with the highest ROA was Bank 9 with 5.15% ROA; while the lowest is Bank 16 with of -0.81% ROA. When the ROA reached its lowest in 2008, the bank with the highest ROA is Bank 24 with 4.48% ROA; whereas the lowest was 11 with 52.69% ROA.

When ROA reached the highest position in 2012, by that bank with the highest abnormal ROA is Bank 9 with abnormal ROA of 3.08%; while the lowest is Bank 16 with abnormal ROA of -2.88%. The average ROA between banks in 2012 amounted to 2.07%. As for the conditions of ROA reached its lowest in 2008, the bank with the highest abnormal ROA Bank 24 with abnormal ROA of 4.67%; whereas the lowest was Bank Mutiara with abnormal ROA of -52.50%. The average ROA between banks in 2008 amounted to -0.19%.

The results estimated profit persistence (λ) based on a simple linear regression analysis on the model of normalized first-order autoregressive (AR (1)) profitability of the bank showed that 15 banks (48.4%) had a positive profit persistence (λ), while 16 banks other (51.6%) had a negative profit persistence (λ). Banks with the highest positive profit persistence or have a sustainable competitive advantage in the long run is the highest Bank 4 with a value of $\lambda = 0.541$. While the bank with the lowest positive profit persistence or have a sustainable competitive advantage is the lowest Bank 1 to the value of $\lambda = 0.009$.

As for banks with low or negative profit persistence has the lowest competitive disadvantage in the long run is the Bank 5 with a value of $\lambda = -0.005$. While the bank with the highest negative persistence profit or have the highest competitive weakness is the Bank 9 with a value of $\lambda = -0.450$.

The measurement of sustainable competitive advantage it appears that banks with high ROA is not guaranteed to have high profit persistence. The results showed that banks with high ROA can have a negative profit persistence that show indications of weakness to compete in the long term because it is not able to maintain its achievement abnormal ROA relative to the industry average as with Bank 9 and Bank 5. Bank 9 the period 2009-2014 resulted in an average ROA highest compared to other banks, which amounted to 4.70%; but has the lowest profit persistence. Bank 5 in the period 2009-2014 had an average ROA ranked 3rd highest after Bank 9 and Bank 24, amounting to 3.67%; but has a negative profit persistence.

The results also showed that banks with low ROA can have a positive profit showing the persistence of competitive advantage in the long run because it is able to maintain the achievement abnormal ROA compared to the industry average ROA. As with Bank 4 and Bank 3. Bank 4 over the period 2009-2014 resulted in an average ROA rated 21st compared to other banks, which amounted to 1.33%; but has the highest profit persistence. Bank 3 in the period 2009-2014 had an average ROA rank 25th, in the amount of 1.09%; but has positive profit persistence

4.1. The Result of Normalization, Average and Growth Model of Regression Analysis

Below is a recapitulation of the analysis model of the influence of the normalization models as reference models with average model and growth model as a model of exploration.

Table 4
Result of Recapitulation Model Analysis

Determinan	Normalization Model				Average model				Growth Model	
	Enter Method (n = 31)		Backward Method (n = 31)		Enter Method (n = 30)		Backward Method (n = 29)		Backward Method (n = 16)	
	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value	Coefficient	p-value
(Constanta)	,151	,259	,052	0,266	-3,899	,262	,054	,351	-5,491	,063
KS (Stock Quality)	-,146	,423			-,128	,475			,379	,024
DS (Stock Fund)	,001	,367			1,289x10 ⁻¹¹	,729				
KO (Bond Quality)	-1,834	,039	-1,675	,019	-2,444	,020	-2,627	,003		
DO (Bond Fund)	-,002	,010	-,001	,022	-1,046x10 ⁻¹⁰	,042	-5,268x10 ⁻¹¹	,089	-,003	,052
DPK (Third Party Fund)	-,007	,044	-,006	,047	6,226x10 ⁻¹⁰	,934	6,700x10 ⁻⁹	,006		
KYD (Loan Distributed)					6,452x10 ⁻⁸	,083			,267	,075
KK (Credit Quality)	,008	,678			,005	,803				
BOPO (Ratio of Operational Cost againsts Operastional Income)	,001	,917			,003	,630				
JKC (Amount of Branch)	-,0004	,582			-,0002	,342	-,0003	,045		
UP (Firm Size).	,434	,113			,291	,277				
JLPB (Launching New Product)	-,004	,013	-,002	,030	-,186	,036	-,086	,059	-,002	,024
JK (Amount of Collaboration)	,002	,044	,002	,026	,044	,093				
ROPRD (Outsourcing, training cost, dan R&D to Total Income Ratio)	-,032	,183			-,024	,319				
CMS (Credit Market Share)	,365	,079	,353	,046	-1,477	,154			-,308	,074
R ² (R _{Adjusted} ²)	0,528 (0,167)		0,378 (0,222)		0,595 (0,218)		0,410 (0,282)		0,635 (0,452)	
F (p)	1,462 (0,228)		2,429 (0,056)		1,576 (0,196)		3,199 (0,025)		3,476 (0,044)	

Source: Data Processing

The table shows that the results of the effect of financial capabilities analysis model, innovation capabilities and industry factors to sustainable competitive advantage in the banking normalization models are robust. Either by the enter method and backward method, factors that significantly influence the sustainable competitive advantage is the quality of bank bonds (KO), Bond Fund (DO), Third Party Fund (DPK). It can be concluded that the determinants of sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is the quality bonds (KO), Bond Fund (DO), Third Party Fund (DPK), and Credit Market Share (CMS).

Quality Bonds (KO) consistently give significant effect on banking sustainable competitive advantage on average model, either by the enter method and backward method. Influence directions of quality bonds (KO) against a sustainable competitive advantage in banking is equally negative. Bond Fund (DO) consistently gives significant effect on banking sustainable competitive advantage on average model, either by the enter method and backward method, and a growth model based on the method of backward method. Directions influence of Bond Funds (KO) against a sustainable competitive advantage in banking is equally negative. Third Party Funds (TPF) is a factor that also have significant influence on the average model based on the backward method, but toward the opposite effect than the model of normalization. Directions influence of Third Party Funds (DPK) model normalization is negative, while the direction of the influence of Third Party Fund (DPK) in the average model is based on backward method was positive. Credit Market Share (CMS) is a factor that also have significant influence on the growth model based on the backward method, but toward

the opposite effect than the model of normalization. Influence directions of Credit Market Share (CMS) on the model of normalization is positive, while the direction of the influence of Credit Market Share (CMS) on a growth model based on the backward method is negative

The research hypotheses about the effects of the ability to access capital and funding for sustainable competitive advantage is tested based on the analysis of the effect of Financial Capabilities, and Industrial Factor to sustainable competitive advantage in the normalization model. It can be concluded that sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is significantly affected the ability to access capital and funding, in this case is the ability to access funding, namely: Quality bonds (KO) and Bond Funds (DO).

Quality bonds (KO) and Bond Funds (DO) negatively affect the sustainable competitive advantage. These findings indicate that banks with the ability to access financing (bond) better, as indicated on the rating of bonds and bond funds the amount is higher, are less able mendayagunakannya to achieve sustainable competitive advantage.

Increased capital capacity of long-term debt capital (bonds), in addition to the potential to maintain and achieve higher incomes, also have risk in increasing the cost of capital. Under a when additional capital is less or not productive, high capital costs and low return on capital, in the aggregate, will have implications on the low persistence of profit which lowers sustainable competitive advantage. The study's findings match the results of the study Varun Dawar (2014) which shows that the leverage has a negative influence on the financial performance. Serena Garralda (2014) argues that the growing bonds without the investment profile bondholders are positive and financial condition of the borrower is healthy and conducive monetary conditions could potentially trigger losses at various parties and lowered financial stability. To achieve sustainable competitive advantage, Vorasubin and Chareonngam (2007) requires the existence of efficient cash management and effective use of capital, apart from access to capital. Cotei et al (2011; 715) states that the use of debt will increase the company's exposure to financial risk. Under conditions of high business risk, the company with more debt have a higher risk of loss.

The research hypotheses about the effects of the ability to access public funds towards a sustainable competitive advantage tested based on the analysis of the influence of Capability Financial Capability Innovation, and Factor Industry on Competitive Advantage in the model of normalization. It can be concluded that sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is affected significantly by the ability to access public funds, namely: Third Party Fund (DPK).

Third Party Fund (DPK) negatively affect the competitive advantage. These findings indicate that banks with the ability to access public funds better, as indicated from TPF higher, are less able to employ their potential to achieve competitive advantage.

Increased capacity of DPK capital, in addition to the potential to maintain and achieve higher incomes, also has risk in increasing the cost of capital. Under conditions of additional capital that are less or not productive, high capital costs and low return on capital, in the aggregate, will have implications on the low persistence of profit which lowers the company's competitive advantage. To achieve competitive advantage, Vorasubin and Chareonngam (2007) requires the existence of efficient cash management and effective use of capital, apart from access to capital. According Demirgüç - Huizinga (2009; 2) increased mobilization of funds from the deposit will reduce the use of debt and equity to finance the banking needs. It can berekses in a lower precautionary savings fund companies to manage effectively and efficiently due to low supervision relative to the company managing the funds of debt and / or equity.

The study hypothesis about the effect of the ability to maintain asset quality to sustainable competitive advantage is tested based on the analysis of the influence of Capability Financial Capability Innovation, and innovation to competitive advantage in the model of normalization can be concluded that sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange are not affected significantly by the ability to maintain asset quality, namely: Loans Disbursed (KYD) and Credit Quality (KK).

The study hypothesis about the effect of the ability to maintain the efficiency of the sustainable competitive advantage based on the analysis examined the effect of Financial Capability and Industry Factors of the Competitive Advantage in the model of normalization. it can be concluded

that sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is not significantly affected by the ability to maintain efficiency, namely: BOPO.

The research hypothesis about the effect of network expansion ability and firm size on Sustainable Competitive Advantage is tested based on the result of analysis of the influence of Financial Capability, Innovation Ability, on Sustainable Competitive Advantage in normalization model. Based on the results of hypothesis testing above, then hypothesis 6 is rejected. It can be concluded that the Sustainable Competitive Advantage on the banks listed in the Indonesia Stock Exchange is not affected by the Number of Branch Offices (JKC) and Company Size (UP). This indicates that the variable is not a determinant of the Sustainable Competitive Advantage. As in the background of the problem that there is now a change in the behavior of customers in transactions with banks, Data shows that customers prefer to transact via internet banking more practical and efficient, they are not so require the presence of branch offices. It is therefore perceived that building too many branches is valued as a waste and inefficient conditions, leading to a decline in performance. Especially amid the slowdown in economic growth, some banks continue to make efficiency to maintain profits, including the reduction of the network. Some banks issue more network expansion policies that lead to spreading rather than additions. Some banks also plan to close branch offices for efficiency. This program is a program with the expansion of banking services without relying on branch offices, namely by utilizing the media technology.

The research hypothesis about the effect of New Product Launching ability on Sustainable Competitive Advantage is tested based on the analysis of the influence of Financial Capability, Innovation Ability, and Industrial Factor on Sustainable Competitive Advantage in normalization model. Based on the results of hypothesis test above, then hypothesis 7 accepted. It can be concluded that the Sustainable Competitive Advantage on the banks listed in the Indonesia Stock Exchange is significantly influenced by the innovation ability, namely: Number of Launching New Products (JLPB).

Number of Launching New Products (JLPB) negatively affect the competitive advantage. These findings suggest that banks with higher innovation capabilities, as indicated by the number of new product launches, tend to be less able to leverage them to achieve the Sustainable Competitive Advantage. This is in line with the phenomenon that new activities and products, has grown increasingly complex and varied, resulting in increased risk of risks borne by banks, and raising unhealthy practices that jeopardize the viability of banks.

Increasing the launch of new products, in addition to potentially attracting market services and earn higher revenue, is also at risk of increasing costs. As Kotler (1997: 325), launching is included in the introduction phase of the product life cycle, where sales slows down when products are introduced to the market, profits have not been gained while large expenditures have been made to introduce the product. In addition, under the conditions of the lack of product delivery capability and the ease of new products to be imitated by competitors, the new product that was launched precisely trigger negative purchasing behavior from consumers, so the cost of product development and launching new products can not be compensated by the expected additional revenue. This will also have implications for the low profit persistence that degrades the company's Sustainable Competitive Advantage. The findings of this study are in accordance with the results of Sabrina Studery (2013) study, which shows that innovation in inappropriate financial products, will induce resource wastage, lead to biased savings decisions, and aggravate aggregate output by creating volatility excess. According to Frame and White (2004; 166); Mendoza et al, (2009: 371), financial innovation can be subject to increased risk due to agency problems between owners and managers of banks, or due to lower costs of fragility. Financial innovation can also create systemic risk by inducing transmission among asset classes against financing sources. According to Pagnotta et.al (2010: 8), innovation can have negative consequences on structured investment vehicles (SIV) because it is more motivated to be used to avoid banking requirements and / or meet banking regulations. According to (Beck et al, 2012; 5), that innovation is like a double-edged sword, where the use of appropriate and profitable innovations can spur the bank to invest in new technologies and will help the financial system to fulfill its function and growth, but if not used properly, Can have serious consequences on the inte conditions

4.2. Effect of Industrial Factor against terhadap sustainable competitive advantage

The research hypothesis about the influence of industry on the determinant factors of sustainable competitive advantage based on the analysis examined the effect of Financial Capability, and Industry Factors to competitive advantage in the model of normalization. It can be concluded that sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is significantly affected by industry factors, namely Credit Market Share (CMS). Credit Market Share (CMS) has positive influence on competitive advantage. These findings indicate that banks with positions better industry factors, as indicated on the credit market share higher, also tend to be better able mendayagunakannya to achieve competitive advantage.

Increased market share of loans in the banking industry, in addition to the potential to achieve higher revenues, also risks increasing the cost. Under conditions of lending productive and have lower default risk and the high ability of the company to reduce credit risk through diversification of credit, increasing the market share of credit will increase revenue for a credit. This will have implications on the high persistency of profit which increases competitive advantage of companies. Hughes and Mester (2013) argued that the ability of banks to diversify credit and managing liquidity risk is a factor that determines the bank's competitive advantage in providing financial products and services with different rules. The results of this study are also consistent with the results of research Buyinzal & Bbaalel (2013) which shows that the company has access to better credit and an increase in loans with a long duration will be able to produce higher corporate performance.

5. CONCLUSION

Based on the formulation of the problem and research objectives and results of research and discussion can be summarized as follows:

- Sustainable competitive advantage to the banks listed on the Indonesia Stock Exchange as measured by the persistence of bank profits (persistence of abnormal profitability) are likely to vary. Most banks have a profit persistence (λ) reflecting positive sustainable competitive advantage in the long term, whereas most other banks had negative profit which reflects the persistence of weakness to compete in the long term.
- Determinant of sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange is the ability to access funding are the quality of bonds and bond funds, the ability to access public funds, third party funds, as well as industry factors such as credit market share.
- The ability to access capital and funding significantly influence the sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange, even though the influence tends to be negative. Under high business risk conditions, improving quality corporate bonds and bond funds mobilization are not accompanied by an increase in cash management efficient and effective use of capital thus counter-productive in encouraging sustainable competitive advantage in banking.
- Ability to access public funds significantly influence the sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange. Increased bank deposits counter-productive in encouraging sustainable competitive advantage because of the low banking prudence companies to manage savings funds effectively and efficiently, relative to the fund management of debt and / or equity.
- The ability to maintain asset quality does not significantly influence sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange. Credit, and the credit quality (NPL) are not the determinants of sustainable competitive advantage.
- The ability to maintain efficiency does not significantly influence sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange. ROA is not a determinant of sustainable competitive advantage of companies.
- Innovation Capability is Extending Network Capabilities and Size of the company, does not affect sustainable competitive advantage in banks listed in Indonesia Stock Exchange. Extending Network and Size is not a determinant of the company's sustainable competitive advantage
- The ability of innovation is the ability of launching new products have a significant effect on sustainable competitive advantage. The growing number of new product launches by counter-

productive companies in encouraging banking competitive advantage due to inaccurate innovations can induce cost wastage.

- Innovation Capability is the Ability to Establish Cooperation has a significant effect on sustainable competitive advantage. The increasing number of effective cooperation in encouraging sustainable competitive advantage of banking.
- Innovation Capability that Empowerment Capability, Training and R & D have no effect to sustainable competitive advantage at bank listed in Indonesia Stock Exchange. Empowerment, Training and R & D capability is not a determinant of sustainable competitive advantage of the company
- Industrial factors significantly influence the determinants of sustainable competitive advantage in the bank listed on the Indonesia Stock Exchange. Increased credit market share of the company effective in driving competitive advantage in banking.

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THE EFFECT OF AUDITOR'S EXPERIENCE, TASK COMPLEXITY, AND SELF-EFFICACY TO AUDIT JUDGMENT

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ABSTRACT

This study was conducted to examine the effect of auditor experience, task complexity, and self-efficacy on audit judgment. The population in this study are 14 Public Accounting Firm located in South Jakarta area. The technique of Determining the sample using purposive sampling method (purposive sampling method). Hypothesis testing in this study using Multiple Linear Regression Analysis with SPSS 20 program and 5% significance level. The results of the test show that (1) the auditor's experience has a significant influence on audit judgment with a significance level of 0.000 smaller than the specified levels of $\alpha = 0:05$. (2) the task complexity does not have a significant influence on audit judgment Because it has a significance level of 0802 greater than the specified level $\alpha = 0:05$.

Keywords: Auditor Experience, Complexity of Task, Self-Efficacy, Audit Judgment

1. INTRODUCTION

Transparency is needed in the present financial statements by users because they expect the transparency is good and right in order to be used as decision-making and as a means to minimize fraud in the examination of financial statements. Therefore, the right of the Audit Judgment is needed to minimize fraud will occur.

Occurrence unit failure cases in recent years have created a crisis of public confidence in the accounting profession regarding the inability to audit the financial statements. The emergence of this crisis is said to be reasonable because a lot of a company's financial statements received an unqualified audit opinion, but went bankrupt after the opinion was issued as a result of errors incurred by the auditor's opinion.

This study is based on the phenomenon of audit failure in the public accounting firm Ernest & Young's Partner (EY) in Indonesia. KAP Purwantono, Suherman & Surja agreed to pay a fine of \$ 1 million (about USD 13.3 billion) to the regulator in the United States because otherwise fail to perform financial statement audit clients. The deal was announced by the National Agency of the US Public Company Accounting (Public Company Accounting Oversight Board / PCAOB).

At the time of accounting firm EY partners in the United States conducted a study on the results of the audit firm in Indonesia, they found that the results of the audit of telecommunication companies were not supported by sufficient data and accurate in terms of rental of more than 4 thousand units of the cellular tower. Affiliate EY in Indonesia has issued the audit report with a status of "unqualified", the PCAOB also stated shortly before the inspections of audit reports in 2012, the affiliate EY in Indonesia creates dozens of jobs the new audit was "not true" that is hindering the inspection process. PCAOB besides imposing fines of US \$ 1 million also impose sanctions on two auditors EY partners involved in the audit in 2011. Claudius B.

The case of auditor failure over the above fraud may be reflected that the audit failure of Ernst & Young's (EY) public accountant firm in connection with Judgment Audit by comparing the applicable standards in the Public Accountant Professional Standards (SPAP) is not accurate. The auditor must carry out his duties with full responsibility in accordance with the rules contained in SPAP 2013 so as to produce an accurate audit judgment to achieve the right opinions and can be trusted by users of financial statements. As mentioned in Standard Professional of Public Accountants (SPAP) in section 341, that in carrying out the audit process, the auditor will provide opinions with judgment based on the events experienced by a business entity in the past, present, and in the future.

In making a judgment, the auditor should gather relevant evidence in a different time and then integrate the information from such evidence. Jamilah et al., (2007) explains that judgment is an

ongoing process in the acquisition of information (including feedback from previous actions), the choice to act or not to act, and the reception of further information by the auditor.

Research has done Putri (2013) and Tobing (2011) declare that there is a positive influence between the auditor's experience with the judgment. However, research conducted by Septyarini (2015) obtain results stating that the auditor's experience no significant effect on audit judgment.

The complexity of the assignment given to the auditor affect judgment (judgment) audit. The higher level of complexity of the assignment received by the auditors, then the level of difficulty in doing so is the higher level of errors in judgment (judgment) is high. This statement is reinforced by the results of previous research conducted by Ariyanti et al., (2014), which states that the complexity of the task significant effect on audit judgment. However, research conducted by Fitriany and Daljono (2012), to get the result that the complexity of the task does not significantly affect audit judgment. Research on the performance of auditors has been done by several researchers. Nadhiroh (2010) states that self-efficacy has no effect on auditor performance in making audit judgment, while theoretically self-efficacy is an important role in improving performance. However, a study conducted by Mahaputra (2016) found that self-efficacy significantly influenced audit judgment.

It can be concluded that the studies carried out prior to the Auditor Experience, Task Complexity, Self-efficacy dam on the Audit Judgment states that researchers with each other have not been consistent. It becomes the interest of researchers to re-examine the research title Effect of Auditor Experience, Task Complexity and Self-efficacy Judgment Against Audit. From the background described, the formulation of the problem data this study are: (1) Is the auditor experience had an influence on Audit Judgment, (2) Does the complexity of the tasks has an influence on Audit Judgment, (3) Do Self- Efficacy has an influence on Audit judgment.

2. THEORETICAL BASIS

2.1. Experience Auditor

Experience is an event that never happened either long or has just happened (KBBI). Namely learning experience gained through formal and informal education so that it can take a person into better behavior. The experienced auditor will be easier to detect errors so as to give a decision in accordance with the judgment (judgment). According to Simanjutak (2011, p. 11) explains that work experience can deepen and expand the working capabilities. The more kinds of work in which the person is getting rich working experience and extensive, and allows an increase in employment.

2.2. Task complexity

The complexity of the task that is the hassle or the many diverse tasks, the parts are many, different, and intertwined with each other and can also be influenced by the complexity of the assignment of roles. In auditing, the level of complexity of the job can affect the effort devoted by auditors in information processing that will give birth to a decision or judgment of auditors (Yustrianthe, 2012). The level of difficulty of the task is always associated with the amount of information about the task, while the task structure associated with the clarity of information (information clarity). According Yustrianthe (2012) in his research shows that the complexity of the task significant effect on audit judgment, the greater the complexity of the task faced by an auditor.

2.3. Self-efficacy

Self-Efficacy in jobs related to performance are well documented. According to Iskandar and Sanusi (2011), self-efficacy is a form of internal motivation, people believe that he is capable of organizing and carrying out the necessary courses of action to achieve the level of work expected. Intrinsic motivation is the willingness to engage in a task for its own sake that produces a sense of competence, one form of intrinsic motivation is self-efficacy, which is a person's belief in carrying out activities to achieve the desired results (Bandura, 1997).

3. HYPOTHESIS DEVELOPMENT

3.1. Effect of Audit Judgment Against Auditor Experience

Experience leads to the learning process and increases the potential act of formal and non-formal education. An experienced auditor will be able to hone their sensitivity in understanding the information, fraud, and misstatements of financial statements relating to the manufacture of judgment. The experience of the auditor can make the auditors learn from mistakes in the past in order to make a better judgment (Ariyantini, 2014). Experience establish an auditor becomes familiar

with the situation and circumstances in each assignment so that the auditor is able to plan and carry out measures with a good audit. Obtaining permission to become a public accountant, the experience is one of the requirements. Based on the theory of achievement motivation, auditors who have a strong motivation will continue to strive to increase their knowledge supporting its performance. This argument is supported by the results of research Ariyantini et al (2014) which states that the auditor's experience significantly affects audit judgment.

3.2. Influence of Task Complexity Judgment Against Audit

A difficult, unstructured and confusing task is the purpose of task complexity. The complexity of the task consists of two components namely task difficulty and task structure. Tough tasks require more individual ability to complete them. If the task difficulty is greater than the ability of the individual, will trigger a fear of failure in the completion of tasks, it will result in decreased motivation and effort to complete the task so that its performance decreases. This decrease in performance will also affect the quality of audit judgment generated. Then the conclusion that the higher the complexity of the task faced by the auditor and the more complicated the task performed by the auditor will lead to errors that can occur because of the complexity of the task so that auditors feel pressured from the existence of complicated tasks that can affect in yielding Judgment is not appropriate.

3.3. Influence of Self-Efficacy Against Audit Judgment

Confidence or confidence is defined as the cognitive component of attitude. Whether a person believes or not against a particular fact does not affect the potency of confidence to form attitudes or influence behavior. Intrinsic motivation is the willingness to engage in a task for its own sake that produces a sense of competence, one form of intrinsic motivation is self-efficacy, which is a person's belief in carrying out activities to achieve the desired results (Bandura, 1997).

Self-efficacy positive effect on the performance of auditors in making audit judgments because the ability of self-confidence is needed in making an audit judgment. An auditor who believe the ability he will be motivated to work better and more loved his job so that the resulting performance will increase. *Self-efficacy* determine the performance of the auditor in making an audit judgment as an auditor who has a high self-efficacy will have confidence in his ability and his chances to complete a task. Based on the theory of achievement motivation, someone who has a strong belief will surely have an urge in him to work more passion achieve more optimal results.

a. Hypothesis formulation:

- H1: Experience Auditor effect on Audit Judgment
- H2: Task Complexity influence on Audit Judgment
- H3: Self-efficacy influence on Audit Judgment

4. RESEARCH METHODS

4.1. Population and Sample

The population in this study is the auditors who worked at the firm in Jakarta with a total of 244 KAP registered Indonesian Institute of Certified Public Accountants (Certified). Sampling was done by using purposive sampling method whereby sampling techniques with specific weighting (Sugiono, 2011, hlm.126).

4.2. Types and Sources of Data

The data used in this study are primary data is data obtained directly from the source or place where the study was obtained through a questionnaire distributed to respondents who worked at the firm in South Jakarta.

4.3. Regression Model

The regression model used is the Linear Regression Analysis. Multiple linear regression equation by using three (3) independent variables were expressed in the following equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Information:

Y	= Audit Judgment
X ₁	= Experience Auditor
X ₂	= The complexity of the task
X ₃	= Self-Efficacy
A	= Constant Equation
b ₁ ,b ₂ ,b ₃	= Regression Coefficients

e = Error Term

5. RESULTS AND DISCUSSION

5.1. Validity test

Validity indicates the extent to which the measuring instrument performs the function of measuring. The trick correlates between the scores obtained on each question with a total score for the entire question. The significance level used in testing the validity of this study was 0.05 ($\alpha = 5\%$), where if the profitability obtained from the correlation coefficient of each question is less than 0.05 then the statement declared invalid. Or in other ways that the correlation coefficient is greater than r table then the question is valid. With a significance level of 5% of the 64 respondents where $df = n-2 = 62$, then the critical number r table obtained is equal to 0.2075 So when the coefficient obtained is greater than r table, then the question is valid.

variable Question	Coefficient	R table	Information
<i>Experience Auditor (X1)</i>			
PA1	0.874	.2075	VALID
PA2	0.874	.2075	VALID

Variable Auditor Experience has positive correlation value or correlation coefficient > Rtable, so that all point statement or the question can be considered valid and can be used for further testing.

variable Question	Coefficient	R table	Information
<i>The complexity of the task (X2)</i>			
KT1	0.819	.2075	VALID
KT2	.913	.2075	VALID
KT3	0.916	.2075	VALID
KT4	0.897	.2075	VALID

The complexity of the task variables have a positive correlation value or correlation coefficient > rtable, so that all point statement or the question can be considered valid and can be used for further testing.

Variable Question	Coefficient	R table	Information
<i>Self-Efficacy (X3)</i>			
SE1	.903	.2075	VALID
SE2	.903	.2075	VALID
SE3	.774	.2075	VALID
SE4	.882	.2075	VALID
SE5	0.893	.2075	VALID
SE6	0.919	.2075	VALID
SE7	.830	.2075	VALID
SE8	0.859	.2075	VALID

Self-Efficacy variables have a positive correlation value or correlation coefficient > Rtable, so that all point statement or the question can be considered valid and can be used for further testing

variable Question	Coefficient	R table	Information
<i>audit Judgment (Y)</i>			
AJ1	.653	.2075	VALID
AJ2	.596	.2075	VALID
AJ3	.837	.2075	VALID
AJ4	0.803	.2075	VALID
AJ5	0.597	.2075	VALID
AJ6	.601	.2075	VALID

Audit Judgment vari the question can be considered valid and can be used for further testing.

5.2. Reliability Test

Reliability test is a tool to measure a questionnaire which is an indicator variable. In this study, reliability testing conducted on 70 respondents. Decision-making based on the value of Cronbach's Alpha > 0.70 then the statement is reliable variables and vice versa.

Reliability Test Result Table

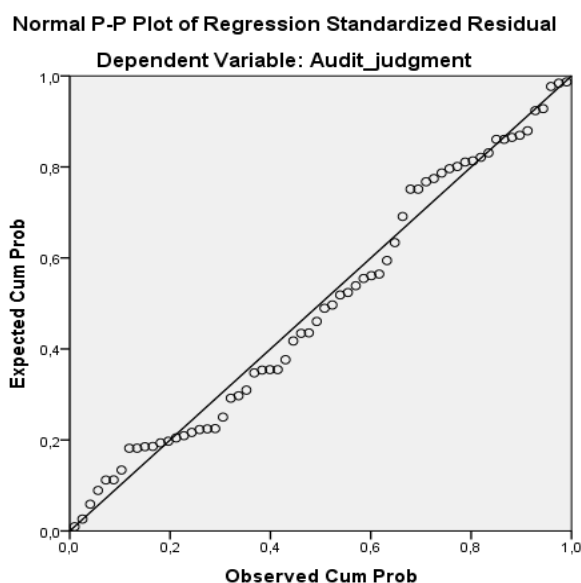
Reliability	<i>Cronbach Alpha</i>	<i>Standad Alpha</i>	Conclusin
Experience Auditor	0.932	0.7	Reliable
Task Complexity	0.952	0.7	Reliable
Self-Efficacy	0.965	0.7	Reliable
Audit Judgment	0.876	0.7	Reliable

Source: data is processed by SPSS

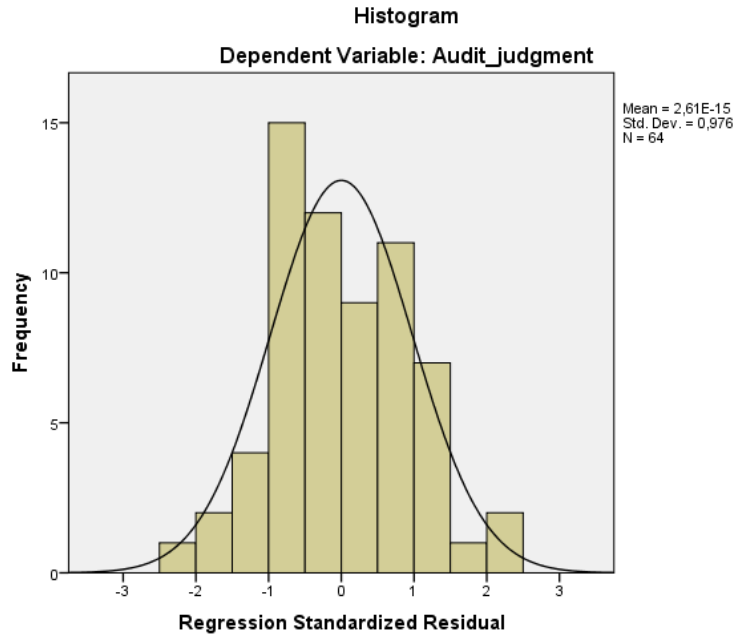
Based on the table above shows that the Auditor Experience, Task Complexity, Self-Efficacy and Audit Judgment has the status of a reliable, due to the variable value of Cronbach Alpha is greater than 0.70. This shows that each of the questions used to be able to obtain consistent data, which means when the question was asked back will be obtained relatively the same answer to the previous answer.

5.3. Normality Test

Normality test aims to determine whether the regression model or residual confounding variables have a normal distribution or not. Test for normality in this study was conducted using PP analysis Regression Standardized Residual Plot, Histogram and Kolmogorov-Smirnov (KS). Results for normality using PP analysis Regression Standardized Residual Plots indicated by the graph :



In the normal graph Probability Plots, dots spread around the diagonal line and distribution follow the direction of the diagonal line, which succeeded in proving that the normal distribution of data suggesting that the classical regression model meet the assumptions of normality. That is, the regression model, residual confounding variables, and variables have a normal distribution. The next normality test is to test the histogram.



From the figure above shows that the shape of the curve following the shape of skewness is perfect, do not tilt to the right or to the left. It was concluded that the residual variable has a normal distribution so that shows that the regression model meets the classical assumption of normality. That is, the regression model, residual confounding variable or variables have a normal distribution.

Kolmogorov-smirnov Test Results Table

One-Sample Kolmogorov-Smirnov Test		Unstandardized residual
N		64
Normal Parameters ^{a,b}	Mean	,0000000
	Std. deviation	5.6341504
Most Extreme Differences	Absolute positive	,085
	Absolute negative	,078
	Positive	-,085
Kolmogorov-Smirnov Z		,676
Asymp. Sig. (2-tailed)		750

a. Test TDA. distribution is Normal.

b. Calculate from data.

Source: data is processed by SPSS

Based on the above table, it can be seen that the value asymp. Sig (2-tailed) for all variables used in this study is greater than 0.05 to 0.750 (Ghozali 2013, p.165). It can be concluded that the data used in this study had a normal distribution so classical regression model to meet normality. That is, the regression model, residual confounding variable or variables have a normal distribution.

5.4. Multicollinearity Test

The multicollinearity test aims to test whether the regression model found a correlation between the independent variables. Variables that are not having problems multicollinearity have a level of correlation between the independent variables of 0. The regression model can be said to be free of multicollinearity if the value of Tolerance ≥ 0.10 and VIF is ≤ 10 .

Multicollinearity Test Results Table

Coefficients^a

Model	collinearity Statistics	
	tolerance	VIF
(Constant)		
1 Experience Auditor	, 971	1,030
Task Complexity	, 894	1,113
<i>self_efficacy</i>	, 920	1,087

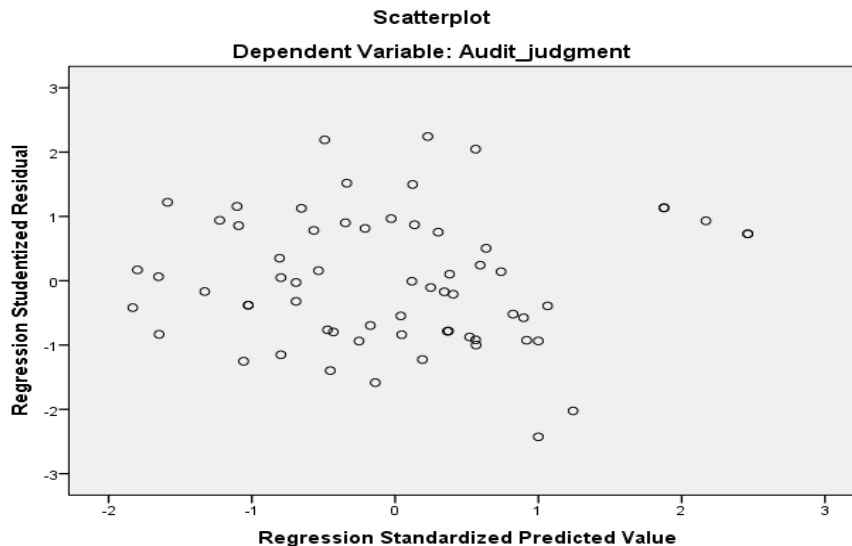
Source: data is processed by SPSS

According to the table, it is known that the value of the variable VIF Auditor Experience, Task Complexity, and Self-Efficacy has VIF value of less than 10 and greater tolerance of 0.10 so that it can be concluded that the regression model in this study did not contain multicollinearity between variables the free.

5.5. Heteroskedasticity Test

Heteroscedasticity test was conducted to test whether there is a similarity in the regression model on the residual variance from one observation to another observation. Conclusions can be drawn based on the points in the graph scatterplots. If there is no specific pattern and the points spread above and below zero on the Y axis, the regression model is free from the problem of heteroscedasticity.

Heteroskedasticity Test Results with scatter plot graph



Source: data is processed by SPSS

5.6. Hypothesis Test

Hypothesis testing is done to prove the hypothesis that has been created. Hypothesis test can be done if the regression models have passed the test classic assumptions that do not lead to bias in decision-making. Hypothesis testing is done by multiple linear regression analysis with a significance level of 5% were used. In this study conducted thorough testing or simultaneously (f test), testing the coefficient of determination, and individual tests or partially (t test).

5.7. Simultaneous Test (Test F)

Simultaneous Test (Test F) aims to show whether all the independent variables (smoking) affects the dependent variable (tied) together or simultaneously. Conclusions can be drawn based on the significant value and compare the value of F_{count} with F_{table} value. For the significant value, if the significance value less than 0.05, then the independent variables together have a significant effect on the dependent variable. As for the value of F, if F_{count} larger than F_{table} , then the independent variables together have a significant effect on the dependent variable.

Simultaneous Test Results (F)
ANOVA^a

<i>Model</i>	<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
<i>Regression</i>	10,057	3	3,352	10,058	,000 ^b
¹ <i>Residual</i>	19,998	60	0,333		
Total	30,056	63			

Source: data is processed by SPSS

Based on the above table, it can be seen that the significance value greater than 0.05 is 0.000. Thus, we can conclude that the independent variable Auditor Experience, Task Complexity, and Self-Efficacy jointly have a significant effect on the dependent variable and the Audit Judgment can be seen that F_{count} 10.058. According to the test table F, the value of F_{table} with DF1 (number of variable-1) is $4-1 = 3$ and DF2 ($nk-1$) is $64-3-1 = 60$ (n = number of samples and k = number of independent variables) is 2.76, It can be concluded that the F_{count} larger than F_{table} , then the independent variable Auditor Experience, Task Complexity, and Self-Efficacy jointly have a significant effect on the dependent variable of the Audit Judgment. Table F test statistic can be found in the appendix.

5.8. Partial Test (Test T)

Hypothesis testing is done to prove the hypothesis that has been created. Hypothesis test can be done if the regression models have passed the test classic assumptions that do not lead to bias in decision-making. Hypothesis testing is done by multiple linear regression analysis with a significance level of 5% were used. In this study conducted thorough testing or simultaneously (f test), testing the coefficient of determination, and individual tests or partially (t test).

Partial Test Results (T Test)

<i>Coefficients^a</i>					
<i>Model</i>	<i>Coefficients</i>		<i>standardized</i>	<i>t</i>	<i>Sig.</i>
	<i>unstandardized</i>	<i>Std. Error</i>			
	<i>B</i>	<i>Std. Error</i>	<i>beta</i>		
(Constant)	1,898	,467		4.061	,000
Auditor Experience	,234	,062	,403	3.773	,000
¹ Task Complexity	-,059	,100	-,065	-,587	,559
<i>self_efficacy</i>	,367	,094	,431	3.923	,000

a. Dependent Variable: Audit Judgment
Source: data is processed by SPSS

To search t_{table} used formula $df = nk-1$, where n = number of samples and k = number of independent variables, in order to get $df = 64-3-1 = 60$. Based on these results we obtained t_{table} value of 1.67065. Based on the above table it can be seen that the t test variables auditor's experience has t_{count} 3.773 > t_{table} of 1.67065 with a significance of 0.000 < 0.05 this means that H_0 is rejected and H_a accepted. So we can conclude that the auditor's experience variables significantly influence the Audit Judgment. According to the table, t test showed that the variable complexity of the task has t_{count} -0.587 < t_{table} of 1.67065 with a significance of 0.559 > 0.05 this means that H_0 is accepted and H_a rejected. It can be concluded that the variable complexity of the task is not significant to the Audit Judgment. According to the table, it can be seen that the t test Self-Efficacy variables have t_{count} 3.923 > t_{table} of 1.67065 with a significance of 0.000 < 0,05 this means that H_0 is rejected and H_a accepted. It can be concluded that self-efficacy variables significantly influence the Audit Judgment.

5.9. R² Test (coefficient of determination)

This test is useful for measuring how much the model's ability to explain variations in the dependent variable or dependent variable in this study in which the dependent variable used is the Audit

Judgment with the independent variables are rules of thumb auditor, the complexity of the task, and self-efficacy.

Test Results The coefficient of determination (R²)

<i>Model Summary^b</i>				
<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	,578a	,335	,301	,577

Based on the results of the above table, it can be concluded that the value of Adjusted R² of 0.301 or 30.1%. This suggests that the Audit Judgment variable that can be explained by the variable auditor's experience, the complexity of the task and the self-efficacy of 30.1%, while 69.9% is explained by other variables outside variables in this study such as gender, knowledge, etc. other.

5.10. Multiple Linear Regression Model

Regression analysis is an analysis that is used to measure the effect of independent variables on the dependent variable. In this study, the independent variable used is the Auditor Experience, Task Complexity, and Self-Efficacy while the dependent variable used is the Audit Judgment.

Multiple Linear Regression Test Results

<i>Coefficients^a</i>		
<i>Model</i>	<i>Coefficients unstandardized</i>	
	<i>B</i>	<i>Std. Error</i>
(Constant)	1,898	,467
1 experience_auditor	,234	,062
complexity_task	-,059	,100
Self_efficacy	,367	,094

Dependent Variable: Audit Judgment

Source: data is processed by SPSS

From the table above, the test results can be presented coefficients of multiple regression formula as follows:

$$AJ = 1.898 + 0.234 PA + 0.367 KT + -0.059 SE$$

Information :

- AJ = Audit Judgment
- PA = Experience Auditor
- KT = Task Complexity
- SE = Self - Efficacy

- a. The constant positive value of 1.898 gives the sense of experience Auditor (PA), Task Complexity (KT), and Self-Efficacy (SE) auditors who work in KAP constant or equal to zero. Then the magnitude of the Audit Judgment (AJ) working in KAP in South Jakarta.
- b. Directions positive coefficient auditor experience variable has a value of regression coefficient of 0.234 which indicates that the auditor's experience increases, it will raise the Audit Judgment on the financial statements.
- c. Directions negative coefficient of task complexity variable has a value of regression coefficient of -0.059 which shows that the complexity of the task increases, it will raise the Audit Judgment on the financial statements.
- d. Directions positive coefficient of self-efficacy variable has a value of regression coefficient of 0.367 which indicates that self-efficacy increased, it will raise the Audit Judgment on the financial statements.

6. DISCUSSION

The results of a simultaneous hypothesis test (F Test) states that the Auditor experience, the complexity of the task, and Self-Efficacy significant effect on Audit Judgment. But the results of the

partial test (T Test) states that the Auditor Experience and Self-Efficacy significant effect on Audit Judgment, while the complexity of the task does not significantly influence the Audit Judgment. Based on the results of T Test It can be concluded that the complexity of the task partially variable not significant effect on Audit Judgment KAP auditors working in South Jakarta.

6.1. Experience influence Auditor to Audit Judgment

Auditor experience a significant effect on Audit Judgment, based on the results of the t test conducted to see the effect of experience on the Audit Auditor Judgment Auditor known that experience has $t_{\text{count}} 3.773 > t_{\text{table}}$ of 1.67065 with a significance of $0.000 < 0.05$ this means that H_0 is rejected and H_a accepted, So we can conclude that the auditor's experience variables significantly influence the Audit Judgment. Directions positive coefficient auditor experience variable has a value of regression coefficient of 0.234 which indicates that the auditor's experience increases, it will raise the Audit Judgment on the financial statements. This may imply that the higher the auditor the audit experience resulting judgment will be more appropriate.

6.2. Influence of Task Complexity on the Audit Judgment

The second hypothesis in this research is the complexity of the task of not significant effect on Audit Judgment, based on the results of the t test conducted to see the effect on the Audit Task Complexity Judgment is known that the complexity of the task has $t_{\text{count}} -0.587 < t_{\text{table}}$ 1.67065 with a significance of $0.559 > 0.05$ case this means that H_0 is accepted and H_a rejected. It can be concluded that the complexity of the task partially variable is not significant to the Audit Judgment. Because in this case, the auditor has the professionalism, which the auditor can see precisely where the work will be done and what should be done in the audit work. So that the level of complexity faced not affect the auditor in making audit judgments.

6.3. Influence of Self-Efficacy of the Audit Judgment

The third hypothesis in this research is Self-Efficacy significant effect on Audit Judgment, based on the results of T-test was conducted to see the effect of Self-Efficacy of the Audit Judgment is known that the Self-Efficacy has $t_{\text{count}} 3.923 > t_{\text{table}}$ of 1.67065 with a significance of $0.000 < 0, 05$ this means that H_0 is rejected and H_a accepted. It can be concluded that self-efficacy variables significantly influence the Audit Judgment. Directions positive coefficient of self-efficacy variable has a value of regression coefficient of 0.367 which indicates that self-efficacy increased, it will raise the Audit Judgment on the financial statements. The results are consistent with research conducted by Mahaputra (2016) that the Self-Efficacy significant effect on Audit Judgment.

6.4. Limitation

- a. Trouble getting a stamp of Public Accounting Firm for their several KAP which may provide a seal.
- b. Difficulty spread because KAP KAP questionnaire to the questionnaire was not allowed to leave the grounds outside the city auditor or auditor was busy so there are some who refuse to be deposited KAP questionnaire.
- c. This study is limited to Public Accounting Firm (KAP), which could not be reached by reason KAP moved so that the study was not too much KAP answer requests fill out a questionnaire.

7. CONCLUSIONS AND SUGGESTIONS

7.1. Conclusion

- a. Tests simultaneously, proved that independent variables Auditor Experience, Complexity of Duties, and Self-Efficacy together have a significant influence on the dependent variable Audit Judgment.
- b. Individually, the auditor's experience has been shown to have a significant effect on audit judgment. the auditor experience increases, it will raise Audit Judgment on the financial statements. This can be interpreted that the higher the auditor's experience, the resulting judgment audit will be more appropriate.
- c. Individually, task complexity has been shown to have no significant effect on audit judgment. Because in this case, the auditor has a professional, where the auditor can know clearly which jobs will be done and what to do in the audit work. So the high complexity faced does not affect the auditor in making audit judgment.
- d. Through the determination test (R^2) shows that the value of Adjusted R^2 is 0.301 or 30.1%. It shows that Judgment Audit variable which can be explained by the variable of auditor experience,

task complexity, and self-efficacy is 30,1%, while 69,9% is explained by another variable outside of variable in this research like gender, knowledge, other.

7.2. Suggestion

- a. The findings of this study can only be used as a public analysis in the area of South Jakarta. So further research is expected to expand the study population, for example for public accounting firms in the Jakarta area. Thus, the results of this study will be generalized to all auditors.
- b. For further research is expected to be able to add other variables suspected to affect the Audit Judgment.
 - a. It needs to be expanded audit experience to assist in conducting audits so as to help to make decisions appropriately and quickly.

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